



CITY OF CAMBRIDGE, MASSACHUSETTS

Basic Financial Statements, Required Supplementary Information,
and Supplemental Schedules

June 30, 2006

(With Independent Auditors' Report Thereon)

CITY OF CAMBRIDGE, MASSACHUSETTS

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

For the Fiscal Year
July 1, 2005 through June 30, 2006

Robert W. Healy
City Manager

Richard C. Rossi
Deputy City Manager

Louis A. DePasquale
Assistant City Manager for Fiscal Affairs

James Monagle
City Auditor

Prepared by:
Finance Department
City of Cambridge, Massachusetts

Cover Photo:

Russell Field Athletic Complex

The cover features an aerial view of the state-of-the-art Russell Field Athletic Complex. The complex includes a two-story, multi-functional 11,200 square foot field house. The first floor has home and visitor locker rooms, coaches' offices, trainer's room and a concession stand. The second floor contains a fully equipped 3,000 square foot weight room for Cambridge Rindge and Latin High School athletes. The adjacent premier synthetic surface lighted football field and youth soccer fields will be a primary site for many Cambridge youth athletic programs. The newly renovated Samp and Comeau youth baseball fields will be home once again to the North Cambridge Little Baseball League and the new 7,000 square foot playground located between the two fields will provide enjoyment for Cambridge children of all ages.

In addition, enhanced pedestrian/bicycle pathways, a renovated and accessible parking lot and a visually stimulating new bus stop, funded through Cambridge's "1% for the Arts," will allow for the Russell Field Athletic Complex to be enjoyed by Cambridge residents.

CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive
Annual Financial Report

June 30, 2006

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CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive Annual Financial Report

June 30, 2006

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City of Cambridge

FINANCE DEPARTMENT

LOUIS DePASQUALE

Assistant City Manager/Finance

December 15, 2006

Mr. Robert W. Healy
City Manager
City of Cambridge
Cambridge, Massachusetts 02139

Dear Mr. Healy:

The Comprehensive Annual Financial Report (CAFR) of the City of Cambridge, Massachusetts (the City), for the fiscal year ended June 30, 2006 is presented for your review. The report was prepared by the City's Finance Department. The responsibility for the accuracy, completeness, and fairness of the data presented, including all disclosures, rests with the City. We believe that the data presented is accurate in all material respects; that it is presented in a manner designed to show fairly the financial position and results of operations of the City as measured by the financial activities of its various funds; and that all disclosures deemed necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

The financial information in this report is presented in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities and conforms to accounting standards as promulgated by the Governmental Accounting Standards Board (GASB).

Accounting System and Budgetary Control

Basis of Accounting

The accounting records of the City's general government operations, as reported in the general fund, capital projects fund, and other governmental funds are maintained on a modified accrual basis at the fund level. Accordingly, revenues are recorded when measurable and available and expenditures are recorded when the services or goods are received and the liabilities are incurred and payable with expendable available resources. The accrual basis of accounting is followed when reporting on a government-wide basis as shown on pages 15 and 16. Agency funds are custodial in nature and do not involve measurement of results of operations.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of internal accounting control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.



All internal control evaluations occur within the above framework. It is our belief that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Control

The City uses encumbrance accounting in its governmental funds as a method of recording commitments under purchase orders and contracts. Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of funds are recorded as expenditures to reserve that portion of the applicable appropriation, is employed in the governmental fund types as a significant aspect of budgetary control.

Collateralized Deposits

The City of Cambridge requires collateral for the majority of its certificates of deposit, money market accounts, checking, or savings accounts when dealing with major banking institutions in the Boston area.

The Reporting Entity

The basic financial statements present information on the City of Cambridge, Massachusetts (the primary government) and its component units as required by GASB. Component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The inclusion of component units in the City's basic financial statements does not affect their legal standing.

The City has two component units, which are the Cambridge Retirement System and the Cambridge Public Health Commission.

The financial statements of the Cambridge Retirement System are presented for the year ended December 31, 2005 which is its fiscal period for reporting to the Public Employee Retirement Administration Commission of the Commonwealth of Massachusetts.

Acknowledgments

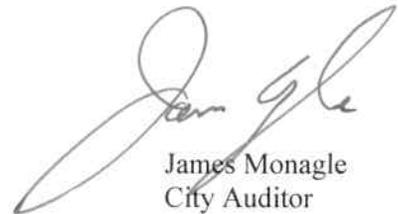
The City continues to show a strong financial position through responsible management of financial operations and through improved accounting and financial reporting practices. The sound financial decisions continued during the past fiscal year and will benefit the City in the years to come.

In closing, we would like to thank all employees of the City's Finance Department for their dedicated work and support during the past fiscal year.

Respectfully submitted,



Louis A. DePasquale
Assistant City Manager
for Fiscal Affairs



James Monagle
City Auditor



CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager

Richard C. Rossi, Deputy City Manager

December 15, 2006

The Honorable Members of the City Council:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Cambridge, Massachusetts (the City), for the fiscal year ended June 30, 2006. Each year the City's Finance Department prepares this report, which presents comprehensive financial and operating information about the City's activities during the preceding fiscal year. The CAFR is a detailed report that goes beyond the requirements of applicable statutes, regulations, and generally accepted accounting principles in order to present all of the information necessary to meet the needs of many persons and groups with an interest in the financial affairs of the City. Readers are further encouraged to consider this information in conjunction with the information that is supplied in the Management's Discussion and Analysis (MD&A) section of the City's basic financial statements.

The report is divided into three major sections:

1. The introductory section, including this letter, which provides an overview of the City's organizational structure, a summary of the financial condition of the City and an analysis of the City's general government operations.
2. The financial section, which contains the independent auditors' report on the City's basic financial statements, management's discussion and analysis, the basic financial statements, and combining statements and schedules including required supplementary information. These statements and schedules provide both an overview of the City's entire financial operations and details for the significant individual funds.
3. The statistical section, which presents historical financial data, debt statistics, and miscellaneous social and economic data about the City.

Fiscal 2006 Year in Review: Major Initiatives/Highlights

During fiscal year 2006, the City continued the gains made in previous fiscal years to reach the highest levels of general fund balance (\$12.4 million increase) in addition to seeing increases in special revenue and reserved fund balances such as the health claims trust (\$1.0 million increase), school stabilization fund (\$4.4 million increase) and parking fund (\$2.7 million increase).

The City saw continued growth in assessed valuations from \$21.3 billion in fiscal year 2005 to \$21.8 billion in fiscal year 2006, a \$.5 billion increase or 2.3%. The commercial/industrial sector showed the largest gain in assessed value with an increase of \$270 million or 3.9% from fiscal year 2005. Also, the City's property tax levy limit grew to \$288 million from \$268 million in fiscal year 2005. In addition, the excess tax levy capacity, which is the difference between the levy limit and tax levy, was \$65.1 million in fiscal year 2006, an increase of \$20.4 million or 45.6% from fiscal year 2005.

The above indicators illustrate the City's continued strong financial position. Other significant fiscal achievements during fiscal year 2006 are as follows:

- In conjunction with the City's February 1, 2006 bond sale, the three major credit rating agencies confirmed the highest rating available to cities. Fitch Ratings noted its 'AAA' credit rating was based on "Cambridge's diversified economy characterized by its substantial and growing tax base, a sizable and stable employment base, exceptional financial management, low debt burden, and favorable economic indicators." Moody's assignment of its highest quality long-term rating incorporates: "an exceptionally strong financial position supported by the city's seasoned and highly effective management team, a large and diverse tax base with significant development plans underway and a modest and rapidly-amortized debt profile supported by healthy enterprise systems and significant commonwealth school building aid." Standard and Poor's Rating Services assigned its 'AAA' rating and "reflects the expectation that the City will continue to prudently manage its financial position, which it has significantly demonstrated by increasing reserve levels over the past five years. The City's economic and property tax base development is expected to continue, allowing it to maintain structural balance between revenues and expenditures while maintaining its tax levy flexibility."
- On February 1, 2006, the City issued \$67,515,000 in general obligation bonds to finance a wide range of projects including library construction, youth and community center construction, acquisition and renovations to a building to house a new public safety facility, roadway and sewer system improvements, and open space enhancements. The true interest cost of this issue was 3.95%.
- On November 7, 2001, residents of the City accepted the Community Preservation Act (CPA) which allows the City to impose a surcharge of 3% on real estate taxes. In fiscal year 2006, the City continued a recommended policy to allocate funds as follows: 80% to affordable housing, 10% to historic preservation, and 10% to open space. During fiscal year 2006, the CPA tax raised \$5.9 million from local revenues with the State contributing matching funds of \$5.9 million. Through fiscal year 2006, the City appropriated or reserved \$47.1 million in CPA funds with approximately \$19.6 million attributable to State matching funds. To date, the City has received more CPA matching funds from the State than any other participating community.
- Through our collective efforts in FY06, in recognition of the fact that the FY05 property values and taxes placed a burden on some residential property owners, we were able to produce an FY06 Budget which reflected a 2.5% increase in the property tax levy due to a combination of increased nonproperty tax revenues and the use of reserves. This was the smallest increase in a decade. However, by using additional nonproperty tax revenues and reserves, we were able to achieve a 0% increase in the property tax levy when the City Council adopted the City Manager's property tax and classification recommendations in September 2005. As a result, 76% of the residential taxpayers received a property tax bill that was lower, the same, or only slightly higher (less than a \$100) than the previous year. In addition, during FY06 the City achieved the following in response to addressing taxpayer concerns:
 - Adopting in March 2005 a 0% water rate increase and a 7.5% sewer rate increase to produce a combined rate increase of 4.8% which was well below the 9% projected.
 - Strategically using an increased amount of non-property tax revenues and reserves (stabilization fund and free cash) to lower property taxes without jeopardizing our long-term fiscal health.
 - Refined our mass appraisal model to reflect legitimate concerns raised by homeowners regarding their property values.
 - For the first time, issuing three newsletters to better inform residents about the Budget, how property taxes are determined, an update and explanation of FY06 taxes and property values,

answers to frequently asked questions, and information about the abatement and exemption application process.

- The continued implementation of a comprehensive investment policy to maximize the increase in interest rates was the primary factor in the increase of investment earnings from \$4.0 million in fiscal year 2005 to \$9.7 million in fiscal year 2006.
- The City’s fiscal year free cash position of \$68 million was the largest free cash balance in the City’s history.
- The City completed implementation of an automated water meter reading system which has improved the collection of water revenues as well as provide better service to the customers.
- In recognition of the City’s financial achievements, the Government Finance Officers Association (GFOA) awarded the City its Certificate for Excellence in Financial Reporting and the Distinguished Budget Presentation Award. The City has achieved these awards annually from the GFOA for the last 19 years.

Financial Summary

The City continues to be in sound financial condition as demonstrated by the financial statements and schedules included in this report. Throughout the year, the City maintained a strong cash and investment position and once again did not issue any tax anticipation notes.

General Fund Balances and Cash Position

The City ended fiscal year 2006 with a total general fund balance of \$136.7 million, which represents 38.5% of general fund revenues, an increase from 36.7% in fiscal year 2005. In fiscal year 2006, operations produced a \$4.3 million surplus. Each year, a portion of fund balance is allocated to reserve accounts. A total of \$16.5 million was held as reserve accounts in fiscal year 2006, leaving an unreserved fund balance of \$120.2 million. General fund cash and short-term investments totaled \$157.0 million while the balance of cash and short-term investments for all funds totaled \$311.6 million, which is a \$38.8 million, or 14.2% increase from fiscal year 2005.

The following table presents the balance in the City’s unreserved general fund balance for fiscal years 2000 through 2006.

	Unreserved general fund balance
	<hr/>
Fiscal year:	
2000	\$ 25,154,076
2001	31,879,786
2002 (1)	69,586,739
2003	85,286,219
2004	90,479,144
2005	100,050,320
2006	120,245,450

(1) Upon implementation of GASB 34, fund balances from the health claims trust and City and school stabilization funds have been included in the general fund.

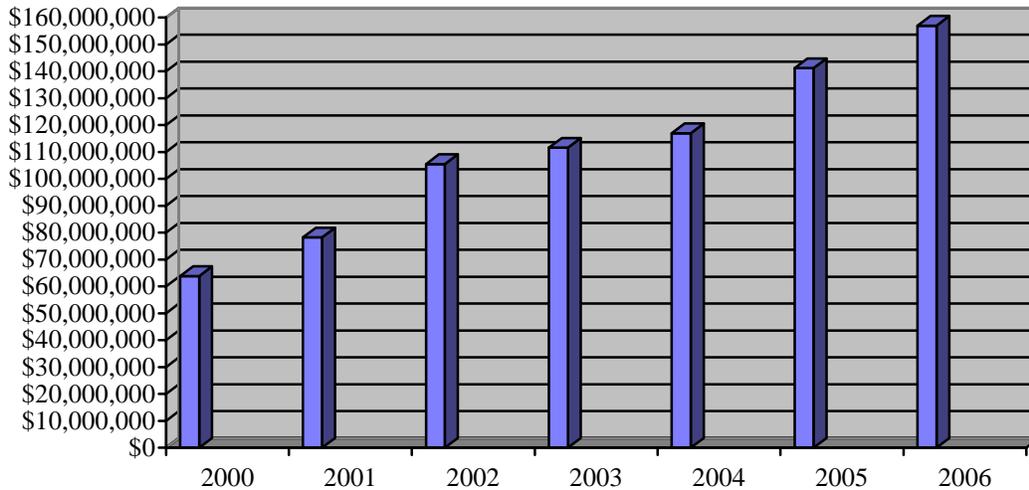
Cash Position

The table and charts displayed below present the changes in year-end general fund cash and total cash for all funds for the past seven fiscal years. The table and charts do not include cash for the Cambridge Public Health Commission, a component unit.

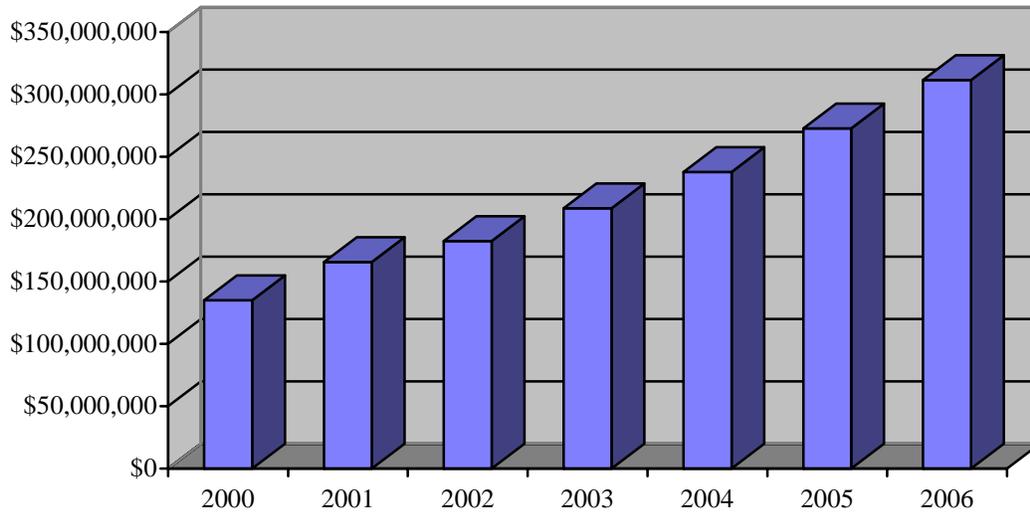
Fiscal year:	<u>Year-end general fund cash and short-term investments</u>	<u>Year-end all funds cash and short-term investments</u>
2000	\$ 63,837,512	134,939,537
2001	78,235,106	165,618,341
2002 (1)	105,531,056	182,379,699
2003	111,601,721	208,777,005
2004	117,007,650	237,761,490
2005	141,163,873	272,770,097
2006	157,015,287	311,599,017

- (1) Upon implementation of GASB 34, fund balances from the health claims trust and City and school stabilization funds have been included in the general fund.

Year-End Cash Balance – General Fund



Year-End Cash Balance – All Funds



Capital Financing and Debt Management

In conjunction with the operating budget, the City annually prepares both a capital budget for the upcoming fiscal year and a five-year improvement plan that is used as a guide for capital expenditures in future years. The Capital Improvement Program for the five-year period from fiscal year 2007 through fiscal year 2011, which was approved by the City Council in May 2006, has an estimated cost of \$155,600,785. Financing for the fiscal year 2007 portion of the capital plan was appropriated with the adoption of the fiscal year 2007 operating budget in May 2006.

The City issues a majority of its debt with a ten-year or shorter repayment schedule, which requires higher debt service payments in the short-term, but results in sizable interest savings. In addition, since fiscal year 1985, the City has funded a portion of its Capital Improvement Program on a “pay-as-you-go” basis out of current revenues. The City’s outstanding bonded debt as of June 30, 2006 totaled \$281.8 million.

	Key debt ratios						
	2006	2005	2004	2003	2002	2001	2000
Ratio of bonded debt to assessed value	1.3%	1.3%	1.2%	1.2%	1.3%	1.6%	1.4%
Bonded debt per capita	\$ 2,781	2,721	2,204	2,127	2,099	1,986	1,548
Ratio of bonded debt per capita to per capita income	8.9%	8.7%	7.1%	6.8%	6.8%	10.0%	7.7%
Ratio of debt service to total noncapital expenditures	8.5	7.7	8.1	7.8	7.3	5.9	5.3

Property Valuations

Based on valuations of all real and personal property as of January 1, 2005, the total value of all property in the City is \$21.8 billion. Of that total, \$905.9 million is attributable to new construction. The table below compares fiscal year 2006 property valuations and tax rates to fiscal year 2005 valuations and tax rates.

	Property valuation		Tax rates	
	FY 2006	FY 2005	FY 2006	FY 2005
	(In millions)			
Commercial/industrial	\$ 7,280	7,010	17.86	18.28
Personal property	605	467	17.86	18.28
Residential	13,962	13,871	7.38	7.78
Total value	<u>\$ 21,847</u>	<u>21,348</u>		

Permanent Trust Fund

The City's permanent trust fund has a total fund balance of \$2,956,614 at June 30, 2006 and is included in the other governmental funds column. The permanent trust fund is used for a variety of purposes including awarding scholarships and prizes to Cambridge school children, providing entertainment for residents at the nursing home, purchasing books, and materials for the public library, and providing dental hygiene for school-age children.

Pension Liability

As of January 1, 2006, the City's unfunded actuarial accrued liability is approximately \$108.3 million. In January 1991, the City established a State-approved funding schedule that will eliminate the City's unfunded actuarial liabilities by June 30, 2015.

Risk Management

The City is self-insured for any damage to its buildings from fire, natural disasters and for theft. The City currently has sufficient reserves in several funds to cover any unanticipated costs that may arise.

Health insurance is provided to employees and retirees through managed care health plans. The City offers a variety of health maintenance organization (HMO) options including Blue Cross/Blue Shield's Blue Choice and HMO Blue, Harvard Community Health Plan and Tufts Associated Health Plan. All non-medicare plans are paid on a claims basis. All four plans require a 12% employee and 10% retiree contribution with the remaining balance covered by the City.

The City is self-insured in all other areas of risk including auto liability and workers' and unemployment compensation. The City's Law Department defends the City in most cases for legal claims, except those requiring specialized expertise, in which case the City will periodically retain outside counsel. Settlements for legal claims are paid from the City's judgments and claims account. The City's Personnel Department administers risk management.

Independent Audit

The City's financial records, books of accounts, and financial transactions are audited each year by an independent firm of certified public accountants. The City's annual audit was performed by the independent public accounting firm of KPMG LLP. The independent auditors' report on the basic financial statements for the year ended June 30, 2006 is included herein.

Certificate of Achievement

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cambridge, Massachusetts, for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Economic Condition

The City continues to experience strong economic activity as evidenced by a September 2006 unemployment rate of 3.7% that is lower than the Boston PMSA, the Commonwealth of Massachusetts, and the United States. Cambridge continues to be a net importer of jobs within the region. In FY2005, the City's employment ratio was 102 jobs per 100 residents. Per capita personal income (PCPI) in the Cambridge metropolitan division is 53% higher than the PCPI for the USA, 20% higher than the State and 10% higher than Boston. Higher Education and Biotechnology continue to be important employment sectors for the City. Harvard University and the Massachusetts Institute of Technology, who employ approximately 18% of the City's workforce, continue to provide additional benefits for private employers locating to Cambridge. In addition, seven of the top 25 employers fall into the Biotechnology sector which employs approximately 7,200 individuals.

Future Outlook and Conclusion

While the City maintains its policy of controlled budget growth, it has also maintained its tradition of providing a high level of service to its residents and the local business community.

There continue to be many reasons to be optimistic about the fiscal future of Cambridge. As mentioned in a previous section, both the cash position of all funds and the fund equity of the general fund improved significantly during fiscal year 2006. These improvements are directly attributable to the strong financial management of the City. This was reaffirmed by all three credit agencies who awarded the City a triple A bond rating. The City will continue to look for ways to expand its nonproperty-tax revenue, encourage expansion of the tax base, and exercise restraint on expenditures and judicious use of reserve funds. These factors will enable Cambridge to maintain its high level of municipal services and remain fiscally strong while meeting the needs of our infrastructure that will benefit our citizens for decades to come.

One of the future issues facing the City is the reporting of the "Other Post-Employment Benefits" (OPEB) liability. The City has contracted The Segal Group, Inc. to perform an actuarial study to determine the unfunded liability. Data collection is underway and scheduled to be completed by January 2007. An OPEB steering committee has been formed to make decisions regarding the economic assumptions, actuarial cost assumptions, and amortization of unfunded actuarial accrued liability assumptions. This group is also charged with providing possible funding recommendations. A preliminary actuarial report is expected by the Spring of 2007.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the Department who assisted and contributed to its preparation. I would also like to thank the members of the City Council for their concern and support in planning and constructing the financial operations of the City in a responsible and progressive manner.

Additionally, I would like to acknowledge all of the City employees who provide the wide array of high quality services to the citizens of Cambridge, and contributed to the accomplishments highlighted above.

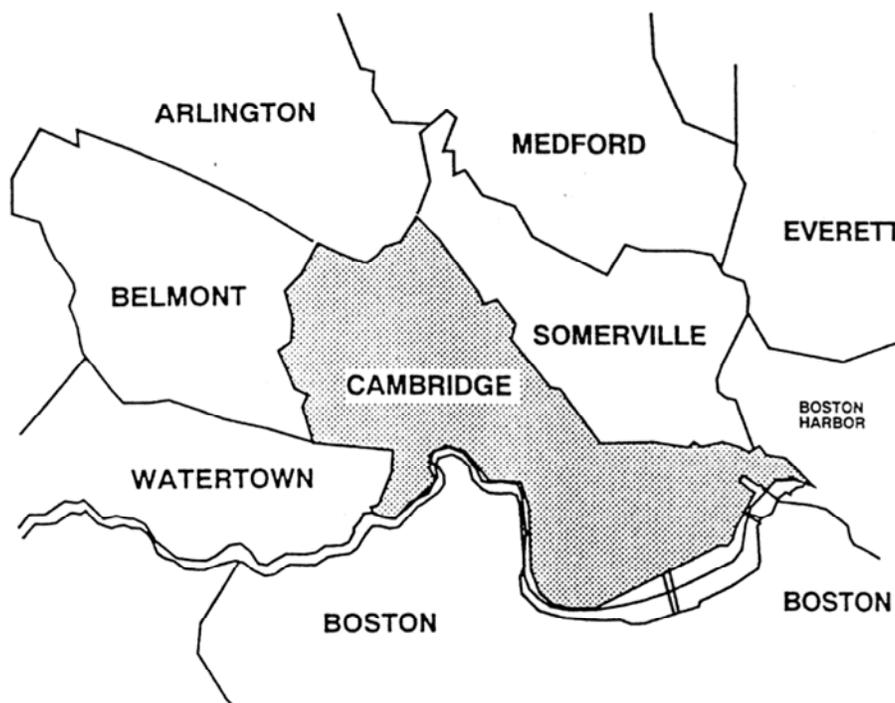
Finally, I would like to thank the City's delegation to the State Legislature, who has continually offered strong support on State fiscal matters that impact the City.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert W. Healy". The signature is fluid and cursive, with a large initial "R" and "H".

Robert W. Healy
City Manager

A Few Words About Cambridge



The City of Cambridge, Massachusetts 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, the Town of Arlington and the City of Somerville on the north, and occupies a land area of 6.26 square miles. Based on the 2000 Census, the City's estimated population was 101,355.

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

The City Manager is the chief administrative officer and carries out the policies of the City Council. With the assistance of a Deputy City Manager and three Assistant City Managers, the City Manager coordinates the functions of 34 municipal departments and is responsible for the delivery of services to residents. The City Manager is appointed by the City Council and serves at the pleasure of the Council. The present City Manager is employed under a contract which expires September 30, 2009.

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

The School Committee is comprised of six elected members plus the Mayor, all of whom 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.

Fiscal Year 2006
Directory of Officials
City Council

Kenneth E. Reeves, Mayor

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

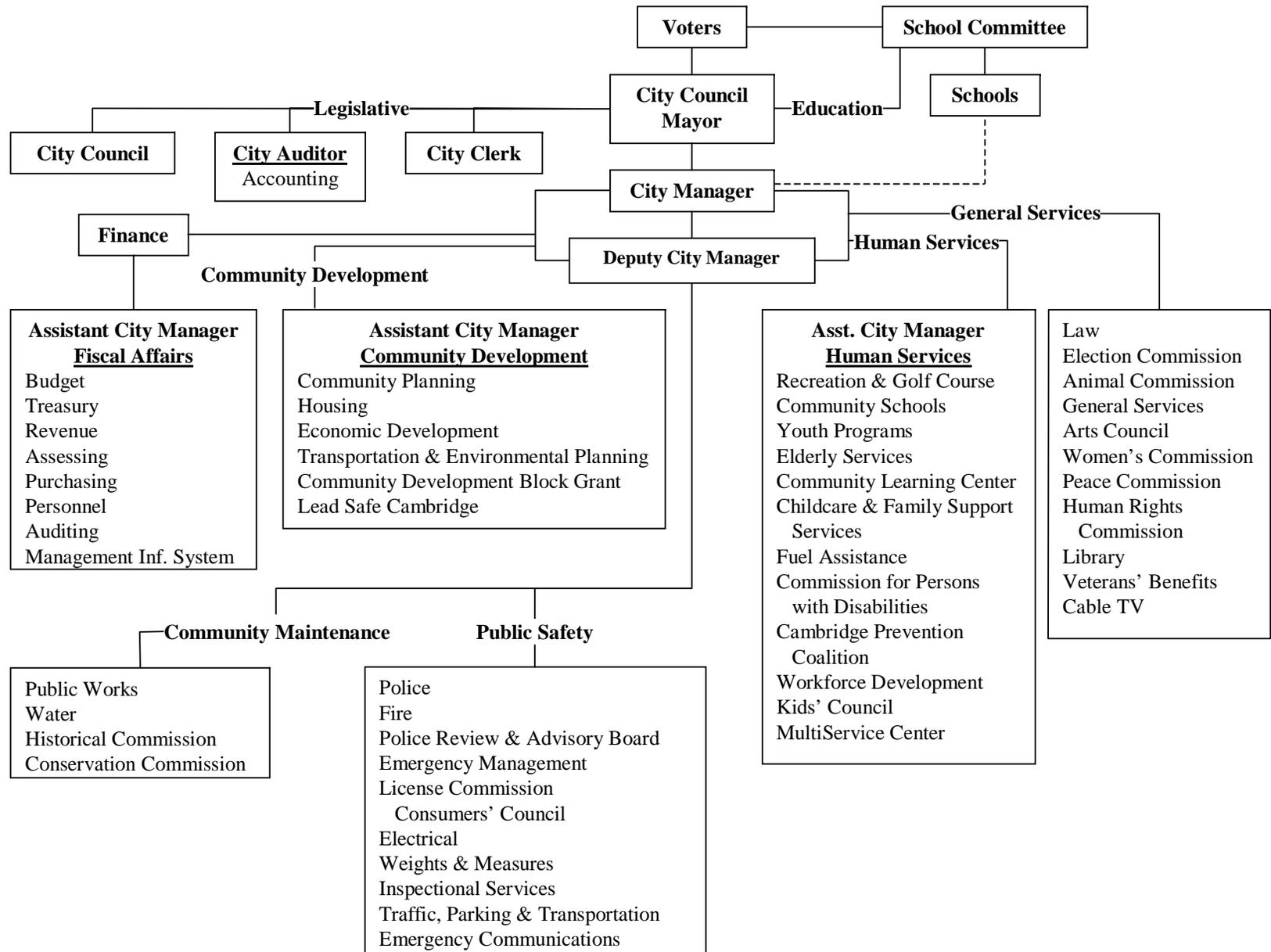
School Committee

Kenneth E. Reeves, Chair

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

Principal Executive Officers

City Manager	Robert W. Healy
Deputy City Manager	Richard C. Rossi
Assistant City Manager for Fiscal Affairs and Treasurer/Collector	Louis A. DePasquale
Assistant City Manager for Community Development	Beth C. Rubenstein
Assistant City Manager for Human Services	Ellen M. Semonoff
City Auditor	James Monagle
City Solicitor	Donald A. Drisdell
City Clerk	D. Margaret Drury



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Cambridge
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 507 8323
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 (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 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 3 through 14, the schedules of funding progress and employers' contributions on pages 51 and 52, and the schedule of revenues and expenditures – budgetary basis on pages 53 and 54 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cambridge's basic financial statements. The 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 15, 2006

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

(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, 2006. We encourage readers to consider this information in conjunction with the transmittal letters at the front of this report and the City's basic financial statements, which follow this section.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by 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.

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

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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. 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

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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 15 of the financial statements.

The City's combined net assets (government and business-type activities) exceeded its liabilities at fiscal year ending June 30, 2006 by \$649.3 million (presented as net assets). Of this amount, \$222.3 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (roads, sewer pipes, dams, and other immovable assets), less any related

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debt used to acquire that asset that is still outstanding – the amount is \$423.0 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 \$285.4 million up 18% over prior year; receivables, net of allowance, of \$46.6 million; and \$18 million due from the Cambridge Public Health Commission.

Governmental activities long-term liabilities included \$236.6 million in general obligation bonds and notes payable; \$17.1 million in compensated absence liabilities for unused sick and vacation; \$5.8 million in future year workers' compensation benefits. The major increase in the long-term liabilities is the net increase in general obligation bonds of \$11.9 million which will be used for a public safety building, sewer projects, library remodeling and other large capital projects.

Business-type activity long-term liabilities include \$52.5 million in general obligation bonds and \$0.5 million in compensated absence costs and \$0.3 million future year workers' compensation benefits. The net reduction of \$6.3 million in general obligation bonds compared to prior year is attributable to an aggressive ten-year repayment schedule for most debt.

Condensed Schedule of Net Assets

June 30, 2006 and 2005

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30		June 30		June 30	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 356.2	309.7	7.3	9.2	363.5	318.9
Capital assets	493.6	473.5	138.4	137.8	632.0	611.3
Total assets	\$ 849.8	783.2	145.7	147.0	995.5	930.2
Long-term liabilities	\$ 262.0	251.0	53.3	59.8	315.3	310.8
Other liabilities	30.0	27.9	0.9	0.9	30.9	28.8
Total liabilities	\$ 292.0	278.9	54.2	60.7	346.2	339.6
Net assets:						
Invested in capital assets, net of debt	\$ 336.9	315.2	86.1	79.1	423.0	394.3
Restricted	4.0	3.7	—	—	4.0	3.7
Unrestricted	216.9	185.4	5.4	7.2	222.3	192.6
Total net assets	\$ 557.8	504.3	91.5	86.3	649.3	590.6

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Statement of Changes in Net Assets

The City's total net assets increased by \$58.7 million in fiscal year 2006 of which the governmental activities net assets increased \$53.5 million and the business-type activity increased \$5.2 million.

This summary of net changes is based upon the statement found on page 16 of the financial statements.

Condensed Schedule of Changes in Net Assets

June 30, 2006

(In millions)

	<u>Governmental activities</u>		<u>Business-type activity</u>		<u>Total primary government</u>	
	<u>June 30</u>		<u>June 30</u>		<u>June 30</u>	
	<u>2006</u>	<u>2005¹</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005¹</u>
Revenues:						
Program revenues:						
Charges for services	\$ 73.7	63.3	19.6	18.2	93.3	81.5
Operating grants and contributions	28.1	24.5	—	—	28.1	24.5
Capital grants and contributions	15.4	4.6	—	—	15.4	4.6
General revenues:						
Taxes:						
Property taxes levied	227.0	214.9	—	—	227.0	214.9
Excises	12.5	11.8	—	—	12.5	11.8
Payment in lieu of taxes	6.6	6.8	—	—	6.6	6.8
Grants and contributions not restricted	39.5	43.8	—	—	39.5	43.8
Investment income	9.7	3.9	0.2	0.1	9.9	4.0
Miscellaneous	17.7	12.5	—	—	17.7	12.5
Total revenues	<u>430.2</u>	<u>386.1</u>	<u>19.8</u>	<u>18.3</u>	<u>450.0</u>	<u>404.4</u>
Expenses:						
General government	31.7	27.6	—	—	31.7	27.6
Public safety	84.8	81.9	—	—	84.8	81.9
Community maintenance and development	55.8	41.7	—	—	55.8	41.7
Human resource development	33.4	32.8	—	—	33.4	32.8
Education	133.9	126.2	—	—	133.9	126.2
State and district assessments	29.6	27.4	—	—	29.6	27.4
Water department	—	—	14.1	14.5	14.1	14.5
Interest	8.0	6.2	—	—	8.0	6.2
Total expenses	<u>377.2</u>	<u>343.8</u>	<u>14.1</u>	<u>14.5</u>	<u>391.3</u>	<u>358.3</u>
Excess before transfers	53.0	42.3	5.7	3.8	58.7	46.1
Transfers	0.5	0.5	(0.5)	(0.5)	—	—
Special item	—	22.3	—	—	—	22.3
Change in net assets	<u>53.5</u>	<u>65.1</u>	<u>5.2</u>	<u>3.3</u>	<u>58.7</u>	<u>68.4</u>
Net assets – beginning	504.3	439.2	86.3	83.0	590.6	522.2
Net assets – ending	<u>\$ 557.8</u>	<u>504.3</u>	<u>91.5</u>	<u>86.3</u>	<u>649.3</u>	<u>590.6</u>

(1) Certain amounts have been reclassified to conform to the current year presentation.

CITY OF CAMBRIDGE, MASSACHUSETTS

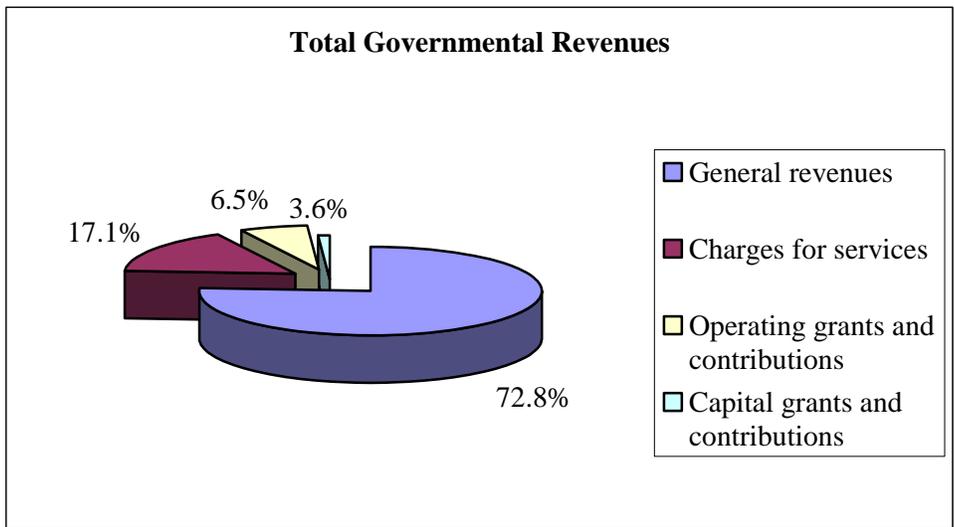
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Total Revenues

Total governmental activities revenues for the City are comprised of general revenues of \$313.0 million, charges for services \$73.7 million, operating grants and contributions \$28.1 million and capital grants and contributions of \$15.4 million.



General

Real estate tax revenues are the City's largest revenue source at \$227.0 million representing 72.5% of general revenues. The assessed tax valuation base is \$21.8 billion up from \$21.3 billion assessed in the prior year showing a 2.4% increase mainly due to new construction.

Grants and contributions not restricted to specific programs is \$39.5 million representing 12.6% of general revenues and includes state cherry sheet revenues and other unrestricted contributions. The cherry sheet revenues are up 5.2% in the current year.

Program

Charges for services are \$73.7 million and represent a variety of department revenues. Charges for services increased in the current year by \$10.4 million or 16.4%. The public safety portion of \$33.7 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. Public safety revenues increased \$7.0 million due to an increase in building permits, plan review and traffic and parking revenues. The community maintenance and development portion of \$36.6 million includes sewer service revenues, community cable revenues, as well as, other public works type fees. This category increased by \$5.3 million due primarily to an increase in sewer charges. Since the implementation of the Automatic Meter Reading system (completed 2006), the meter readings are more accurate. Also, there was an increase of 7.5% in the sewer rate in 2006.

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Operating grants and contributions of \$28.1 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 6.5% of the total City revenues. There is an increase of \$3.6 million over prior year due to the City's continuing grant monitoring efforts during 2006.

Capital grants and contributions of \$15.4 million include community development capital grants, State revolving grants, and other capital restricted revenues.

Expenses

For fiscal year ended June 30, 2006, expenses for governmental activities totaled \$337.2 million, which cover a range of services. On the whole, the City's expenditures increased \$33.4 million or 9.7% over prior year.

Education continues to be one of the City's highest priorities and commitments representing \$133.9 million or 39.7% of the total governmental activity expenses.

Another important issue to the City is affordable housing and the preservation of open space. This is the fifth 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 2006, the City spent \$11.9 million from the Affordable Housing Trust to subsidize housing projects.

General governmental expenses increased approximately \$4.1 up approximately 14.9% compared to fiscal year 2005 due primarily to an increase in salary and fringe benefit costs.

Business-Type Activity

Business-type activity increased net assets by \$5.2 million, accounting for 8.9% 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 \$277.8 million. Of this amount, \$18.3 million is reserved for other purposes and \$26.8 million reserved for encumbrances. This leaves an unreserved balance of \$232.7 million.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved fund balance was \$120.2 million, while the total fund balance was \$136.7 million. This reflects an increase over fiscal year 2005 of \$20.2 million and \$12.4 million, respectively. A portion of the change in fund balance is due to an increase of \$4.5 million in interest income. This year, the Finance department has made significant strides in ensuring that the City's available cash is invested and earning the highest interest rates possible within governmental regulations. Also, the sewer charges grew over last year by \$5.2 million which can be attributed to

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the more accurate readings. The completion of a two-year implementation of Automated Meter Reading System is a large factor in the accuracy improvements. Finally, Other Departmental revenue also jumped by \$4.7 million mainly due to increases in building permits and other construction-type permits. The offsets to the revenue increases discussed above were higher debt service payments and increased employee benefits costs.

As a measure of liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. Unreserved fund balance represents 34.3% of total General Fund expenditures, while the total balance represents 39.0% of that same amount.

The capital fund is the fund that captures all the capital projects expenditures for the City. At the end of fiscal year 2006, the total fund balance was \$80.2 million. This reflects an increase over the prior fiscal year of \$21.3 million. The major increase in fund balance is due to the issuance of debt and in part to an increase in intergovernmental revenue of \$10.8 million offset by \$37.2 million of capital outlays. This increase in intergovernmental revenue is due to a \$5.9 million state library building assistance grant received in 2006 and an increase in CDBG revenues.

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 \$5.4 million and an investment in capital assets, net of related debt of \$86.1 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 2006 actual revenues on a budgetary basis totaled \$344.3 million. This represents an increase of \$11.0 million or 3.3% from fiscal year 2005. Property taxes are the single largest revenue source, representing approximately 63.5% of general fund revenues, net of abatements. Intergovernmental receipts comprise the

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City's next largest revenue source, representing 12.8%. Sewer receipts increased by \$5.2 million to \$33.8 million.

Increase of \$0.4 million in the hotel/motel excise reflect the rebounding local economy during fiscal year 2006.

The increase in investment income from \$2.2 million to \$6.3 million was the result of higher interest rates earned on a larger average cash and investment position in 2006 as compared to 2005.

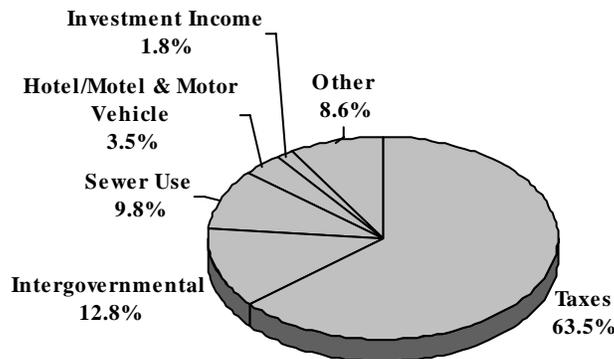
The following table and graph display the dollar amounts received from various sources of revenue for fiscal year 2006 and compares these amounts to those received in fiscal year 2005.

**General Fund Revenues
Budgetary Basis**

Fiscal Year 2006

(Dollars in thousands)

Revenue source	2006		2005		Increase (decrease) from fiscal year 2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Taxes, net of abatements	\$ 218,450	63.5%	\$ 218,438	65.5%	\$ 12	0.0%
Intergovernmental	44,143	12.8	43,802	13.1	341	0.8
Sewer use	33,835	9.8	28,661	8.6	5,174	18.1
Excise taxes:						
Hotel/motel	5,801	1.7	5,461	1.6	340	6.2
Motor vehicle	6,146	1.8	6,452	1.9	(306)	(4.7)
Investment income	6,325	1.8	2,223	0.7	4,102	184.5
Other	29,564	8.6	28,309	8.5	1,255	4.4
Total	344,264	100.0%	333,346	100.0%	10,918	3.3%
Net transfers in (out)	8,787		5,845		2,942	
Total, net of transfers	\$ 353,051		\$ 339,191		\$ 13,860	



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Expenditures

During fiscal year 2006, total expenditures increased on a budgetary basis by 5.7% from \$335.2 million to \$354.2 million.

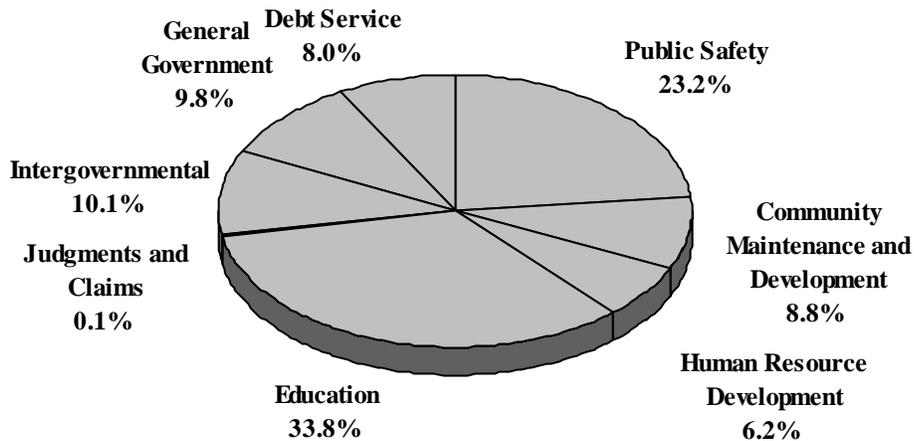
As part of the agreement between the City and the CPHC, the City will continue to subsidize the operations of the CPHC for the year ended June 30, 2006. The City's intergovernmental expenditures include \$6.3 million of subsidy to the CPHC. This amount is consistent with previous years.

**General Fund Expenditures
Budgetary Basis**

Fiscal year 2006

(Dollars in thousands)

Expenditure function	2006		2005		Increase (decrease) from fiscal year 2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
General government	\$ 34,537	9.8%	\$ 30,596	9.1%	\$ 3,941	12.9%
Public safety	82,088	23.2	78,618	23.5	3,470	4.4
Community maintenance and development	31,117	8.8	30,674	9.1	443	1.4
Human resource development	22,085	6.2	21,094	6.3	991	4.7
Education	119,728	33.8	115,840	34.6	3,888	3.4
Judgments and claims	349	0.1	224	0.1	125	55.8
State and district assessments	35,890	10.1	34,244	10.2	1,646	4.8
Debt service	28,399	8.0	23,951	7.1	4,448	18.6
Grand total	\$ 354,193	100.0%	\$ 335,241	100.0	\$ 18,952	5.7%



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(Unaudited)

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2006, the City's investment in capital assets for its governmental and business-type activity amounted to \$632 million (net of depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, open space, road and highways.

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

Additional information on the City's capital assets can be found in note 5 beginning on page 37.

Debt

At year-end, the City had \$289.1 million in outstanding bonds and notes compared to \$283.5 million last year.

	<u>Governmental activities</u>		<u>Business-type activity</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
			(In millions)			
General obligation bonds and notes payable \$	236.6	224.8	52.5	58.7	289.1	283.5

The City maintains bond ratings with Fitch ratings of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA. The true interest rate for the current year bond sale was 3.95%.

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 42.

Economic Factors and Next Year's Budgets and Rates

The City's tax levy increased \$8.8 million, or 3.96%, to \$231.8 million in fiscal year 2007. Despite this increase, the City's excess tax capacity, an extremely important indication of the City's financial health, increased from \$65.1 million in FY 06 to \$73.4 million in FY 07, a 13.2% increase.

The operating budget increased 3.9% over the FY 06 adjusted budget. The increase is attributable to a 1.5% salary increase cost for all employees (mid-year 3% increase plus a \$500 one-time payment); an 8.0% increase in employee health insurance; a 3.0% increase in employee pension costs; 6.1% combined increase in Massachusetts Water Resources Authority and (State) Cherry Street assessments, energy increases of 35.3% and a property tax-supported debt service increase of 42.2%. The capital budget of \$11.4 million is a decrease of approximately \$16.0 million from the prior year.

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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.

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Statement of Net Assets

June 30, 2006

Assets	Primary government			Component unit
	Governmental activities	Business-type activity	Total	
Cash and investments	\$ 284,833,346	5,405,061	290,238,407	122,066,093
Cash and investments held by trustees	600,000	—	600,000	31,181,553
Receivables, net:				
Property taxes	7,057,854	—	7,057,854	—
Motor vehicle excise	1,166,703	—	1,166,703	—
Tax title and possessions	2,418,342	—	2,418,342	—
Intergovernmental	18,749,174	—	18,749,174	—
Other	17,198,300	5,820,840	23,019,140	26,150,351
Other assets	2,287,414	—	2,287,414	69,371,870
Internal balances	3,934,108	(3,934,108)	—	—
Due from component unit	18,000,000	—	18,000,000	—
Capital assets:				
Nondepreciable	255,751,132	45,849,058	301,600,190	12,719,300
Depreciable, net	237,810,226	92,582,614	330,392,840	208,408,800
Total assets	<u>849,806,599</u>	<u>145,723,465</u>	<u>995,530,064</u>	<u>469,897,967</u>
Liabilities				
Warrants and accounts payable	7,882,616	57,877	7,940,493	64,802,222
Accrued liabilities:				
Tax abatement refunds	4,300,000	—	4,300,000	—
Accrued payroll	11,016,022	60,062	11,076,084	14,450,604
Accrued interest	3,322,681	807,246	4,129,927	—
Other	3,429,138	—	3,429,138	5,036,449
Deferred revenue	—	—	—	44,097,440
Due to primary government	—	—	—	18,000,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	28,407,062	6,034,004	34,441,066	—
Capital leases	—	—	—	9,357,452
Due to third parties	—	—	—	6,651,128
Compensated absences	6,720,000	155,000	6,875,000	14,343,141
Landfill	25,000	—	25,000	—
Claims	3,607,000	181,000	3,788,000	—
Due in more than one year:				
Bonds and notes payable	210,345,599	46,470,541	256,816,140	—
Capital leases	—	—	—	29,425,293
Due to third parties	—	—	—	41,004,047
Compensated absences	10,363,000	328,000	10,691,000	—
Landfill	350,000	—	350,000	—
Claims	2,225,000	150,000	2,375,000	—
Total liabilities	<u>291,993,118</u>	<u>54,243,730</u>	<u>346,236,848</u>	<u>247,167,776</u>
Net Assets				
Investment in capital assets, net of related debt	336,878,930	86,100,235	422,979,165	164,345,355
Restricted for:				
Community preservation	506,346	—	506,346	—
Expendable permanent funds	1,027,763	—	1,027,763	—
Nonexpendable permanent funds	1,928,851	—	1,928,851	—
Other purposes	600,000	—	600,000	4,653,794
Unrestricted	216,871,591	5,379,501	222,251,092	53,731,042
Total net assets	<u>\$ 557,813,481</u>	<u>91,479,736</u>	<u>649,293,217</u>	<u>222,730,191</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2006

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	\$ 31,690,819	503,010	—	—	(31,187,809)	—	(31,187,809)	
Public safety	84,796,098	33,739,682	—	—	(51,056,416)	—	(51,056,416)	
Community maintenance and development	55,766,148	36,633,238	7,349,890	9,504,868	(2,278,152)	—	(2,278,152)	
Human resource development	33,453,013	2,800,184	8,309,808	5,861,773	(16,481,248)	—	(16,481,248)	
Education	133,952,334	—	12,465,731	—	(121,486,603)	—	(121,486,603)	
State and district assessments	29,640,415	—	—	—	(29,640,415)	—	(29,640,415)	
Interest on long-term debt	8,007,458	—	—	—	(8,007,458)	—	(8,007,458)	
Total governmental activities	<u>377,306,285</u>	<u>73,676,114</u>	<u>28,125,429</u>	<u>15,366,641</u>	<u>(260,138,101)</u>	<u>—</u>	<u>(260,138,101)</u>	
Business-type activity:								
Water	14,118,060	19,629,812	—	—	—	5,511,752	5,511,752	
Total business-type activity	<u>14,118,060</u>	<u>19,629,812</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,511,752</u>	<u>5,511,752</u>	
Total primary government	<u>\$ 391,424,345</u>	<u>93,305,926</u>	<u>28,125,429</u>	<u>15,366,641</u>	<u>(260,138,101)</u>	<u>5,511,752</u>	<u>(254,626,349)</u>	
Component unit:								
Cambridge Public Health Commission	\$ 701,119,551	164,878,764	543,811,699	15,000,000	—	—	—	22,570,912
Total component units	<u>\$ 701,119,551</u>	<u>164,878,764</u>	<u>543,811,699</u>	<u>15,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,570,912</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 227,024,671	—	227,024,671	—
Excises					12,555,704	—	12,555,704	—
Payments in lieu of taxes					6,579,380	—	6,579,380	—
Grants and contributions not restricted					39,553,164	—	39,553,164	—
Investment income					9,699,805	238,127	9,937,932	6,547,458
Miscellaneous					17,662,993	—	17,662,993	—
Transfers					535,000	(535,000)	—	—
Total general revenues and transfers					<u>313,610,717</u>	<u>(296,873)</u>	<u>313,313,844</u>	<u>6,547,458</u>
Change in net assets					53,472,616	5,214,879	58,687,495	29,118,370
Net assets – beginning					504,340,865	86,264,857	590,605,722	193,611,821
Net assets – ending					<u>\$ 557,813,481</u>	<u>91,479,736</u>	<u>649,293,217</u>	<u>222,730,191</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2006

Assets	General	Capital fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 157,015,287	74,180,352	53,637,707	284,833,346
Cash and investments held by trustees	—	—	600,000	600,000
Receivables, net:				
Property taxes	7,057,854	—	—	7,057,854
Motor vehicle excise	1,166,703	—	—	1,166,703
Tax title and possessions	2,418,342	—	—	2,418,342
Intergovernmental	11,894,723	3,517,539	3,336,912	18,749,174
Departmental and other	11,721,585	—	5,476,715	17,198,300
Total receivables	<u>34,259,207</u>	<u>3,517,539</u>	<u>8,813,627</u>	<u>46,590,373</u>
Other assets	1,132,403	—	—	1,132,403
Due from other funds	—	5,536,800	60,589	5,597,389
Due from component unit	18,000,000	—	—	18,000,000
Total assets	<u>\$ 210,406,897</u>	<u>83,234,691</u>	<u>63,111,923</u>	<u>356,753,511</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants and accounts payable	\$ 4,603,177	3,017,437	262,002	7,882,616
Accrued liabilities:				
Tax abatements	2,500,000	—	—	2,500,000
Claims	3,607,000	—	—	3,607,000
Accrued payroll	10,893,803	—	122,219	11,016,022
Other	2,653,300	—	25,838	2,679,138
Deferred revenue	49,443,111	—	119,277	49,562,388
Due to other funds	32,723	—	1,630,558	1,663,281
Total liabilities	<u>73,733,114</u>	<u>3,017,437</u>	<u>2,159,894</u>	<u>78,910,445</u>
Fund balances:				
Reserved for:				
Deposits	1,052,385	—	—	1,052,385
Encumbrances	6,327,291	17,964,574	2,544,271	26,836,136
Future appropriations	9,000,000	—	—	9,000,000
Reserved for specific purposes	48,657	—	1,106,346	1,155,003
Loans	—	—	4,088,525	4,088,525
Permanent funds	—	—	2,956,614	2,956,614
Unreserved, reported in:				
General fund	120,245,450	—	—	120,245,450
Capital fund	—	62,252,680	—	62,252,680
Special revenue funds	—	—	50,256,273	50,256,273
Total fund balances	<u>136,673,783</u>	<u>80,217,254</u>	<u>60,952,029</u>	<u>277,843,066</u>
Total liabilities and fund balances	<u>\$ 210,406,897</u>	<u>83,234,691</u>	<u>63,111,923</u>	<u>356,753,511</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, 2006

Total fund balance – governmental funds	\$ 277,843,066
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	493,561,358
Adjust deferred revenues to record revenues on an accrual basis	49,562,388
Bond issuance costs are capitalized in the government-wide statements	1,155,011
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, notes and premium	(238,752,661)
Accrued interest on bonds	(3,322,681)
Compensated absences	(17,083,000)
Landfill	(375,000)
Claims	(2,225,000)
Tax abatements	(1,800,000)
Other	(750,000)
	<u>(264,308,342)</u>
Net assets of governmental activities	\$ <u><u>557,813,481</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, 2006

	<u>General</u>	<u>Capital fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Real and personal property taxes	\$ 222,986,633	—	—	222,986,633
Excises:				
Hotel/motel	5,800,992	—	—	5,800,992
Motor vehicles	6,146,422	—	—	6,146,422
Payments in lieu of taxes	6,579,380	—	—	6,579,380
Intergovernmental	44,143,276	15,366,641	28,125,429	87,635,346
Investment income	7,409,840	60,486	2,229,479	9,699,805
Sewer use charges	33,834,690	—	—	33,834,690
Departmental and other	27,920,365	2,009,385	27,746,874	57,676,624
Total revenues	<u>354,821,598</u>	<u>17,436,512</u>	<u>58,101,782</u>	<u>430,359,892</u>
Expenditures:				
Current:				
General government	30,533,148	—	128,814	30,661,962
Public safety	82,618,591	—	637,390	83,255,981
Community maintenance and development	31,403,765	—	14,463,650	45,867,415
Human resource development	20,835,810	—	7,245,539	28,081,349
Education	120,687,921	—	12,982,996	133,670,917
Judgments and claims	346,008	—	—	346,008
State and district assessments	35,890,415	—	—	35,890,415
Capital outlays	—	37,237,192	—	37,237,192
Debt service	28,183,291	—	—	28,183,291
Total expenditures	<u>350,498,949</u>	<u>37,237,192</u>	<u>35,458,389</u>	<u>423,194,530</u>
Excess (deficiency) of revenues over expenditures	<u>4,322,649</u>	<u>(19,800,680)</u>	<u>22,643,393</u>	<u>7,165,362</u>
Other financing sources (uses):				
Premium on debt issuance	370,092	—	—	370,092
Issuance of debt	—	67,710,250	—	67,710,250
Retirement of bond anticipation note	—	(31,000,000)	—	(31,000,000)
Transfers in	15,113,440	8,785,380	13,977,097	37,875,917
Transfers out	(7,386,580)	(4,375,897)	(25,578,440)	(37,340,917)
Total other financing (uses) sources	<u>8,096,952</u>	<u>41,119,733</u>	<u>(11,601,343)</u>	<u>37,615,342</u>
Excess of revenues and other financing sources over expenditures and other financing uses	12,419,601	21,319,053	11,042,050	44,780,704
Fund balance – beginning	124,254,182	58,898,201	49,909,979	233,062,362
Fund balance – ending	\$ <u>136,673,783</u>	<u>80,217,254</u>	<u>60,952,029</u>	<u>277,843,066</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, 2006

Net change in fund balances – total governmental funds	\$ 44,780,704
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, (\$38,509,574) exceeded depreciation expense (\$18,448,543)	20,061,031
Revenues are recorded on an accrual basis.	(1,933,497)
Proceeds of long-term debt (\$36,710,250) 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 (\$24,822,015) 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	(11,888,235)
Premiums received, net of amortization, are revenues in the governmental funds, but are increases to long-term liabilities in the statement of net assets	(154,142)
Bond issuance costs, net of amortization, are expenditures in the governmental funds, but are deferred assets in the statement of net assets	305,117
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) compensated absences (\$704,000), tax abatements (\$1,817,510), other items (\$250,000) and noncurrent claims of (\$398,000) offset by the increase in accrued interest (\$892,872)	2,301,638
Change in net assets of governmental activities	\$ 53,472,616

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Assets – Proprietary Fund

June 30, 2006

	<u>Enterprise fund</u> <u>Water fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,405,061
Receivables, net	5,820,840
Total current assets	<u>11,225,901</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	45,849,058
Depreciable, net	92,582,614
Total noncurrent assets	<u>138,431,672</u>
Total assets	<u>149,657,573</u>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	57,877
Accrued liabilities:	
Claims	181,000
Compensated absences	155,000
Accrued payroll	60,062
Interest	807,246
Due to other funds	3,934,108
Current portion of long-term debt	6,034,004
Total current liabilities	<u>11,229,297</u>
Noncurrent liabilities:	
Bonds payable	46,470,541
Accrued liabilities:	
Compensated absences	328,000
Other	150,000
Total noncurrent liabilities	<u>46,948,541</u>
Total liabilities	<u>58,177,838</u>
Net assets:	
Investment in capital assets, net of related debt	86,100,235
Unrestricted	5,379,501
Total net assets	\$ <u><u>91,479,736</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

Year ended June 30, 2006

	<u>Enterprise fund</u> <u>Water fund</u>
Operating revenues:	
Charges for services	\$ 19,629,812
Total operating revenues	<u>19,629,812</u>
Operating expenses:	
Administration	2,976,273
Service and support programs	5,830,971
Other general services	44,795
Depreciation	2,748,954
Total operating expenses	<u>11,600,993</u>
Operating income	<u>8,028,819</u>
Nonoperating revenue (expense):	
Investment earnings – other	238,127
Interest expense	(2,517,067)
Nonoperating expense	<u>(2,278,940)</u>
Income before transfers	5,749,879
Transfers to other funds	<u>(535,000)</u>
Change in net assets	5,214,879
Total net assets – beginning	<u>86,264,857</u>
Total net assets – ending	<u>\$ 91,479,736</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2006

	Enterprise fund
	Water fund
	<hr/>
Cash flows from operating activities:	
Cash received from customers	\$ 18,662,206
Cash paid to vendors	(2,929,693)
Cash paid to employees	(2,926,315)
	<hr/>
Net cash provided by operating activities	12,806,198
	<hr/>
Cash flows from noncapital financing activities:	
Transfers	(535,000)
	<hr/>
Net cash used in noncapital financing activities	(535,000)
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,343,890)
Interest paid on debt	(2,644,646)
Repayment of long-term debt	(6,267,333)
	<hr/>
Net cash used in capital and related financing activities	(12,255,869)
	<hr/>
Cash flows from investing activities:	
Investment income	238,127
	<hr/>
Net cash provided by investing activities	238,127
	<hr/>
Increase in cash and cash equivalents	253,456
	<hr/>
Cash and cash equivalents, beginning of year	5,151,605
	<hr/>
Cash and cash equivalents, end of year	\$ 5,405,061
	<hr/> <hr/>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 8,028,819
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation	2,748,954
Changes in operating assets and liabilities:	
Accounts receivable	(967,606)
Due to other funds	3,095,497
Other liabilities	(99,466)
	<hr/>
Net cash provided by operating activities	\$ 12,806,198
	<hr/> <hr/>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Fiduciary Net Assets

June 30, 2006

Assets	Employee retirement plan (as of December 31, 2005)	Agency funds
	<hr/>	<hr/>
Cash and cash equivalents	\$ 15,999,040	4,761,570
Dividend and interest receivable	1,250,449	—
Contributions receivable:		
City of Cambridge	3,444,390	—
Cambridge Public Health Commission	2,438,313	—
Other	251,371	—
Other assets	1,821,034	—
Investments, at fair value:		
Fixed income securities	82,328,588	—
Equities	206,595,629	—
Pooled investments:		
Fixed income	86,628,601	—
Real estate	45,851,165	—
Domestic equities	107,064,741	—
International equities	67,649,117	—
Other	8,355,816	—
Total investments	604,473,657	—
Cash collateral on security lending	35,852,938	—
Total assets	\$ <u>665,531,192</u>	<u>4,761,570</u>
Liabilities		
Accrued liabilities	\$ 643,867	—
Guarantee deposits	—	4,761,570
Due to brokers for securities purchased	1,879,789	—
Cash collateral on security lending	35,852,938	—
Total liabilities	<u>38,376,594</u>	\$ <u>4,761,570</u>
Net Assets		
Held in trust for pension benefits	\$ <u>627,154,598</u>	

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2006

	Employee retirement plan (as of December 31, 2005)
Additions:	
Contributions:	
Employers	\$ 24,577,322
Plan members	18,409,692
Other systems	2,252,468
Commonwealth of Massachusetts	2,206,975
Total contributions	<u>47,446,457</u>
Investment earnings:	
Interest and dividends	12,907,818
Securities lending income	670,759
Net appreciation in the fair value of investments	27,845,077
Less management fees	(3,249,855)
Less borrower rebates and fees under securities lending program	(639,780)
Net investment earnings	<u>37,534,019</u>
Total additions	<u>84,980,476</u>
Deductions:	
Benefits	37,507,221
Refunds of contributions	2,941,277
Other systems	1,213,833
Administrative expenses	768,171
Total deductions	<u>42,430,502</u>
Change in net assets	42,549,974
Net assets, beginning of year	<u>584,604,624</u>
Net assets, end of year	<u><u>\$ 627,154,598</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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 Retirement 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, 2005. The System does not issue stand alone financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

The Cambridge Public Health Commission (CPHC) 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:

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, 2006 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*.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the proprietary fund and 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, 2006

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 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, 2005, such funds amounts to approximately \$11,167,600.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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, 2006

(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, 2006, 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, 2006

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

(a) Deposits

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

(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, 2006, the bank balances of uninsured and uncollateralized deposits are as follows:

Primary government	\$ 795,393
Discretely presented component unit (CPHC)	<u>9,125,689</u>
	<u>\$ 9,921,082</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, 2006

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 3(2) govern the System's investment practice.

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

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

(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, 2006:

<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	\$ 90,135,961	90,135,961	—	—	—
Certificates of deposit	250,000	250,000	—	—	—
MMDT	<u>153,334,322</u>	<u>153,334,322</u>	—	—	—
Subtotal City	<u>243,720,283</u>	<u>243,720,283</u>	—	—	—
System (as of December 31, 2005):					
Cash collateral pool	35,852,938	35,852,938	—	—	—
U.S. Treasury notes and bonds	4,272,985	1,365,119	—	2,907,866	—
U.S. agencies	7,013,003	—	1,487,667	—	5,525,336
Domestic corporate	55,792,719	1,952,838	15,820,125	14,923,387	23,096,369
International government	1,654,542	—	—	—	1,654,542
Asset-backed:					
CMOs	9,540,387	—	—	1,401,363	8,139,024
Other	4,054,952	—	2,230,633	73,964	1,750,355
Pooled fixed-income investments	<u>86,628,601</u>	—	—	<u>86,628,601</u>	—
Subtotal System	<u>204,810,127</u>	<u>39,170,895</u>	<u>19,538,425</u>	<u>105,935,181</u>	<u>40,165,626</u>
Total primary government	<u>\$ 448,530,410</u>	<u>282,891,178</u>	<u>19,538,425</u>	<u>105,935,181</u>	<u>40,165,626</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>
Discretely presented component unit (CPHC):			
Money market	\$ 3,483,602	3,483,602	—
MMDT	62,403,479	62,403,479	—
U.S. Treasury notes and bonds	9,484,573	7,052,348	2,432,225
U.S. agencies	20,721,567	16,790,827	3,930,740
Domestic corporate	<u>55,618,045</u>	<u>54,918,045</u>	<u>700,000</u>
Total discretely presented component unit (CPHC)	<u>\$ 151,711,266</u>	<u>144,648,301</u>	<u>7,062,965</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, 2006

The primary government's fixed income investments as of June 30, 2006 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	Less than B	Not rated
City:									
Money market	\$ 90,135,961	—	—	—	—	—	—	—	90,135,961
Certificates of deposit	250,000	—	—	—	—	—	—	—	250,000
MMDT	153,334,322	—	—	—	—	—	—	—	153,334,322
Subtotal City	243,720,283	—	—	—	—	—	—	—	243,720,283
System (as of December 31, 2005):									
Cash collateral pool	35,852,938	—	—	—	—	—	—	—	35,852,938
U.S. agencies	7,013,003	7,013,003	—	—	—	—	—	—	—
Domestic corporate	55,792,719	3,610,095	4,761,721	12,398,548	9,162,142	6,157,032	14,448,406	4,692,268	562,507
International gov't	1,654,542	—	—	1,654,542	—	—	—	—	—
Asset-backed:									
CMOs	9,540,387	8,967,192	—	—	—	—	—	—	573,195
Other	4,054,952	3,682,067	—	—	—	279,363	73,964	19,558	—
Pooled fixed-income investments	86,628,601	—	—	—	—	—	—	—	86,628,601
Subtotal System	200,537,142	23,272,357	4,761,721	14,053,090	9,162,142	6,436,395	14,522,370	4,711,826	123,617,241
Total primary government	\$ 444,257,425	23,272,357	4,761,721	14,053,090	9,162,142	6,436,395	14,522,370	4,711,826	367,337,524
Discretely presented component unit (CPHC):									
Money market	\$ 3,483,602	3,483,602	Not rated						
MMDT	62,403,479	62,403,479	Not rated						
U.S. agencies	20,721,567	20,721,567	Rated "A" or better						
Domestic corporate	55,618,045	55,618,045	Rated "A" or better						
Total discretely presented component unit (CPHC):	\$ 142,226,693	142,226,693							

In addition to the above schedule, the System and CPHC had \$4,272,985 and \$9,484,573, 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, 2005.

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

(v) *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's asset allocation model which serves as a proxy for a foreign currency policy, limits the amount of foreign currency exposure to 18% of the System's total investments. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2005, there were no open forward currency contracts.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

<u>Currency</u>	<u>Equity</u>
International equity pooled funds (various currencies)	\$ <u><u>67,649,117</u></u>

(4) Property Taxes

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

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

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

A statewide property tax limitation known as "Proposition 2 1/2" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 1/2 limits the total levy to an amount not greater than 2 1/2% of the total assessed value of all taxable property within the City. Secondly, the tax levy 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, 2006

(5) Capital Assets

Capital asset activity for the year ended June 30, 2006 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	2,653,654	—	165,207,775
Construction in progress	<u>87,990,659</u>	<u>28,865,767</u>	<u>(26,313,069)</u>	<u>90,543,357</u>
Total capital assets not being depreciated	<u>250,544,780</u>	<u>31,519,421</u>	<u>(26,313,069)</u>	<u>255,751,132</u>
Capital assets being depreciated:				
Buildings and improvements	189,142,258	8,129,210	—	197,271,468
Improvements – nonbuilding	29,688,561	10,405,887	—	40,094,448
Furniture and equipment	39,219,206	4,640,250	—	43,859,456
Infrastructure	<u>164,767,717</u>	<u>10,127,875</u>	<u>—</u>	<u>174,895,592</u>
Total capital assets being depreciated	<u>422,817,742</u>	<u>33,303,222</u>	<u>—</u>	<u>456,120,964</u>
Less accumulated depreciation for:				
Buildings and improvements	(65,073,415)	(5,518,099)	—	(70,591,514)
Improvements – nonbuilding	(6,356,617)	(1,515,860)	—	(7,872,477)
Furniture and equipment	(23,811,741)	(3,688,421)	—	(27,500,162)
Infrastructure	<u>(104,620,422)</u>	<u>(7,726,163)</u>	<u>—</u>	<u>(112,346,585)</u>
Total accumulated depreciation	<u>(199,862,195)</u>	<u>(18,448,543)</u>	<u>—</u>	<u>(218,310,738)</u>
Total capital assets being depreciated, net	<u>222,955,547</u>	<u>14,854,679</u>	<u>—</u>	<u>237,810,226</u>
Governmental activities capital assets, net	\$ <u><u>473,500,327</u></u>	<u><u>46,374,100</u></u>	<u><u>(26,313,069)</u></u>	<u><u>493,561,358</u></u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

Governmental activities:		
General government	\$	1,203,726
Public safety		2,754,145
Community maintenance and development		10,878,424
Human resource development		261,925
Education		3,350,323
		<u>18,448,543</u>
Total depreciation expense – governmental activities	\$	<u>18,448,543</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	3,702,767	3,262,354	(380,388)	6,584,733
				<u>6,584,733</u>
Total capital assets not being depreciated	42,967,092	3,262,354	(380,388)	45,849,058
				<u>45,849,058</u>
Capital assets being depreciated:				
Buildings and improvements	80,319,596	—	(32,581)	80,287,015
Furniture and equipment	1,096,956	43,113	—	1,140,069
Infrastructure	31,687,082	451,392	—	32,138,474
				<u>32,138,474</u>
Total capital assets being depreciated	113,103,634	494,505	(32,581)	113,565,558
				<u>113,565,558</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,890,380)	(2,007,176)	—	(9,897,556)
Furniture and equipment	(795,050)	(98,900)	—	(893,950)
Infrastructure	(9,548,560)	(642,878)	—	(10,191,438)
				<u>(10,191,438)</u>
Total accumulated depreciation	(18,233,990)	(2,748,954)	—	(20,982,944)
				<u>(20,982,944)</u>
Total capital assets being depreciated, net	94,869,644	(2,254,449)	(32,581)	92,582,614
				<u>92,582,614</u>
Business-type activity capital assets, net	\$ <u>137,836,736</u>	<u>1,007,905</u>	<u>(412,969)</u>	<u>138,431,672</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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	\$ 7,765,807	—		7,765,807	—
Motor vehicle taxes	3,701,246	—		3,701,246	—
Other taxes	2,687,047	—		2,687,047	—
Intergovernmental	11,894,723	3,517,539	3,336,912	18,749,174	—
Other	11,917,959	—	8,858,771	20,776,730	6,192,383
Gross receivables	37,966,782	3,517,539	12,195,683	53,680,004	6,192,383
Less allowance for uncollectibles	3,707,575	—	3,382,056	7,089,631	371,543
Net total receivables	\$ <u>34,259,207</u>	<u>3,517,539</u>	<u>8,813,627</u>	<u>46,590,373</u>	<u>5,820,840</u>

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, 2006, under this program, the City was due funds totaling \$11.9 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 two-year paydown as of June 30, 2006:

2007	\$ 8,001,968
2008	<u>3,892,755</u>
Total	\$ <u>11,894,723</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

	<u>Unavailable</u>
Delinquent property taxes receivable (general fund)	\$ 8,860,082
Delinquent taxes (other funds)	119,277
Due from component units	18,000,000
School building assistance receivable	11,894,723
Other	<u>10,688,306</u>
Total deferred/unearned revenue for governmental funds	\$ <u><u>49,562,388</u></u>

There was no unearned revenue at June 30, 2006.

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

Individual fund receivable and payable balances at June 30, 2006, are as follows:

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General fund – payable to water fund – for bond premium transfer	\$ —	32,723
Capital fund – receivable from other governmental funds and the enterprise fund – for capital items	5,536,800	—
Enterprise fund – payable to capital fund – for capital items	—	3,934,108
Other governmental funds – community development block grant payable to capital fund – for capital items		1,630,558
Other governmental funds – community development block grant – other	<u>60,589</u>	—
Balance at June 30, 2006	\$ <u><u>5,597,389</u></u>	<u><u>5,597,389</u></u>

At December 31, 2005, the System has a receivable from the City's general fund. At June 30, 2006, this amount has been paid by the City. As a result, there is no corresponding payable to the System at June 30, 2006.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

Receivable and payable balances between the primary government and CPHC at June 30, 2006 are as follows:

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 18,000,000	—
Discretely presented component unit:		
CPHC	—	18,000,000
Balance at June 30, 2006	\$ 18,000,000	18,000,000

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 \$18,000,000 at June 30, 2006.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(8) Long-Term Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2006:

	<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%	\$ 77,555,000	55,000,000	36,415,000	96,140,000	7,930,000
Urban redevelopment, serial maturities through January 1, 2015	6/15/92 to 2/1/05	2.25-5.9%	36,495,500	2,300,000	4,505,000	34,290,500	4,735,000
Schools, serial maturities through December 1, 2010	6/15/92 to 12/1/00	4.5-5.9%	14,575,000	—	3,485,000	11,090,000	3,240,000
Sewer, serial maturities through January 1, 2015	2/1/94 to 2/1/05	2.25-5.9%	68,940,782	10,410,250	9,522,767	69,828,265	10,571,123
Hospital, serial maturities through February 1, 2018	2/1/98	4.50%	19,500,000	—	1,500,000	18,000,000	1,500,000
Section 108 HUD notes payable, serial maturities through August 15, 2014	2/1/95	7.71-9.03%	385,000	—	10,000	375,000	20,000
School equipment notes, serial maturities through October 15, 2008	6/15/98	6.85%	1,305,269	—	384,248	921,021	410,939
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			<u>\$ 224,756,551</u>	<u>67,710,250</u>	<u>55,822,015</u>	236,644,786	<u>28,407,062</u>
Add (deduct):							
Unamortized bond premium						2,107,875	
Current portion of long-term debt						(28,407,062)	
						<u>\$ 210,345,599</u>	
Other long-term obligations:							
Claims			\$ 6,080,000	29,617,590	29,865,590	5,832,000	3,607,000
Compensated absences			17,787,000	17,470,175	18,174,175	17,083,000	6,720,000
Landfill postclosure care costs			400,000	—	25,000	375,000	25,000
Total other governmental long-term obligations			<u>\$ 24,267,000</u>	<u>47,087,765</u>	<u>48,064,765</u>	<u>23,290,000</u>	<u>10,352,000</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

Following is a summary of the business-type long-term obligations of the City as of June 30, 2006:

	<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%	\$ 58,745,699	—	6,267,333	52,478,366	6,034,004
Total business-type bonds payable			<u>\$ 58,745,699</u>	<u>—</u>	<u>6,267,333</u>	52,478,366	<u>6,034,004</u>
Add (deduct):							
Unamortized bond premium						26,179	
Current portion of long-term debt						<u>(6,034,004)</u>	
						<u>\$ 46,470,541</u>	
Other long-term obligations:							
Claims			\$ 518,000	1,680,970	1,867,970	331,000	181,000
Compensated absences			<u>458,000</u>	<u>334,789</u>	<u>309,789</u>	<u>483,000</u>	<u>155,000</u>
Total other long-term obligations			<u>\$ 976,000</u>	<u>2,015,759</u>	<u>2,177,759</u>	<u>814,000</u>	<u>336,000</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 28,407,062	8,770,534	37,177,596
2008	26,691,488	7,904,026	34,595,514
2009	25,082,721	6,903,070	31,985,791
2010	24,909,978	5,940,596	30,850,574
2011	23,458,280	4,985,568	28,443,848
2012-2016	66,912,023	14,738,621	81,650,644
2017-2021	24,306,490	6,047,664	30,354,154
2022-2025	16,876,744	1,999,800	18,876,544
	<u>\$ 236,644,786</u>	<u>57,289,879</u>	<u>293,934,665</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, 2006, 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 \$20,952,767 and education expenditures of \$3,869,248 totaling \$24,822,015 of principal costs.

In fiscal 2006, the City borrowed \$195,250 from the Massachusetts Water Resources Authority (MWRA) to fund various sewer improvements. Principal is due in annual installments through November 2010.

In February 2006, the City issued \$67,515,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest on the general obligation bonds is due semiannually on each January 1 and July 1, with principal payments due each January 1 until maturity in fiscal 2026. A portion of these bonds totaling \$31,000,000 was used to retire \$31,000,000 in bond anticipation notes (BAN) that were issued in May 2005 for the acquisition/construction of a new police headquarters.

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 \$2,778,111 in subsidies during 2006 and expects to receive subsidies totaling approximately \$9,740,000 (water portion \$4,359,245) through 2011. Loan payments commenced on February 1, 1994 and end on August 1, 2011, with interest rates ranging from 4.0% to 5.0%.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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, 2006, the City may issue approximately \$723.2 million additional general obligation debt under the normal debt limit. The City has approximately \$63.6 million of debt exempt from the debt limit.

The annual debt service requirements of the City’s water enterprise fund as of June 30, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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	5,033,331	1,239,194	6,272,525
2012-2016	14,575,000	3,759,642	18,334,642
2017-2020	8,000,000	675,002	8,675,002
	<u>\$ 52,478,366</u>	<u>13,437,440</u>	<u>65,915,806</u>

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

(9) Retirement Plan

(a) Plan Description

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

- (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).

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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,736
Terminated plan members entitled to, but not receiving benefits	1,070
Active plan members	3,739
	<hr/>
Total membership	6,545
	<hr/> <hr/>
Total number of participating employers	4

(d) Contributions

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% to 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. 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 actual contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$19,181,256, \$18,774,343, and \$17,889,382, respectively, and \$4,349,555, \$4,243,465, and \$4,160,260, respectively.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(e) ***Legally Required Reserve Accounts***

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2005 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 157,719,092	Active members' contribution balance
Annuity reserve fund	41,033,464	Retired members' contribution account
Military service credit	1,843	Members' contribution account while on military leave
Pension reserve fund	380,268,641	Amounts appropriated to fund future retirement benefits
Pension fund	48,131,558	Remaining net assets
	<u>\$ 627,154,598</u>	

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

(f) ***Securities Lending***

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

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2005. 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, 2005, 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, 2005 were \$639,780.

At December 31, 2005, the fair value of securities loaned by the System amounted to \$34,764,385, against which was held collateral of \$35,852,938.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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 \$14.1 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2006.

GASB Statement Nos. 43 and 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are effective June 30, 2007 and June 30, 2008, respectively.

These statements will require the City to account for and report the value of its future other postemployment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The City has contracted The Segal Group, Inc. to perform an actuarial study to determine the unfunded liability. A preliminary actuarial report is expected by the Spring of 2007.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(11) Transfers

Transfers and their purposes during the year ended June 30, 2006 were as follows:

	<u>Governmental funds</u>			<u>Enterprise fund Water</u>
	<u>General</u>	<u>Capital</u>	<u>Other</u>	
Capital – to fund capital expenditures	\$ (7,385,380)	7,385,380	—	—
Parking – reimbursement of administrative costs and other eligible City expenditures	14,533,440	1,400,000	(15,933,440)	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	45,000	—	(45,000)	—
CDBG – reimbursement of eligible capital costs	—	(43,551)	43,551	—
Water – reimbursement of administrative costs	535,000	—	—	(535,000)
Community Preservation Act (CPA) – for affordable housing	—	(4,332,346)	4,332,346	—
Affordable housing fund – from CPA Fund	—	—	9,600,000	—
CPA Fund – to affordable housing fund	—	—	(9,600,000)	—
Other	(1,200)	—	1,200	—
Total	<u>\$ 7,726,860</u>	<u>4,409,483</u>	<u>(11,601,343)</u>	<u>(535,000)</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, 2006

Changes in the self insurance liability for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Accrued claims, beginning of year	\$ 6,598,000	4,687,200
Incurred claims	31,298,560	28,964,669
Less payments of claims attributable to events of both current and prior fiscal years	<u>(31,733,560)</u>	<u>(27,053,869)</u>
Accrued claims, end of year	<u>\$ 6,163,000</u>	<u>6,598,000</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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Pension Information

June 30, 2006

(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>
January 1, 2006	\$ 632,059	740,320	108,261	85.4%	\$ 201,088	53.8%
January 1, 2004	569,500	655,107	85,607	86.9	184,254	46.5
January 1, 2002	516,947	578,050	61,103	89.4	167,303	36.5
January 1, 2000	424,606	510,973	86,367	83.1	140,489	61.5
January 1, 1998	342,788	436,216 (1)	93,428	78.6	132,440	70.5
January 1, 1996	233,883	361,885	128,002	64.6	114,485	111.8

(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>
2005	\$ 24,577	100%
2004	23,978	100
2003	23,762	100
2002	21,399	100
2001	22,030	100
2000	21,669	100

See accompanying notes to required supplementary pension information.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementaray Pension Information

June 30, 2006

(Unaudited)

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2006
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	2 years from July 1, 2006 for 1992 ERI, 2 1/2 years from July 1, 2006 for 2002 ERI, 3 years from July 1, 2006 for 2003 ERI, and 9 years from July 1, 2004 for remaining unfunded liability.
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	4.5% over next 3 years, 5.5% thereafter
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

CITY OF CAMBRIDGE

Statement of Revenues and Expenditures – Budgetary Basis

General Fund – Budget and Actual

Year ended June 30, 2006

(with comparative actual amounts for 2005)

	<u>2006 Original budget</u>	<u>2006 Final budget</u>	<u>2006 Actual</u>	<u>Variance favorable (unfavorable)</u>	<u>2005 Actual</u>
Revenues:					
Property taxes	\$ 222,960,291	222,960,291	222,960,291	—	222,953,435
Provisions for tax abatements and adj.	(4,510,291)	(4,510,291)	(4,510,291)	—	(4,515,930)
Payments in lieu of tax receipts	4,281,885	4,281,885	5,546,100	1,264,215	6,839,369
Hotel/motel excise tax	6,678,900	6,678,900	5,800,992	(877,908)	5,461,027
Intergovernmental	42,811,484	42,811,484	44,143,276	1,331,792	43,801,641
Sewer use	29,804,690	29,804,690	33,834,690	4,030,000	28,661,479
Motor vehicle excise	6,016,641	6,016,641	6,146,422	129,781	6,452,475
Investment income	1,500,000	1,500,000	6,324,565	4,824,565	2,223,238
Other	23,822,535	23,382,648	24,017,826	635,178	21,469,794
	<u>333,366,135</u>	<u>332,926,248</u>	<u>344,263,871</u>	<u>11,337,623</u>	<u>333,346,528</u>
Total revenues					
Expenditures:					
Current:					
General government	38,453,785	36,039,931	34,536,953	1,502,978	30,595,775
Public safety	81,513,280	82,441,720	82,087,794	353,926	78,618,557
Community maintenance and development	31,364,908	31,177,586	31,117,067	60,519	30,673,694
Human resource development	22,038,037	22,166,241	22,084,556	81,685	21,093,962
Education	124,044,400	119,969,400	119,727,753	241,647	115,839,781
Judgments and claims	250,000	349,000	348,993	7	224,397
State and district assessments	38,203,495	38,191,595	35,890,415	2,301,180	34,243,618
Debt service:					
Principal	20,952,770	20,952,770	20,952,766	4	18,403,133
Interest	7,122,535	7,465,080	7,446,472	18,608	5,548,075
	<u>363,943,210</u>	<u>358,753,323</u>	<u>354,192,769</u>	<u>4,560,554</u>	<u>335,240,992</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(30,577,075)</u>	<u>(25,827,075)</u>	<u>(9,928,898)</u>	<u>15,898,177</u>	<u>(1,894,464)</u>
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	16,133,575	16,133,575	14,533,440	1,600,135	14,013,250
Capital projects funds	(4,057,500)	(4,257,500)	(7,385,380)	3,127,880	(6,480,462)
Trust funds	5,905,000	1,355,000	1,103,800	251,200	(2,220,000)
Enterprise fund	535,000	535,000	535,000	—	531,835
	<u>18,516,075</u>	<u>13,766,075</u>	<u>8,786,860</u>	<u>4,979,215</u>	<u>5,844,623</u>
Total other financing sources (uses)					
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(12,061,000)</u>	<u>(12,061,000)</u>	<u>(1,142,038)</u>	<u>10,918,962</u>	<u>3,950,159</u>
Other budget items:					
Free cash appropriations	10,061,000	10,061,000			
Overlay Surplus	2,000,000	2,000,000			
	<u>12,061,000</u>	<u>12,061,000</u>			
Total other budget items					
Net budget and actual	\$ <u>—</u>	<u>—</u>			

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Required Supplementary Budget Information

Year ended June 30, 2006

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, 2006:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis	\$ 344,263,871	354,192,769	8,786,860
Adjustments:			
Revenues to modified accrual basis	10,927,819	—	—
Expenditures, encumbrances and accruals, net	—	(3,693,820)	—
Bond premium reclassification	(370,092)	—	370,092
Budgetary transfers not reported on a GAAP basis:			
Stabilization Trust Funds	—	—	(1,060,000)
As reported on a GAAP basis	<u>\$ 354,821,598</u>	<u>350,498,949</u>	<u>8,096,952</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2006

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, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General Government:			
Mayor:			
Salaries and wages	\$ 323,890	301,143	22,747
Other ordinary maintenance	116,700	116,697	3
Travel and training	17,300	17,287	13
Total Mayor	<u>457,890</u>	<u>435,127</u>	<u>22,763</u>
City Manager:			
Salaries and wages	1,043,545	1,043,490	55
Other ordinary maintenance	435,450	424,597	10,853
Travel and training	34,465	31,087	3,378
Total City Manager	<u>1,513,460</u>	<u>1,499,174</u>	<u>14,286</u>
City Council:			
Salaries and wages	941,805	940,580	1,225
Other ordinary maintenance	41,900	26,149	15,751
Travel and training	45,500	42,675	2,825
Total City Council	<u>1,029,205</u>	<u>1,009,404</u>	<u>19,801</u>
City Clerk:			
Salaries and wages	695,635	695,632	3
Other ordinary maintenance	59,780	53,484	6,296
Travel and training	750	450	300
Total City Clerk	<u>756,165</u>	<u>749,566</u>	<u>6,599</u>
Law:			
Salaries and wages	1,071,290	1,033,567	37,723
Other ordinary maintenance	509,225	508,693	532
Travel and training	9,675	5,772	3,903
Total Law	<u>1,590,190</u>	<u>1,548,032</u>	<u>42,158</u>
Finance:			
Salaries and wages	7,048,165	7,048,163	2
Other ordinary maintenance	2,422,140	2,357,447	64,693
Travel and training	162,500	148,084	14,416
Extraordinary expenditures	77,800	72,784	5,016
Total Finance	<u>9,710,605</u>	<u>9,626,478</u>	<u>84,127</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Employment Benefits:			
Salaries and wages	\$ 17,440,863	16,326,306	1,114,557
Other ordinary maintenance	701,880	593,698	108,182
Total Employment Benefits	<u>18,142,743</u>	<u>16,920,004</u>	<u>1,222,739</u>
General Services:			
Salaries and wages	444,683	432,785	11,898
Other ordinary maintenance	592,555	588,461	4,094
Total General Services	<u>1,037,238</u>	<u>1,021,246</u>	<u>15,992</u>
Election Commission:			
Salaries and wages	548,895	548,890	5
Other ordinary maintenance	202,700	200,567	2,133
Travel and training	2,270	710	1,560
Total Election Commission	<u>753,865</u>	<u>750,167</u>	<u>3,698</u>
Public Celebrations:			
Salaries and wages	373,118	334,839	38,279
Other ordinary maintenance	402,800	396,767	6,033
Travel and training	177	177	—
Extraordinary expenditures	2,500	2,500	—
Total Public Celebrations	<u>778,595</u>	<u>734,283</u>	<u>44,312</u>
Reserve:			
Other ordinary maintenance	26,365	—	26,365
Total Reserve	<u>26,365</u>	<u>—</u>	<u>26,365</u>
Animal Commission:			
Salaries and wages	230,895	230,893	2
Other ordinary maintenance	12,565	12,429	136
Travel and training	150	150	—
Total Animal Commission	<u>243,610</u>	<u>243,472</u>	<u>138</u>
Total General Government	<u>36,039,931</u>	<u>34,536,953</u>	<u>1,502,978</u>
Public Safety:			
Fire:			
Salaries and wages	30,305,180	30,305,177	3
Other ordinary maintenance	1,032,505	1,032,500	5
Travel and training	506,385	504,590	1,795
Extraordinary expenditures	95,000	93,184	1,816
Total Fire	<u>31,939,070</u>	<u>31,935,451</u>	<u>3,619</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2006

	Budget	Actual	Variance positive (negative)
Police:			
Salaries and wages	\$ 30,976,835	30,718,672	258,163
Other ordinary maintenance	871,950	869,719	2,231
Travel and training	434,000	403,891	30,109
Extraordinary expenditures	628,820	612,223	16,597
Total Police	<u>32,911,605</u>	<u>32,604,505</u>	<u>307,100</u>
Traffic and Parking:			
Salaries and wages	5,289,625	5,285,281	4,344
Other ordinary maintenance	3,085,140	3,078,382	6,758
Travel and training	29,400	28,592	808
Extraordinary expenditures	89,000	88,437	563
Total Traffic and Parking	<u>8,493,165</u>	<u>8,480,692</u>	<u>12,473</u>
Police Review and Advisory Board:			
Salaries and wages	74,850	74,821	29
Other ordinary maintenance	1,000	—	1,000
Travel and training	3,000	2,649	351
Total Police Review and Advisory Board	<u>78,850</u>	<u>77,470</u>	<u>1,380</u>
Inspectional Services:			
Salaries and wages	2,262,870	2,262,861	9
Other ordinary maintenance	107,100	99,800	7,300
Travel and training	51,825	50,294	1,531
Total Inspectional Services	<u>2,421,795</u>	<u>2,412,955</u>	<u>8,840</u>
License:			
Salaries and wages	701,585	701,580	5
Other ordinary maintenance	111,090	100,923	10,167
Travel and training	8,800	8,555	245
Total License	<u>821,475</u>	<u>811,058</u>	<u>10,417</u>
Weights and Measures:			
Salaries and wages	96,120	96,117	3
Other ordinary maintenance	7,780	7,033	747
Travel and training	1,745	1,745	—
Total Weights and Measures	<u>105,645</u>	<u>104,895</u>	<u>750</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2006

	Budget	Actual	Variance positive (negative)
Electrical:			
Salaries and wages	\$ 1,237,205	1,236,220	985
Other ordinary maintenance	939,715	938,743	972
Travel and training	1,670	570	1,100
Total Electrical	<u>2,178,590</u>	<u>2,175,533</u>	<u>3,057</u>
Emergency Management:			
Salaries and wages	136,390	136,387	3
Other ordinary maintenance	13,635	11,462	2,173
Travel and training	100	—	100
Total Emergency Management	<u>150,125</u>	<u>147,849</u>	<u>2,276</u>
Emergency Communications:			
Salaries and wages	3,138,600	3,138,597	3
Other ordinary maintenance	165,950	162,107	3,843
Travel and training	32,850	32,682	168
Extraordinary expenditures	4,000	4,000	—
Total Emergency Communications	<u>3,341,400</u>	<u>3,337,386</u>	<u>4,014</u>
Total Public Safety	<u>82,441,720</u>	<u>82,087,794</u>	<u>353,926</u>
Community Maintenance and Development:			
Public Works:			
Salaries and wages	15,101,160	15,099,632	1,528
Other ordinary maintenance	9,350,650	9,316,339	34,311
Travel and training	205,625	203,574	2,051
Extraordinary expenditures	400,000	399,879	121
Total Public Works	<u>25,057,435</u>	<u>25,019,424</u>	<u>38,011</u>
Community Development:			
Salaries and wages	3,810,393	3,802,154	8,239
Other ordinary maintenance	587,790	584,542	3,248
Travel and training	21,197	20,073	1,124
Extraordinary expenditures	—	—	—
Total Community Development	<u>4,419,380</u>	<u>4,406,769</u>	<u>12,611</u>
Historical Commission:			
Salaries and wages	447,340	441,477	5,863
Other ordinary maintenance	27,440	27,401	39
Travel and training	800	757	43
Total Historical Commission	<u>475,580</u>	<u>469,635</u>	<u>5,945</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2006

	Budget	Actual	Variance positive (negative)
Conservation Commission:			
Salaries and wages	\$ 87,880	87,880	—
Other ordinary maintenance	3,865	842	3,023
Travel and training	885	515	370
Total Conservation Commission	92,630	89,237	3,393
Peace Commission:			
Salaries and wages	67,985	67,983	2
Other ordinary maintenance	9,480	9,477	3
Travel and training	3,150	2,760	390
Total Peace Commission	80,615	80,220	395
Cable Television:			
Salaries and wages	413,085	413,083	2
Other ordinary maintenance	635,535	635,373	162
Travel and training	3,326	3,326	—
Total Cable Television	1,051,946	1,051,782	164
Total Community Maintenance and Development	31,177,586	31,117,067	60,519
Human Resource Development:			
Library:			
Salaries and wages	4,698,475	4,698,473	2
Other ordinary maintenance	943,145	930,661	12,484
Travel and training	66,050	66,034	16
Total Library	5,707,670	5,695,168	12,502
Human Services:			
Salaries and wages	12,847,675	12,794,446	53,229
Other ordinary maintenance	2,542,037	2,541,940	97
Travel and training	63,179	51,350	11,829
Extraordinary expenditures	76,500	76,393	107
Total Human Services	15,529,391	15,464,129	65,262
Women’s Commission:			
Salaries and wages	155,550	155,545	5
Other ordinary maintenance	10,735	10,723	12
Travel and training	875	125	750
Total Women’s Commission	167,160	166,393	767

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Human Rights Commission:			
Salaries and wages	\$ 167,045	166,877	168
Other ordinary maintenance	4,055	3,838	217
Travel and training	700	700	—
Total Human Rights Commission	<u>171,800</u>	<u>171,415</u>	<u>385</u>
Veterans Benefits:			
Salaries and wages	258,170	258,168	2
Other ordinary maintenance	47,164	46,736	428
Travel and training	284,886	282,547	2,339
Total Veterans Benefits	<u>590,220</u>	<u>587,451</u>	<u>2,769</u>
Total Human Resource Development	<u>22,166,241</u>	<u>22,084,556</u>	<u>81,685</u>
Education:			
Salaries and wages	87,695,540	87,584,200	111,340
Other ordinary maintenance	22,553,228	22,520,652	32,576
Travel and training	1,792,224	1,694,571	97,653
Extraordinary expenditures	3,791,258	3,791,180	78
Debt:			
Principal payments	3,485,000	3,485,000	—
Interest payments	652,150	652,150	—
Total Education	<u>119,969,400</u>	<u>119,727,753</u>	<u>241,647</u>
Judgments and Claims	<u>349,000</u>	<u>348,993</u>	<u>7</u>
Debt Retirement:			
Principal payments	20,952,770	20,952,766	4
Interest payments	7,465,080	7,446,472	18,608
Total Debt Retirement	<u>28,417,850</u>	<u>28,399,238</u>	<u>18,612</u>
State assessments:			
MBTA assessment	7,593,315	7,593,311	4
MWRA assessment	15,987,460	15,774,594	212,866
Other State assessments	8,360,820	6,272,510	2,088,310
Cambridge Public Health Commission	6,250,000	6,250,000	—
Total Intergovernmental	<u>38,191,595</u>	<u>35,890,415</u>	<u>2,301,180</u>
Total General Fund Expenditures	<u>\$ 358,753,323</u>	<u>354,192,769</u>	<u>4,560,554</u>

See accompanying independent auditors' report.

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CITY OF CAMBRIDGE, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2006

OTHER GOVERNMENTAL FUNDS

Community Development Block Grant

Revenues from the community development block grant program are recorded in this fund. A transfer of revenues is made at the end of the fiscal year to the capital projects funds to cover block grant related expenditures in these funds during the fiscal year. All operating expenditures are recorded within this fund.

School Grants

This fund accounts for both the receipt and expenditure of funds received from numerous federal and state agencies to support a wide range of elementary and secondary school programs.

Fuel Assistance

This fund is used to account for revenues and expenditures for a federal program designed to provide low income families with assistance in purchasing fuel supplies.

Parking Fund

Receipts from the parking fund, which consist primarily of meter collections, parking fines, and miscellaneous revenues, are recorded in this fund and support a wide range of City programs in accordance with Chapter 844 of the Massachusetts General Laws. In a similar manner to the block grant funds, an amount equal to that which is appropriated to the general and capital projects funds, is transferred to those funds at the end of the fiscal year.

Community Preservation Act

Receipts from added 3% tax and the matching funds from the State for the preservation of open space, historic locations and affordable housing are recorded in this fund. In a similar manner to the parking fund, an amount equal to the amount appropriated to the capital projects and other grants funds, is transferred to those funds at the end of the fiscal year.

Other Grants

Funds from a wide range of federal and state grants provide additional support to several City programs, including the Arts Council, Historical Commission, and Library. Both the receipt and expenditure of these funds are accounted for in this fund.

Permanent Funds

This fund accumulates all the City's trust funds that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Other Governmental Funds

June 30, 2006

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	\$ 455,792	3,959,537	327,433	11,173,253	8,904,362	25,860,716	2,956,614	53,637,707
Restricted cash and investments	—	—	—	—	—	600,000	—	600,000
Accounts receivable	1,000,000	—	—	268,913	119,277	4,088,525	—	5,476,715
Due from other funds	60,589	—	—	—	—	—	—	60,589
Due from other governments	173,749	2,317,670	—	—	—	845,493	—	3,336,912
Total assets	<u>\$ 1,690,130</u>	<u>6,277,207</u>	<u>327,433</u>	<u>11,442,166</u>	<u>9,023,639</u>	<u>31,394,734</u>	<u>2,956,614</u>	<u>63,111,923</u>
Liabilities and Fund Balances								
Warrants payable	\$ 40,036	111,922	—	—	—	110,044	—	262,002
Accrued liabilities	19,536	69,576	—	—	6,634	52,311	—	148,057
Deferred revenue	—	—	—	—	119,277	—	—	119,277
Due to other funds	1,630,558	—	—	—	—	—	—	1,630,558
Total liabilities	<u>1,690,130</u>	<u>181,498</u>	<u>—</u>	<u>—</u>	<u>125,911</u>	<u>162,355</u>	<u>—</u>	<u>2,159,894</u>
Fund balances:								
Reserved for encumbrances	—	723,636	—	—	—	1,820,635	—	2,544,271
Reserved for specific purposes	—	—	—	—	506,346	600,000	2,956,614	4,062,960
Reserved for loans	—	—	—	—	—	4,088,525	—	4,088,525
Unreserved	—	5,372,073	327,433	11,442,166	8,391,382	24,723,219	—	50,256,273
Total fund balances	<u>—</u>	<u>6,095,709</u>	<u>327,433</u>	<u>11,442,166</u>	<u>8,897,728</u>	<u>31,232,379</u>	<u>2,956,614</u>	<u>60,952,029</u>
Total liabilities and fund balances	<u>\$ 1,690,130</u>	<u>6,277,207</u>	<u>327,433</u>	<u>11,442,166</u>	<u>9,023,639</u>	<u>31,394,734</u>	<u>2,956,614</u>	<u>63,111,923</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, 2006

	Special revenue							
	Community development block grant	School grants	Fuel assistance	Parking fund	Community preservation act	Other grants	Permanent funds	Total
Revenues:								
Intergovernmental	\$ 1,444,067	12,465,731	1,654,805	—	5,905,823	6,655,003	—	28,125,429
Investment income	17,039	—	9,831	660,057	242,487	1,174,039	126,026	2,229,479
Other:								
Permits	—	—	—	363,692	—	—	—	363,692
Fines	—	—	—	10,722,296	—	—	—	10,722,296
Charges for services	—	—	—	6,699,758	—	—	—	6,699,758
Miscellaneous	—	1,314,945	—	201,210	5,891,460	2,429,977	123,536	9,961,128
Total revenues	<u>1,461,106</u>	<u>13,780,676</u>	<u>1,664,636</u>	<u>18,647,013</u>	<u>12,039,770</u>	<u>10,259,019</u>	<u>249,562</u>	<u>58,101,782</u>
Expenditures:								
General government	—	—	—	—	—	48,732	80,082	128,814
Public safety	—	—	—	—	—	637,390	—	637,390
Community maintenance and development	870,071	—	—	—	715,288	12,878,291	—	14,463,650
Human services	634,586	—	1,711,397	—	—	4,899,556	—	7,245,539
Education	—	12,982,996	—	—	—	—	—	12,982,996
Total expenditures	<u>1,504,657</u>	<u>12,982,996</u>	<u>1,711,397</u>	<u>—</u>	<u>715,288</u>	<u>18,463,969</u>	<u>80,082</u>	<u>35,458,389</u>
Excess (deficiency) of revenues over expenditures	(43,551)	797,680	(46,761)	18,647,013	11,324,482	(8,204,950)	169,480	22,643,393
Other financing sources (uses):								
Transfers from other funds	43,551	—	—	—	4,332,346	9,600,000	1,200	13,977,097
Transfers to other funds	—	—	—	(15,933,440)	(9,600,000)	—	(45,000)	(25,578,440)
Excess of revenues over expenditures and transfers	—	797,680	(46,761)	2,713,573	6,056,828	1,395,050	125,680	11,042,050
Fund balances at beginning of year	—	5,298,029	374,194	8,728,593	2,840,900	29,837,329	2,830,934	49,909,979
Fund balances at end of year	\$ <u>—</u>	<u>6,095,709</u>	<u>327,433</u>	<u>11,442,166</u>	<u>8,897,728</u>	<u>31,232,379</u>	<u>2,956,614</u>	<u>60,952,029</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2006

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, 2006

Assets	Balance at June 30, 2005	Additions	Deductions	Balance at June 30, 2006
Contract Bids	\$ 113,215	—	1	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	8,600	105,574	—	114,174
Street Openings	—	—	—	—
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(245,363)	4,708,047	4,701,171	(238,487)
Cambridge Fire Detail	212,755	1,086,511	1,043,034	256,232
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	3,149	992	1,401	2,740
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	198,141	49,395	35,787	211,749
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	57,959	3,145	59,973	1,131
Accident and life Insurance	512,145	47,340	36,423	523,062
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	21,528	2,500	500	23,528
Retirement Office Payroll	369,692	341,219	341,075	369,836
New England Life	156,078	—	—	156,078
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,459,009	322,905	—	1,781,914
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	46,130	6,291	886	51,535
Retroactive Wages	6	—	—	6
Land Court Fees	54,368	1,240	—	55,608
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	396,181	86	82	396,185
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,809	—	781	2,028
Police – Recovered Cash	456,546	—	30,000	426,546
Police – Found Cash	4,012	—	—	4,012
Firearms Recordkeeping Fund	12,265	7,325	4,975	14,615
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	(311,908)	—	1,894	(313,802)
Robert Chambers Settlement	7,799	—	—	7,799
Total	\$ <u>4,336,983</u>	<u>6,682,570</u>	<u>6,257,983</u>	<u>4,761,570</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2006

<u>Liabilities</u>	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2006</u>
Guarantee deposits and amounts due other:				
Contract Bids	\$ 113,215	—	1	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	8,600	105,574	—	114,174
Street Openings	—	—	—	—
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(245,363)	4,708,047	4,701,171	(238,487)
Cambridge Fire Detail	212,755	1,086,511	1,043,034	256,232
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	3,149	992	1,401	2,740
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	198,141	49,395	35,787	211,749
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	57,959	3,145	59,973	1,131
Accident and life Insurance	512,145	47,340	36,423	523,062
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	21,528	2,500	500	23,528
Retirement Office Payroll	369,692	341,219	341,075	369,836
New England Life	156,078	—	—	156,078
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,459,009	322,905	—	1,781,914
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	46,130	6,291	886	51,535
Retroactive Wages	6	—	—	6
Land Court Fees	54,368	1,240	—	55,608
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	396,181	86	82	396,185
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,809	—	781	2,028
Police – Recovered Cash	456,546	—	30,000	426,546
Police – Found Cash	4,012	—	—	4,012
Firearms Recordkeeping Cash	12,265	7,325	4,975	14,615
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	(311,908)	—	1,894	(313,802)
Robert Chambers Settlement	7,799	—	—	7,799
Total	\$ 4,336,983	6,682,570	6,257,983	4,761,570

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2006

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, 2006.

CITY OF CAMBRIDGE, MASSACHUSETTS
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
June 30, 2006

	Uncollected June 30, 2005	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2006
Real estate taxes:								
1979 and prior	\$ 5,380	—	—	—	—	(5,374)	(6)	—
1980	—	—	—	—	—	—	—	—
1981	1,017	—	—	—	—	—	(1,017)	—
1982	465	—	—	—	—	(465)	—	—
1983	1,971	—	—	—	—	(1,911)	(60)	—
1984	11,578	—	—	—	—	(4,000)	(7,578)	—
1985	1,025	—	—	—	—	(1,025)	—	—
1992	13,911	—	—	—	—	—	—	13,911
1997	660	—	—	—	—	(660)	—	—
1998	3,136	—	—	—	—	(1,913)	—	1,223
1999	606	—	—	—	—	(603)	(3)	—
2000	2,731	—	—	—	—	(2,731)	—	—
2001	8,013	—	(12,866)	—	—	4,857	(4)	—
2002	7,587	—	(142,834)	—	105,170	131,926	(101,420)	429
2003	403,819	—	(101,766)	(258,440)	122,085	(47,490)	(118,208)	—
2004	1,294,576	—	(293,160)	(197,744)	142,409	(366,084)	(163,780)	416,217
2005	4,051,472	—	(388,039)	—	303,841	(2,737,044)	(417,988)	812,242
2006	—	212,397,494	(1,237,240)	—	63,484	(207,130,112)	86,622	4,180,248
Total real estate	5,807,947	212,397,494	(2,175,905)	(456,184)	736,989	(210,162,629)	(723,442)	5,424,270

Years with no beginning uncollected balances or activity are not presented.

CITY OF CAMBRIDGE, MASSACHUSETTS
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
June 30, 2006

	<u>Uncollected June 30, 2005</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, 2006</u>
Personal property taxes:								
1989	\$ 75	—	—	—	—	—	—	75
1991	139	—	—	—	—	—	—	139
1992	273	—	—	—	—	—	—	273
1993	124	—	—	—	—	—	—	124
1994	202	—	—	—	—	—	—	202
1995	672	—	—	—	—	—	—	672
1996	2,999	—	—	—	—	—	—	2,999
1997	19,800	—	—	—	—	—	(30)	19,770
1998	30,930	—	—	—	—	—	(40)	30,890
1999	26,892	—	—	—	—	—	(50)	26,842
2000	27,993	—	—	—	—	—	(89)	27,904
2001	54,767	—	—	—	—	(298)	(82)	54,387
2002	71,728	—	—	—	—	(2,253)	(49)	69,426
2003	178,950	—	—	—	—	(2,371)	(531)	176,048
2004	1,623,299	—	—	—	—	(2,071)	(84)	1,621,144
2005	942,786	—	—	—	—	(860,351)	(12,858)	69,577
2006	—	10,802,602	(167,385)	—	1,254	(10,449,170)	(3,361)	183,940
Total personal property	2,981,629	10,802,602	(167,385)	—	1,254	(11,316,514)	(17,174)	2,284,412
Other	22,605						34,520	57,125
Property taxes	\$ 8,812,181	223,200,096	(2,343,290)	(456,184)	738,243	(221,479,143)	(706,096)	7,765,807

Years with no beginning uncollected balances or activity are not presented.

CITY OF CAMBRIDGE, MASSACHUSETTS
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
June 30, 2006

	<u>Uncollected June 30, 2005</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, 2006</u>
Motor vehicle excise taxes:								
1986	\$ 2,676	—	—	—	100	(114)	—	2,662
1987	151,215	—	—	—	—	(450)	—	150,765
1988	162,922	—	—	—	—	(344)	—	162,578
1989	194,384	—	—	—	—	(1,047)	—	193,337
1990	147,976	—	—	—	—	(787)	—	147,189
1991	152,292	—	—	—	—	(938)	—	151,354
1992	111,542	—	(14)	—	—	(869)	—	110,659
1993	99,491	—	—	—	—	(324)	—	99,167
1994	106,531	—	—	—	—	(393)	—	106,138
1995	115,217	—	—	—	—	(355)	—	114,862
1996	119,678	—	(32)	—	32	(335)	(57)	119,286
1997	127,834	—	(91)	—	—	(722)	(1)	127,020
1998	131,812	—	(17)	—	—	(1,172)	—	130,623
1999	142,545	—	(72)	—	—	(2,105)	57	140,425
2000	178,697	—	(157)	—	31	(7,576)	1	170,996
2001	260,905	—	(1,360)	—	193	(18,967)	—	240,771
2002	285,960	—	(1,564)	—	741	(47,986)	(75)	237,076
2003	308,457	738	(11,463)	—	6,239	(57,119)	(173)	246,679
2004	347,720	25,928	(70,376)	—	69,471	(117,474)	(4,545)	250,724
2005	558,411	853,918	(121,800)	—	116,373	(1,120,873)	170	286,199
2006	—	5,308,902	(102,423)	—	44,124	(4,733,803)	(4,063)	512,737
Total motor vehicle	\$ 3,706,265	6,189,485	(309,369)	—	237,304	(6,113,753)	(8,686)	3,701,246

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

June 30, 2006

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2005	Additions	Retired	Balance June 30, 2006
Inside debt limit:							
Senior Center/City Hall Renovations	4.75-5.75%	6/15/1996	6/15/2006	\$ 45,000	—	45,000	—
Emergency Communications	4.75-5.75%	6/15/1996	6/15/2006	330,000	—	330,000	—
Acquisition of computers	4.75-5.75%	6/15/1996	6/15/2006	60,000	—	60,000	—
Frisoli Youth Center	4.0-5.0%	6/15/1997	6/15/2007	720,000	—	360,000	360,000
Area 4 Youth Center Renovations	4.0-5.0%	6/15/1997	6/15/2007	40,000	—	20,000	20,000
Building Renovations	4.0-5.0%	6/15/1997	6/15/2007	100,000	—	50,000	50,000
Fiber Optics Network	4.0-5.0%	6/15/1997	6/15/2007	200,000	—	100,000	100,000
Frisoli Youth Center	4.3-5.0%	8/1/1998	8/1/2018	280,000	—	70,000	210,000
Public Art	4.75-5.0%	11/1/1999	11/1/2009	25,000	—	5,000	20,000
City Hall Renovations	4.75-5.0%	11/1/1999	11/1/2009	250,000	—	50,000	200,000
Gately Center Renovations	4.5-5.0%	12/1/2000	12/1/2010	1,500,000	—	250,000	1,250,000
City Hall Renovations	4.5-5.0%	12/1/2000	12/1/2010	1,800,000	—	300,000	1,500,000
Central Square Enhancements	4.0-5.0%	6/15/1997	6/15/2007	710,000	—	355,000	355,000
Yerxa Road Underpass	4.5-5.0%	12/1/2000	12/1/2010	1,140,000	—	190,000	950,000
Open Space Improvements	4.5-5.0%	12/1/2000	12/1/2010	2,700,000	—	450,000	2,250,000
MWPAT/Sewer Loan	4.25-5.75%	6/15/1996	6/15/2006	75,000	—	75,000	—
MWPAT/Sewer Loan	4.0-5.0%	6/15/1997	6/15/2007	100,000	—	50,000	50,000
MWPAT/Sewer Loan	4.0-5.0%	5/1/1997	2/1/2007	1,012,122	—	497,485	514,637
MWPAT/Sewer Loan	4.0-5.75%	10/6/1999	8/1/2009	230,678	—	43,943	186,735
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	1,295,575	—	203,712	1,091,863
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	742,587	—	116,749	625,838
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	154,498	—	24,284	130,214
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	5,288,285	—	831,529	4,456,756
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	2,410,262	—	378,988	2,031,274
MWPAT/Sewer Loan	4.5-5.0%	12/1/2000	12/1/2010	9,360,000	—	1,560,000	7,800,000
Hospital (Ambulatory Center)	4.5%	2/1/1998	2/1/2018	19,500,000	—	1,500,000	18,000,000
MWRA Loan	N/A	10/18/2001	10/18/2006	498,566	—	249,283	249,283
Improvements to War Memorial	3.5-5.0%	12/15/2001	12/15/2011	400,000	—	200,000	200,000
City Hall Renovations	3.5-5.0%	12/15/2001	12/15/2011	9,255,000	—	1,325,000	7,930,000
Sewer Loan	3.5-5.0%	12/15/2001	12/15/2011	7,630,000	—	1,015,000	6,615,000
Traffic Improvement	3.5-5.0%	12/15/2001	12/15/2011	875,000	—	125,000	750,000
MWRA Loan	N/A	9/5/2002	8/15/2007	227,139	—	75,713	151,426
Sewer Renovations	2.25-4.00%	1/15/2003	1/15/2013	10,610,000	—	1,325,000	9,285,000
Fire Station Renovations	2.25-4.00%	1/15/2003	1/15/2013	3,895,000	—	490,000	3,405,000
Building Renovations	2.25-4.00%	1/15/2003	1/15/2013	760,000	—	95,000	665,000
City Hall Annex Renovations	2.25-4.00%	1/15/2003	1/15/2013	1,560,000	—	195,000	1,365,000
Street Reconstruction	2.25-4.00%	1/15/2003	1/15/2013	4,830,000	—	605,000	4,225,000
Golf Course Improvements	2.25-4.00%	1/15/2003	1/15/2013	680,000	—	85,000	595,000
Open Space Improvements	2.25-4.00%	1/15/2003	1/15/2013	200,000	—	25,000	175,000
Harvard Square Enhancements	2.25-4.00%	1/15/2003	1/15/2013	400,000	—	50,000	350,000
Fiber Optic Network Infrastructure	2.5-3.3%	1/15/2004	1/1/2014	315,000	—	35,000	280,000
Fire Station Renovations	2.5-3.3%	1/15/2004	1/1/2014	140,000	—	15,000	125,000
War Memorial Renovations	2.5-3.3%	1/15/2004	1/1/2014	1,080,000	—	120,000	960,000
Building Renovations	2.5-3.3%	1/15/2004	1/1/2014	485,000	—	55,000	430,000
Library Construction	2.5-4.25%	1/15/2004	1/1/2014	8,215,000	—	435,000	7,780,000
Russell Donnelly Field Improvements	2.5-3.3%	1/15/2004	1/1/2014	8,190,000	—	910,000	7,280,000
Yerxa Road Underpass Construction	2.5-3.3%	1/15/2004	1/1/2014	1,125,000	—	125,000	1,000,000
Cambridge Street Improvements	2.5-3.3%	1/15/2004	1/1/2014	1,350,000	—	150,000	1,200,000
Sewer Reconstruction	2.5-3.3%	1/15/2004	1/1/2014	8,475,000	—	945,000	7,530,000
MWRA Loan	N/A	2/26/2004	2/26/2009	476,784	—	119,196	357,588
Harvard Square Enhancements	3-4%	2/1/2005	1/1/2015	2,000,000	—	200,000	1,800,000
Gold Star Pool Improvements	3-4%	2/1/2005	1/1/2015	1,100,000	—	110,000	990,000
Library Construction	3-4%	2/1/2005	1/1/2025	14,000,000	—	700,000	13,300,000
Area 4 Park Improvements	3-4%	2/1/2005	1/1/2015	2,000,000	—	200,000	1,800,000
Facility for Police Headquarters	3.75%	5/15/2005	3/1/2006	31,000,000	—	31,000,000	—

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

June 30, 2006

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2005	Additions	Retired	Balance June 30, 2006
Russell Field Improvements	3-4%	2/1/2005	1/1/2015	\$ 3,430,500	—	345,000	3,085,500
Cambridge Street Improvements	3-4%	2/1/2005	1/1/2015	2,365,000	—	240,000	2,125,000
Porter Square Enhancements	3-4%	2/1/2005	1/1/2015	2,300,000	—	230,000	2,070,000
Yerxa Road Underpass	3-4%	2/1/2005	1/1/2015	2,200,000	—	220,000	1,980,000
MWPAT Loan	N/A	10/1/2004	8/1/2010	183,562	—	29,288	154,274
MWPAT Loan	N/A	11/23/2004	8/1/2014	2,466,360	—	218,541	2,247,819
MWPAT Loan	N/A	11/23/2004	8/1/2014	1,919,284	—	174,326	1,744,958
MWPAT Loan	N/A	11/23/2004	8/1/2014	131,570	—	11,928	119,642
MWPAT Loan	N/A	12/2/2004	11/15/2009	164,010	—	32,803	131,207
Sewer Reconstruction	3-4%	2/1/2005	1/1/2015	15,489,500	—	1,545,000	13,944,500
Police Station Acquisition/ Renovations	3.50-4.25%	2/1/2006	1/1/2026	—	35,000,000	—	35,000,000
Library Construction	3.50-4.25%	2/1/2006	1/1/2026	—	16,000,000	—	16,000,000
West Cambridge Youth Center	3.50-4.25%	2/1/2006	1/1/2016	—	3,000,000	—	3,000,000
Building Renovations	3.50-4.25%	2/1/2006	1/1/2016	—	1,000,000	—	1,000,000
Yerxa Road Underpass Construction	3.50-4.25%	2/1/2006	1/1/2016	—	1,000,000	—	1,000,000
Open Space Improvements	3.50-4.25%	2/1/2006	1/1/2016	—	500,000	—	500,000
Porter Square Enhancements	3.50-4.25%	2/1/2006	1/1/2016	—	800,000	—	800,000
MWRA Loan	3.50-4.25%	11/17/2005	11/15/2010	—	195,250	—	195,250
Sewer Reconstruction	3.50-4.25%	2/1/2006	1/1/2016	—	10,215,000	—	10,215,000
Total inside debt limit				<u>202,491,282</u>	<u>67,710,250</u>	<u>51,942,768</u>	<u>218,258,764</u>
Outside debt limit:							
School:							
Elementary school construction	4.75-5.75%	6/15/1996	6/15/2006	240,000	—	240,000	—
Elementary school construction	4.5%	2/1/1998	2/1/2008	3,600,000	—	1,200,000	2,400,000
Elementary school renovation-Fitz	4.75-5.0%	11/1/1999	11/1/2009	7,205,000	—	1,445,000	5,760,000
Elementary school renovation-Morse	4.75-5.0%	11/1/1999	11/1/2009	350,000	—	70,000	280,000
Elementary school renovations	4.5-5.0%	12/1/2000	12/1/2010	3,180,000	—	530,000	2,650,000
Total school				<u>14,575,000</u>	<u>—</u>	<u>3,485,000</u>	<u>11,090,000</u>
Water:							
Water Main Replacements	4.25-5.75%	6/15/1996	6/15/2006	300,000	—	300,000	—
New Water Treatment Plant	4.3-5.0%	8/1/1998	8/1/2018	28,000,000	—	2,000,000	26,000,000
MWPAT/Water Loan	4.0-5.75%	10/6/1999	8/1/2009	6,369,333	—	1,208,547	5,160,786
Construction/Water Treatment Plant	4.75-5.75%	11/1/1999	11/1/2019	7,500,000	—	500,000	7,000,000
MWPAT/Water Loan	4.25-5.63%	11/1/2000	11/1/2010	8,001,366	—	1,238,785	6,762,581
Construction/Stoney Brook	3.5-5.0%	12/15/2001	12/15/2011	4,675,000	—	600,000	4,075,000
Automated Meter Reading System	2.5-3.3%	1/15/2004	1/1/2014	2,700,000	—	300,000	2,400,000
Automated Meter Reading System	3-4%	2/1/2005	1/1/2015	1,200,000	—	120,000	1,080,000
Total water				<u>58,745,699</u>	<u>—</u>	<u>6,267,332</u>	<u>52,478,367</u>
HUD Sec 108 Notes	7.71-9.03%	2/1/1995	8/1/2014	385,000	—	10,000	375,000
School Equipment Notes	6.85%	6/15/1998	10/15/2008	1,305,269	—	384,248	921,021
Housing Trust Fund:							
Note payable	2.00%	4/15/2000	4/15/2021	6,000,000	—	—	6,000,000
Total outside debt limit				<u>81,010,968</u>	<u>—</u>	<u>10,146,580</u>	<u>70,864,388</u>
Total debt outstanding				<u>\$ 283,502,250</u>	<u>67,710,250</u>	<u>62,089,348</u>	<u>289,123,152</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2006

STATISTICAL SECTION

This part of the City of Cambridge's comprehensive annual financial report presents information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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CITY OF CAMBRIDGE, MASSACHUSETTS
 General Government Expenditures by Function (GAAP Basis)⁽¹⁾
 Last Ten Fiscal Years
 (Dollars in thousands)

Function	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government	\$ 30,533	27,402	23,987	20,820	26,805	22,544	18,032	21,752	17,475	16,719
% of total	8.7	8.5	7.6	6.8	9.0	8.4	7.0	8.9	7.5	7.6
% change	11.4	14.2	15.2	(22.3)	18.9	25.0	(17.1)	24.5	4.5	25.6
Public safety	\$ 82,619	77,756	74,324	72,870	70,387	66,776	66,443	61,995	62,070	55,931
% of total	23.6	24.0	23.6	23.8	23.7	24.9	25.9	25.4	26.6	25.4
% change	6.3	4.6	2.0	3.5	5.4	0.5	7.2	(0.1)	11.0	5.0
Community maintenance and development	\$ 31,404	28,551	27,019	26,957	24,172	24,592	21,582	19,380	19,328	19,075
% of total	9.0	8.8	8.6	8.8	8.2	9.2	8.4	7.9	8.3	8.7
% change	10.0	5.7	0.2	11.5	(1.7)	13.9	11.4	0.3	1.3	(8.0)
Human resource	\$ 20,835	20,668	19,127	19,056	17,531	15,970	14,699	12,602	12,343	11,169
% of total	5.9	6.4	6.1	6.2	5.9	6.0	5.7	5.2	5.3	5.1
% change	0.8	8.1	0.4	8.7	9.8	8.6	16.6	2.1	10.5	2.6
Education	\$ 120,688	111,213	114,519	117,721	112,961	105,324	100,200	93,371	90,481	85,514
% of total	34.4	34.3	36.4	38.4	38.1	39.2	39.1	38.3	38.8	38.9
% change	8.5	(2.9)	(2.7)	4.2	7.3	5.1	7.3	3.2	5.8	5.5
Judgments and claims	\$ 346	225	533	156	205	709	2,479	1,000	538	936
% of total	0	0	0.2	0.1	0.1	0.3	1.0	0.4	0.2	0.4
% change	53.8	(57.8)	241.7	(24.1)	(71.0)	(71.4)	147.9	85.9	(42.5)	6.2
State assessments	\$ 35,890	33,888	33,618	29,698	28,019	21,107	21,408	21,223	20,826	20,661
% of total	10.2	10.5	10.7	9.7	9.5	7.9	8.4	8.7	8.9	9.4
% change	5.9	0.8	13.2	6.0	32.7	(1.4)	0.9	1.9	0.8	11.3
Debt service	\$ 28,184	24,076	21,427	19,069	16,387	11,368	11,492	12,683	10,279	9,884
% of total	8.0	7.4	6.8	6.2	5.5	4.2	4.5	5.2	4.4	4.5
% change	17.1	12.4	12.4	16.4	44.2	(1.1)	(9.4)	23.4	4.0	1.4
Total expenditures	\$ 350,499	323,779	314,554	306,347	296,467	268,390	256,335	244,006	233,340	219,889
% of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
% change	8.3	2.9	2.7	3.3	10.5	4.7	5.1	4.6	6.1	5.0

(1) Includes General Fund expenditures only. Operating Transfers Out have been excluded from all years.

CITY OF CAMBRIDGE, MASSACHUSETTS
 General Government Revenues by Source (GAAP Basis)⁽¹⁾
 Last Ten Fiscal Years
 (Dollars in thousands)

Source	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Property taxes	\$ 222,987	220,910	206,354	198,784	198,806	174,681	162,190	151,056	153,007	143,025
% of total	62.8	65.3	65.3	64.4	64.5	61.2	61.2	60.7	63.7	62.6
% change	0.9	7.1	3.8	(0.0)	13.8	7.7	7.4	(1.3)	7.0	4.8
Motor vehicle excises	\$ 6,146	6,452	6,087	6,031	5,838	5,921	5,849	4,825	4,717	4,498
% of total	1.7	1.9	1.9	2.0	1.9	2.1	2.2	1.9	2.0	2.0
% change	(4.7)	6.0	0.9	3.3	(1.4)	1.2	21.2	2.3	4.9	9.5
Hotel/motel	\$ 5,801	5,461	4,287	4,401	4,908	5,651	5,697	4,955	4,450	3,861
% of total	1.6	1.6	1.4	1.4	1.6	2.0	2.2	2.0	1.9	1.7
% change	6.2	27.4	(2.6)	(10.3)	(13.1)	(0.8)	15.0	11.3	15.3	12.0
Fines	\$ 922	352	539	100	536	1,655	697	604	637	614
% of total	0.3	0.1	0.2	0.0	0.2	0.6	0.3	0.2	0.3	0.3
% change	161.9	(34.7)	439.0	(81.3)	(67.6)	137.4	15.4	(5.2)	3.7	12.3
Intergovernmental	\$ 44,143	43,802	42,601	42,690	46,822	47,022	39,821	42,924	37,207	36,421
% of total	12.4	13.0	13.5	13.8	15.2	16.5	15.0	17.2	15.5	15.9
% change	0.8	2.8	(0.2)	(8.8)	(0.4)	18.1	(7.2)	15.4	2.2	5.7
Licenses and permits	\$ 12,508	8,976	7,790	12,387	7,201	11,731	10,201	6,234	6,739	6,095
% of total	3.5	2.7	2.5	4.0	2.3	4.1	3.9	2.5	2.8	2.7
% change	39.3	15.2	(37.1)	72.0	(38.6)	15.0	63.6	(7.5)	10.6	5.6
Payment in lieu of taxes	\$ 6,579	6,839	6,329	4,644	5,316	4,807	3,692	4,545	2,283	2,355
% of total	1.9	2.0	2.0	1.5	1.7	1.7	1.4	1.8	1.0	1.0
% change	(3.8)	8.1	36.3	(12.6)	10.6	30.2	(18.8)	99.1	(3.1)	3.0
Investment income	\$ 7,410	2,888	1,181	1,513	2,344	3,208	2,484	1,624	2,102	2,372
% of total	2.1	0.9	0.4	0.5	0.8	1.1	0.9	0.7	0.9	1.0
% change	156.6	144.5	(21.9)	(35.5)	(26.9)	29.1	53.0	(22.7)	(11.4)	(27.6)
Charges for services	\$ 33,835	28,661	26,546	27,061	23,837	20,563	20,716	19,461	19,206	18,553
% of total	9.5	8.5	8.4	8.8	7.6	7.2	7.7	7.8	8.1	8.1
% change	18.1	8.0	(1.9)	13.5	15.9	(0.7)	6.4	1.3	3.5	(4.8)
Departmental/other	\$ 14,491	13,841	14,054	11,234	12,536	10,114	13,504	12,767	9,913	10,795
% of total	4.1	4.1	4.5	3.6	4.1	3.5	5.1	5.1	4.1	4.7
% change	4.7	(1.5)	25.1	(10.4)	23.9	(25.1)	5.8	28.8	(8.2)	(4.8)
Total revenues	\$ 354,822	338,182	315,768	308,845	308,144	285,353	264,851	248,995	240,261	228,589
% of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
% change	4.9	7.1	2.2	0.2	8.0	7.7	6.4	3.6	5.1	4.8

(1) Includes General Fund revenues only. Operating Transfers In have been excluded from all years.

CITY OF CAMBRIDGE, MASSACHUSETTS

Net Assets by Component

Last Five Years

(Accrual basis of accounting)

	Fiscal year				
	2002	2003	2004	2005	2006
Governmental activities:					
Invested in capital assets, net of related debt	\$ 255,226,705	219,341,820	300,322,357	315,270,305	336,878,930
Restricted	3,128,414	3,213,124	5,400,566	3,690,934	4,062,960
Unrestricted	95,543,686	167,848,493	133,510,964	185,379,626	216,871,591
Total governmental activities net assets	<u>353,898,805</u>	<u>390,403,437</u>	<u>439,233,887</u>	<u>504,340,865</u>	<u>557,813,481</u>
Business-type activities:					
Invested in capital assets, net of related debt	67,646,029	71,832,828	76,300,119	79,061,585	86,100,235
Unrestricted	9,914,329	82,628,141	6,664,156	7,203,272	5,379,501
Total business-type activities net assets	<u>77,560,358</u>	<u>154,460,969</u>	<u>82,964,275</u>	<u>86,264,857</u>	<u>91,479,736</u>
Primary government:					
Invested in capital assets, net of related debt	322,872,734	291,174,648	376,622,476	394,331,890	422,979,165
Restricted	3,128,414	3,213,124	5,400,566	3,690,934	4,062,960
Unrestricted	105,458,015	250,476,634	140,175,120	192,582,898	222,251,092
Total primary government net assets	<u>\$ 431,459,163</u>	<u>544,864,406</u>	<u>522,198,162</u>	<u>590,605,722</u>	<u>649,293,217</u>

Due to the City implementing GASB No. 34 in fiscal 2002, there is no information presented in prior years.

CITY OF CAMBRIDGE, MASSACHUSETTS

Changes in Net Assets, Last Five Fiscal Years

(Accrual basis of accounting)

	Fiscal year				
	2002	2003	2004	2005	2006
Expenses:					
Governmental activities:					
General government	\$ 28,365,001	23,235,936	26,141,840	27,614,108	31,690,819
Public safety	73,177,887	77,556,200	72,576,467	81,863,575	84,796,098
Community maintenance and development	37,355,588	48,106,254	43,642,108	41,674,280	55,766,148
Human resource development	28,678,036	30,682,567	30,760,075	32,883,356	33,453,013
Education	124,103,073	128,699,429	125,097,466	126,177,359	133,952,334
State and district assessments	21,420,935	22,328,710	27,117,517	27,386,544	29,640,415
Interest on long-term debt	5,065,745	4,720,322	5,517,607	6,184,656	8,007,458
Total governmental activities	<u>318,166,265</u>	<u>335,329,418</u>	<u>330,853,080</u>	<u>343,783,878</u>	<u>377,306,285</u>
Business-type activities:					
Water	<u>15,079,842</u>	<u>14,199,144</u>	<u>13,792,805</u>	<u>14,456,090</u>	<u>14,118,060</u>
Total business-type activities expenses	<u>15,079,842</u>	<u>14,199,144</u>	<u>13,792,805</u>	<u>14,456,090</u>	<u>14,118,060</u>
Total primary government expenses	<u>333,246,107</u>	<u>349,528,562</u>	<u>344,645,885</u>	<u>358,239,968</u>	<u>391,424,345</u>
Program revenues:					
Governmental activities:					
Charges for services:					
Public Safety	22,627,366	27,772,926	23,358,965	26,731,634	33,739,682
Sewer Charges	25,251,184	30,821,353	28,040,442	31,311,866	36,633,238
Human resource and development	2,443,060	2,461,592	4,283,188	4,786,376	2,800,184
Other activities	228,388	373,838	436,341	503,519	503,010
Operating grants and contributions	22,735,760	17,455,370	23,877,740	24,521,234	28,125,429
Capital grants and contributions	3,537,887	12,925,487	5,549,984	4,556,870	15,366,641
Total governmental activities program revenues	<u>76,823,645</u>	<u>91,810,566</u>	<u>85,546,660</u>	<u>92,411,499</u>	<u>117,168,184</u>
Business-type activities:					
Charges for services:					
Water	<u>15,523,309</u>	<u>16,979,446</u>	<u>16,902,863</u>	<u>18,153,081</u>	<u>19,629,812</u>
Total business-type program revenues	<u>15,523,309</u>	<u>16,979,446</u>	<u>16,902,863</u>	<u>18,153,081</u>	<u>19,629,812</u>
Total primary government program revenues	<u>92,346,954</u>	<u>108,790,012</u>	<u>102,449,523</u>	<u>110,564,580</u>	<u>136,797,996</u>
Net (expense)/revenue:					
Governmental activities	(241,342,620)	(243,518,852)	(245,306,420)	(251,372,379)	(260,138,101)
Business-type activities	443,467	2,780,302	3,110,058	3,696,991	5,511,752
Total primary government net expense	\$ <u>(240,899,153)</u>	<u>(240,738,550)</u>	<u>(242,196,362)</u>	<u>(247,675,388)</u>	<u>(254,626,349)</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Changes in Net Assets, Last Five Fiscal Years

(Accrual basis of accounting)

	Fiscal year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes					
Property taxes	\$ 199,963,787	198,116,572	211,391,274	214,906,034	227,024,672
Excise taxes	10,745,939	10,204,545	10,561,612	11,753,246	12,555,704
Unrestricted grants and contributions	46,822,454	42,311,932	42,601,103	43,801,641	39,553,164
Payments in lieu of taxes	5,316,254	4,644,373	6,329,176	6,839,369	6,579,380
Investment income	3,331,545	2,546,628	1,659,344	3,873,379	9,699,805
Miscellaneous	15,515,230	21,822,564	21,217,361	12,480,304	17,662,993
Special item	—	—	—	22,293,549	—
Transfers	376,870	376,870	377,000	531,835	535,000
Total governmental activities	<u>282,072,079</u>	<u>280,023,484</u>	<u>294,136,870</u>	<u>316,479,357</u>	<u>313,610,718</u>
Business-type activities:					
Investment Income	56,962	131,852	135,575	135,426	238,127
Transfers	(376,870)	(376,870)	(377,000)	(531,835)	(535,000)
Total business-type activities	<u>(319,908)</u>	<u>(245,018)</u>	<u>(241,425)</u>	<u>(396,409)</u>	<u>(296,873)</u>
Total primary government	\$ <u>281,752,171</u>	<u>279,778,466</u>	<u>293,895,445</u>	<u>316,082,948</u>	<u>313,313,845</u>
Change in net assets:					
Governmental activities	\$ 40,729,459	36,504,632	48,830,450	65,106,978	53,472,617
Business-type activities	123,559	2,535,284	2,868,633	3,300,582	5,214,879
Total primary government	\$ <u>40,853,018</u>	<u>39,039,916</u>	<u>51,699,083</u>	<u>68,407,560</u>	<u>58,687,496</u>

Due to the City implementing GASB No. 34 in fiscal 2002, there is no information presented in prior years.

CITY OF CAMBRIDGE, MASSACHUSETTS

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund:										
Reserved	\$ 33,225,515	33,186,811	40,512,051	40,242,193	34,996,593	13,390,746	6,097,472	9,493,486	24,203,862	16,428,333
Unreserved	31,706,589	34,958,456	24,018,711	25,954,330	32,683,214	69,586,739	85,286,619	90,479,144	100,050,320	120,245,450
Total general fund	\$ <u>64,932,104</u>	<u>68,145,267</u>	<u>64,530,762</u>	<u>66,196,523</u>	<u>67,679,807</u>	<u>82,977,485</u>	<u>91,384,091</u>	<u>99,972,630</u>	<u>124,254,182</u>	<u>136,673,783</u>
All other governmental funds										
Reserved	\$ 28,320,606	31,933,654	103,958,944	85,970,142	50,411,010	50,451,757	41,115,518	48,583,062	28,515,541	28,660,330
Unreserved, reported in:	—	—	—	—	—	—	—	—	—	—
Special revenue funds	(2,596,508)	(2,247,220)	(2,497,209)	(665,033)	5,816,749	—	28,361,764	31,850,012	38,696,151	50,256,273
Capital funds	(16,943,390)	(14,097,663)	(93,404,566)	(82,121,384)	(23,176,449)	776,114	(1,453,931)	(702,646)	41,596,488	62,252,680
Total all other governmental funds	\$ <u>8,780,708</u>	<u>15,588,771</u>	<u>8,057,169</u>	<u>3,183,725</u>	<u>33,051,310</u>	<u>51,227,871</u>	<u>68,023,351</u>	<u>79,730,428</u>	<u>108,808,180</u>	<u>141,169,283</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
Real and personal property taxes	\$ 143,025,347	153,007,084	151,056,435	162,189,559	174,681,244	198,805,559	198,783,571	206,354,390	220,910,263	222,986,633
Excises:										
Hotel/motel	3,861,436	4,449,984	4,955,494	5,696,567	5,651,401	4,907,532	4,401,259	4,286,681	5,461,027	5,800,992
Motor vehicles	4,497,548	4,716,502	4,824,980	5,848,595	5,921,137	5,838,407	6,031,393	6,087,063	6,452,475	6,146,422
Payments in lieu of taxes	2,355,492	2,282,897	4,544,599	3,692,279	4,807,067	5,316,254	4,644,373	6,329,176	6,839,369	6,579,380
Intergovernmental	47,544,882	53,631,928	60,697,132	73,272,476	69,514,089	73,096,101	72,692,789	72,198,993	72,879,748	87,635,346
Investment income	4,304,899	5,693,599	5,295,093	6,263,010	6,898,417	3,331,545	2,546,628	1,659,344	3,877,381	9,699,805
Sewer use charges	18,552,641	19,206,157	19,460,697	20,716,194	20,563,466	23,836,866	27,061,324	26,546,224	28,661,479	33,834,690
Departmental and other	32,510,057	32,173,453	35,126,392	41,139,114	39,311,014	42,489,144	53,788,079	54,153,095	52,913,882	57,676,624
Total revenues	256,652,302	275,161,604	285,960,822	318,817,794	327,347,835	357,621,408	369,949,416	377,614,966	397,995,624	430,359,892
Expenditures:										
General government	16,802,627	17,542,354	21,793,159	18,166,578	22,614,889	26,999,819	20,934,488	24,082,120	27,558,970	30,661,962
Public safety	56,413,475	62,609,636	62,746,991	67,021,363	67,526,146	71,036,613	73,640,401	76,087,314	78,453,371	83,255,981
Community maintenance and development	22,751,291	24,958,638	25,239,196	36,018,303	31,849,038	28,286,492	35,002,529	34,358,061	35,224,167	45,867,415
Human resource development	15,166,559	16,207,667	16,816,950	19,496,047	21,505,655	23,142,859	25,089,027	25,590,660	27,129,994	28,081,349
Education (1)	81,003,782	94,146,893	101,349,818	103,646,643	108,614,947	117,192,210	122,512,065	119,887,725	120,973,010	129,073,427
Judgments and claims	935,864	537,451	1,000,000	2,479,013	708,847	205,418	155,696	533,419	224,964	346,008
State and district assessments	20,661,114	20,825,930	21,222,529	29,002,282	28,703,942	28,018,935	29,698,511	33,617,517	33,886,544	35,890,415
Capital outlays	28,593,912	29,506,801	36,165,817	48,504,599	45,562,817	40,585,634	40,323,991	47,781,887	74,043,756	37,237,192
Debt service	—	—	—	—	—	—	—	—	—	—
Interest (1)	4,948,943	3,489,320	3,485,734	4,805,574	5,525,356	6,711,387	4,436,907	6,490,398	6,621,664	7,958,766
Principal (1)	12,857,828	11,065,884	9,222,443	11,808,201	13,311,078	17,546,087	22,384,150	22,405,970	23,570,424	24,822,015
Total expenditures	260,135,395	280,890,574	299,042,637	340,948,603	345,922,715	359,725,454	374,177,765	390,835,071	427,686,864	423,194,530
Excess of revenues over (under) expenditures	(3,483,093)	(5,728,970)	(13,081,815)	(22,130,809)	(18,574,880)	(2,104,046)	(4,228,349)	(13,220,105)	(29,691,240)	7,165,362
Other financing sources (uses):										
Premium on bond issue	—	—	—	—	—	—	—	377,741	1,768,923	370,092
Bond proceeds	22,713,658	15,343,453	1,496,605	18,382,057	49,545,705	31,401,415	29,053,565	32,760,980	80,749,786	36,710,250
Transfer in	29,853,217	34,334,357	40,721,525	42,530,898	49,290,798	30,134,149	29,167,918	40,750,850	25,738,992	37,875,917
Transfer out	(29,487,767)	(33,968,923)	(40,308,675)	(41,995,028)	(48,913,928)	(29,757,279)	(28,791,048)	(40,373,850)	(25,207,157)	(37,340,917)
Total other financing sources (uses)	23,079,108	15,708,887	1,909,455	18,917,927	49,922,575	31,778,285	29,430,435	33,515,721	83,050,544	37,615,342
Net change in fund balances	\$ 19,596,015	9,979,917	(11,172,360)	(3,212,882)	31,347,695	29,674,239	25,202,086	20,295,616	53,359,304	44,780,704
Debt service as a percentage of noncapital expenditures	\$ 7.44%	5.60%	4.57%	5.33%	5.94%	7.31%	7.79%	8.09%	7.67%	8.46%

(1) Adjusted to reflect reclassification of debt service payments that are included in education in basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS
 Assessed Value and Actual Value of Taxable Property
 Last Ten Fiscal Years
 (In millions of dollars)

Fiscal Year ended June 30	Residential property	Commercial property	Industrial property	Personal property	Total taxable assessed value (1)	Residential rate	Personal, commercial and industrial rate
1997	\$ 4,543	2,022	441	236	7,242	13.02	35.78
1998	4,760	2,031	464	249	7,504	13.43	35.98
1999	5,725	2,934	628	256	9,543	11.05	27.25
2000	6,773	3,288	702	275	11,038	9.64	25.16
2001	7,709	3,772	929	293	12,703	9.21	23.39
2002	10,317	4,994	1,221	305	16,837	7.22	18.81
2003	10,820	5,098	1,466	368	17,752	7.26	18.67
2004	12,157	4,818	1,808	444	19,227	7.63	19.08
2005	13,871	4,980	2,030	467	21,348	7.78	18.28
2006	13,962	4,930	2,350	605	21,847	7.38	17.86

(1) As of January 1st.

Note: Property in the City is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to the fair value. Tax rates are per \$1,000 of assessed value.

Source: City Department of Finance

CITY OF CAMBRIDGE, MASSACHUSETTS

Property and Motor Vehicle Tax Rates

Last Ten Fiscal Years

Fiscal year	Residential real property	Commercial and industrial real property	Personal property	Motor vehicle
1997	\$ 13.02	35.78	35.78	25.00
1998	13.43	35.98	35.98	25.00
1999	11.05	27.25	27.25	25.00
2000	9.64	25.16	25.16	25.00
2001	9.21	23.39	23.39	25.00
2002	7.22	18.81	18.81	25.00
2003	7.26	18.67	18.67	25.00
2004	7.63	19.08	19.08	25.00
2005	7.78	18.28	18.28	25.00
2006	7.38	17.86	17.86	25.00

(1) Real and personal property tax rate applicable to each \$1,000 of assessed value. Motor vehicle excise tax is assessed on a calendar year basis, applicable to each \$1,000 of assessed value.

CITY OF CAMBRIDGE, MASSACHUSETTS

Largest Principal Taxpayers

Current Year and Nine Years Ago

Taxpayer	2006			Taxpayer	1997		
	Taxable assessed value	Amount of tax	Percentage of total tax levy		Taxable Assessed Value	Amount of Tax	Percentage of Total Tax Levy
M.I.T. (1)	\$ 1,385,771,700	23,481,937	10.53%	Commonwealth Energy	\$ 190,186,700	6,800,260	4.60%
Lyme Properties LLC	557,718,600	9,792,793	4.39	Boston Properties	165,499,400	5,903,205	4.00
Boston Properties	398,823,300	7,122,984	3.19	M.I.T. (1)	140,103,217	4,478,978	3.00
Novartis Pharmaceuticals	221,426,400	3,954,676	1.77	Robert Jones and K. George Najarian	95,976,600	3,366,257	2.30
Equity Partners	235,154,200	3,852,045	1.73	Cambridge Side Galleria – New England Develop	93,726,000	3,318,466	2.20
New England Development	193,047,200	3,447,823	1.55	Asahi Seimei Prudential Associates	92,427,400	3,307,052	2.20
NOP Riverfront LLC	180,000,400	3,214,807	1.44	Presidents and Fellows of Harvard College (1)	109,639,721	2,470,130	1.70
One Kendall LLC	177,489,400	3,146,925	1.41	Spaulding & Slye Corp	59,203,600	2,118,305	1.40
Presidents and Fellows of Harvard College (1)	283,637,800	3,058,258	1.37	E.M.I. Cambridge Limited Partnership	56,757,500	2,030,783	1.40
Draper Laboratories	134,523,400	2,402,588	1.08	The Congress Group	57,419,800	1,849,290	1.30
Total	\$ 3,767,592,400	63,474,836	28.46%		\$ 1,060,939,938	35,642,726	24.10%

(1) Excludes in-lieu payment on exempt property

Source: City of Cambridge Finance Department

CITY OF CAMBRIDGE, MASSACHUSETTS

Property Tax Levies and Collections (1)

Last Ten Fiscal Years

(In millions of dollars)

Fiscal year ended June 30	Taxes levied (2) for the fiscal year	Collected within the fiscal year of the levy		Collections in subsequent years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
1997	\$ 148.1	143.9	97.16%	4.2	\$ 148.1	100.00%
1998	154.3	150.9	97.80	4.2	155.1	100.52
1999	159.0	155.7	97.92	3.4	159.1	100.06
2000	164.0	161.0	98.17	4.4	165.4	100.85
2001	178.5	173.6	97.25	5.3	178.9	100.22
2002	187.4	182.9	97.60	5.9	188.8	100.75
2003	197.7	192.4	97.32	4.6	197.0	99.65
2004	209.6	203.9	97.28	3.7	207.6	99.05
2005	222.6	214.1	96.18	7.6	221.7	99.60
2006	223.2	217.6	97.49	N/A	217.6	97.49

(1) Real and personal property taxes.

(2) Gross tax levied before overlay reserve.

CITY OF CAMBRIDGE, MASSACHUSETTS

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal year	Governmental activities				Business-type activities		Total primary government	Percentage of per capita income (a)	Per capita (a)	Ratio of debt to taxable assessed valuation (b)
	General obligation bonds	Section 108 HUD notes payable	School equipment notes payable	Notes payable	General obligation bonds					
1997	\$ 65,928,995	995,000	—	—	12,211,000	79,134,995	4.16%	\$ 826	1.09%	
1998	96,868,111	990,000	3,343,453	—	9,313,000	110,514,564	5.80	1,154	1.47	
1999	86,104,560	985,000	3,139,869	—	46,413,000	136,642,429	4.58	1,426	1.43	
2000	92,940,237	980,000	2,883,048	2,000,000	63,912,570	162,715,855	5.15	1,605	1.47	
2001	129,769,186	935,000	2,608,387	2,000,000	71,484,980	206,797,553	6.55	2,040	1.63	
2002	140,028,249	825,000	2,314,652	6,000,000	72,701,609	221,869,510	7.03	2,189	1.32	
2003	148,816,663	405,000	2,000,516	6,000,000	66,789,295	224,011,474	7.09	2,210	1.26	
2004	159,517,629	395,000	1,664,560	6,000,000	63,819,513	231,396,702	7.33	2,283	1.20	
2005	217,066,282	385,000	1,305,269	6,000,000	58,745,699	283,502,250	8.98	2,797	1.33	
2006	229,348,765	375,000	921,021	6,000,000	52,478,366	289,123,152	9.16	2,853	1.32	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

- a See Page 90 for per capita income and population data. These ratios are calculated using per capita income and population from prior calendar year.
- b See Page 82 for the taxable assessed valuation figures.

CITY OF CAMBRIDGE, MASSACHUSETTS

Ratios of General Bonded Debt Outstanding

Last 10 Fiscal Years

Fiscal year	General obligation bonds outstanding	Total taxable assessed value	Per capita (a)	Ratio of debt to taxable assessed valuation (b)
1997	\$ 79,135,995	7,242,000,000	826	1.09%
1998	106,181,111	7,504,000,000	1,108	1.41
1999	132,517,560	9,543,000,000	1,383	1.39
2000	156,852,807	11,038,000,000	1,548	1.42
2001	201,254,166	12,703,000,000	1,986	1.58
2002	212,729,858	16,837,000,000	2,099	1.26
2003	215,605,958	17,752,000,000	2,127	1.21
2004	223,337,142	19,227,000,000	2,204	1.16
2005	275,811,981	21,348,000,000	2,721	1.29
2006	281,827,131	21,847,000,000	2,781	1.29

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- a See page 90 for median family income and population data. These ratios are calculated using median family income and population from prior calendar year.
- b See page 82 for the taxable assessed valuation figures.

CITY OF CAMBRIDGE, MASSACHUSETTS
 Direct and Overlapping Governmental Activities Debt
 June 30, 2006

<u>Name of Unit</u>	<u>Direct debt (1)</u>	<u>Outstanding overlapping debt</u>	<u>Percentage applicable to City of Cambridge</u>	<u>Total City of Cambridge direct and overlapping debt</u>
City of Cambridge	\$ 281,827,131	—	100.0%	281,827,131
Massachusetts Water Resources Authority	—	3,584,248,000	4.9	175,675,000
Total direct and overlapping debt	\$ 281,827,131	3,584,248,000		457,502,131

(1) Includes general obligation bonds that are reported as debt of the Enterprise Fund.

CITY OF CAMBRIDGE, MASSACHUSETTS

Legal Debt Margin Information

Last Ten Fiscal Years

Legal Debt Margin Calculation for Fiscal Year 2006

Fiscal year 2006 equalized valuation (1)	\$ <u>21,282,513,300</u>
Debt limit (5% of assessed value) (2)	1,064,125,665
Debt applicable to limit:	
General obligation bonds	282,202,133
Total authorized/unissued	<u>122,322,444</u>
Total debt outstanding plus authorized/unissued	404,524,577
Less general obligation bonds exempted by authority of the State legislature	<u>63,568,367</u>
Amount within debt limit	<u>340,956,210</u>
Legal debt margin	\$ <u><u>723,169,455</u></u>

		<u>Fiscal year (Dollars in thousands)</u>									
		<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$	189,845	189,845	212,647	212,647	317,027	317,027	456,081	912,162	1,064,126	1,064,126
Total net debt applicable to limit		<u>136,228</u>	<u>116,370</u>	<u>147,198</u>	<u>140,176</u>	<u>227,017</u>	<u>228,807</u>	<u>272,051</u>	<u>313,959</u>	<u>363,536</u>	<u>340,956</u>
Legal debt margin	\$	<u><u>53,617</u></u>	<u><u>73,475</u></u>	<u><u>65,449</u></u>	<u><u>72,471</u></u>	<u><u>90,010</u></u>	<u><u>88,220</u></u>	<u><u>184,030</u></u>	<u><u>598,203</u></u>	<u><u>700,590</u></u>	<u><u>723,170</u></u>
Total net debt applicable to the limit as a percentage of debt limit		71.76%	61.30%	69.22%	65.92%	71.61%	72.17%	59.65%	34.42%	34.16%	32.04%

(1) In order to determine appropriate relative values for the purpose of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biannually makes his own determination of fair cash value of the taxable property in each municipality. This is known as "equalized valuation." The last redetermination of "equalized valuation" for the City was made as of January 1, 2004.

(2) Under Massachusetts Statutes, the Normal Debt Limit of the City is 5% of the valuation of taxable property as last equalized valuation.

CITY OF CAMBRIDGE, MASSACHUSETTS

Demographic and Economic Statistics

Last Ten Calendar Years

Year	Population (1)	Median family income (1)	Per capita income (1)	Median age (1)	School enrollment	Unemployment rate (2)
1997	95,802	\$ 39,990	19,879	31.1	8,053	2.40%
1998	95,802	39,990	19,879	31.1	7,866	1.90
1999	95,802	59,423	31,156	30.4	7,638	1.90
2000	101,355	59,423	31,156	30.4	7,491	1.70
2001	101,355	59,423	31,156	30.4	7,308	2.60
2002	101,355	59,423	31,156	30.4	7,296	3.60
2003	101,355	59,423	31,156	30.4	7,111	3.80
2004	101,355	59,423	31,156	30.4	6,756	3.60
2005	101,355	59,423	31,156	30.4	6,450	3.40
2006 (3)	101,355	59,423	31,156	30.4	6,001	3.70

(1) Source: U.S. Department of Commerce, Bureau of Census, Decennial Census, 2000,1990

(2) Source: Massachusetts Division of Labor and Industries

(3) As of September 2006

CITY OF CAMBRIDGE, MASSACHUSETTS

Principal Employers (1)

Current Year and Nine Years Ago

Employer	1997			Employer	2006		
	Employees	Rank	Percentage of total city employment		Employees	Rank	Percentage of total city employment
M.I.T.	7,839	1	7.16%	Harvard University	10,282	1	10.08%
Harvard University	7,337	2	6.70	M.I.T.	7,026	2	6.89
City of Cambridge (1)(2)	3,244	3	2.96	City of Cambridge (1)(2)	3,251	3	3.19
Lotus Development Corp./IBM	1,865	4	1.70	Cambridge Health Alliance	1,777	4	1.74
Mt. Auburn Hospital	1,627	5	1.49	Biogen Idec	1,767	5	1.73
Bolt, Beranek & Newman, Inc.	1,511	6	1.38	Federal Government	1,656	6	1.62
Federal Government	1,441	7	1.32	Mt. Auburn Hospital	1,379	7	1.35
Cambridge Health Commission	1,325	8	1.21	Millennium Pharmaceuticals	1,339	8	1.31
Polaroid Corporation	1,300	9	1.19	Genzyme Corporation	1,231	9	1.21
Draper Labs, Inc.	1,238	10	1.13	Draper Laboratory Inc.	1,052	10	1.03
	<u>28,727</u>		<u>26.22%</u>		<u>30,760</u>		<u>30.17%</u>
Total average employed	<u>109,553</u>			Total average employed	<u>101,965</u>		

(1) Totals based on full time equivalents (FTE's), when available.
(2) Includes the Cambridge School Department

Source: Cambridge Community Development Department and cited employers, 2005.
Source: Massachusetts Division of Employment and Training

CITY OF CAMBRIDGE, MASSACHUSETTS

Full-Time Positions by Function/Program

Last 10 Fiscal Years

Function/program	Full-time positions as of June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government:										
Executive management	13	13	15	16	17	18	16	15	15	15
Clerk	9	9	9	9	10	10	10	10	10	10
Law	12	13	12	12	12	12	12	11	11	11
Finance	79	79	79	80	81	83	83	83	83	83
Other	23	23	23	23	23	23	23	23	20	19
Subtotal	136	137	138	140	143	146	144	142	139	138
Public safety:										
Fire	282	283	283	283	283	284	285	283	284	284
Police	308	308	309	309	309	309	312	309	309	307
Traffic	86	85	84	83	82	82	82	81	81	80
Inspectional	26	26	27	28	28	28	28	28	28	28
Emergency communication	34	37	38	38	38	39	39	39	39	39
Other	22	22	24	24	24	25	26	25	31	30
Subtotal	758	761	765	765	764	767	772	765	772	768
Community maintenance:										
Public works	216	214	214	212	212	223	223	220	219	215
Community development	40	42	42	44	46	47	47	44	45	45
Other	9	9	9	10	12	12	12	12	13	13
Subtotal	265	265	265	266	270	282	282	276	277	273
Human resource development:										
Library	53	55	56	56	58	59	60	60	60	60
Human services	90	94	98	106	117	125	132	128	129	127
Other	7	7	7	7	7	7	7	7	7	7
Subtotal	150	156	161	169	182	191	199	195	196	194
Education	1,280	1,303	1,291	1,314	1,353	1,357	1,335	1,253	1,229	1,197
Water	65	65	59	55	69	67	67	65	65	63
Grand total	2,654	2,687	2,679	2,709	2,781	2,810	2,799	2,696	2,678	2,633

CITY OF CAMBRIDGE, MASSACHUSETTS

Operating Indicators by Function/Program

Last 7 Fiscal Years

Function/program	Fiscal year						
	2000	2001	2002	2003	2004	2005	2006
Fire:							
Emergency responses	28,113	30,219	31,960	32,008	31,052	28,920	30,278
Fires extinguished	513	544	611	565	334	388	574
Hazardous materials emergency	345	455	499	379	497	250	248
Police:							
Physical arrests	1,314	1,244	1,199	1,263	1,248	1,185	1,234
Traffic violations	24,750	21,963	20,661	20,396	24,336	24,973	22,745
Traffic:							
Number of meters on street	2,900	2,897	3,026	2,804	2,804	2,770	2,815
Meter violations	199,316	208,658	218,010	199,490	181,974	192,462	200,000
Overtime meter violations	45,256	40,738	34,871	28,344	34,896	33,957	34,000
Inspectional:							
Major permits issued	159	134	85	90	75	109	143
Short form permits issued	2,355	2,326	2,203	2,413	2,500	2,824	2,910
Compliance inspections	7,104	7,266	6,792	5,998	3,645	6,044	5,946
Emergency communications:							
Total 911 Incidents dispatched	93,096	101,794	106,363	97,714	96,045	89,739	92,375
Medical	8,408	8,322	7,725	7,608	7,670	7,668	8,373
Traffic/MV-Related	20,022	23,700	24,605	21,970	22,898	25,319	27,219
Crime and Directed Patrol	35,152	35,644	40,805	34,502	32,258	28,700	28,796
Public works:							
Street Resurfacing (miles)	10	1.8	10.8	22.2	17.8	22.5	12.4
Sidewalk replaced (miles)	8	2.3	7.6	6.7	6.7	5.8	3.5
Rubbish collected (tons)	25,127	25,119	24,893	25,223	25,104	23,993	23,425
Recycling collected (tons)	n/a	n/a	11,789	11,966	13,065	12,742	12,600
New stormwater drains installed (linear feet)	4,500	3,000	3,000	1,500	3,000	1,200	525
New sanitary sewer installed (linear feet)	200	300	500	700	1,000	850	290
Community development:							
Number of affordable multi-family rental units	164	141	82	45	44	6	26
Number of affordable homeownership units developed	9	—	6	7	23	28	26
Human resource department:							
Library system circulation	954,434	926,057	998,331	1,116,012	1,123,755	986,501	940,330
Library acquisitions for collection	36,530	36,697	41,134	34,106	35,649	24,822	34,508
Number of clients served in youth and family services programs	1,453	1,430	1,631	1,339	1,344	2,172	2,173
Number of clients served through homelessness prevention programs	3,082	2,242	3,454	4,307	5,494	4,843	5,142
Number of clients visits to food pantry programs	13,775	13,500	7,308	17,366	19,954	20,000	23,642
Total number of golf rounds annually	62,095	55,448	56,565	45,940	31,560	38,590	41,400
Water:							
Number of accounts transitioned to AMR system	n/a	n/a	n/a	n/a	n/a	6,750	7,900
Total water quality tests performed	14,916	36,127	47,422	66,170	67,729	56,718	60,313
Water treatment plant tests performed	n/a	n/a	41,878	59,073	60,633	49,564	52,513
Install, clean and line, and/or replace water mains; (linear feet)	4,000	12,000	49,000	4,790	3,770	5,180	1,380
Elimination of parallel old 6" cast iron pipe (linear feet)	n/a	n/a	n/a	n/a	1,500	5,200	4,410
Education:							
Total enrollment	7,491	7,308	7,296	7,111	6,756	6,450	6,001

Information for years prior to 2000 is not available.

CITY OF CAMBRIDGE, MASSACHUSETTS

Capital Asset Statistics by Function/Program

Last 5 Fiscal Years

Function/program	Fiscal year				
	2002	2003	2004	2005	2006
Fire:					
Fire stations	8	8	8	8	8
Emergency vehicles	21	21	21	21	21
Maintenance facility	1	1	1	1	1
Police:					
Stations	1	1	1	1	1
Patrol units	80	79	79	79	79
Traffic:					
Garages	2	2	2	2	2
Public works:					
Collection trucks	18	18	18	18	18
Streets (miles)	125	125	125	125	125
Electric:					
Streetlights	6,978	7,017	7,193	7,017	7,264
Traffic signals	196	196	196	196	195
Sewer:					
Sanitary sewers (miles)	145.8	146.5	147.3	148	148.7
Storm sewers (miles)	85.5	86.12	86.77	97.42	88.07
Library:					
Main library	1	1	1	1	1
Number of branches	6	6	6	6	6
Parks and recreation:					
Acreage	496	496	496	496	496
Playgrounds	59	59	59	59	59
Baseball/softball diamonds	23	23	23	23	23
Soccer/football fields	10	10	10	10	10
Youth centers	5	5	5	5	5
Senior centers	2	2	2	2	2
Water:					
Water treatment plant	1	1	1	1	1
Water mains (miles)	190	190	190	190	190
Fire hydrants	1,750	1,750	1,750	1,750	1,750
Storage capacity (thousands of gallons)	3,200	3,200	3,200	3,200	3,200
Reservoirs	4,300,000	4,300,000	4,300,000	4,300,000	4,300,000
Education:					
Elementary schools	15	15	12	12	12
High school	1	1	1	1	1

Information for years prior to 2002 is not available.

CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive Annual Financial Report

Year ended June 30, 2006

Electronic Publishing	KPMG LLP
Paper	70 pound Finch
Covers and Dividers	80 pound coated
Printing – Laser Printing/Text	KPMG LLP
Printing – Covers and Dividers	KPMG LLP
Composing	KPMG LLP
Cover and Divider Design	KPMG LLP