

NEW ISSUE
BOOK ENTRY ONLY**Moody's Investors Service, Inc.:**
Standard & Poor's Corporation:
(see "Ratings")

The opinion of Bond Counsel will state the following, under existing law: Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the City with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "Tax Exemption" herein.

\$9,905,000

CITY OF CAMBRIDGE
MASSACHUSETTS
GENERAL OBLIGATION BONDS
MUNICIPAL PURPOSE LOAN OF 1997
(BANK-QUALIFIED)

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Dated: June 15, 1997**Due: June 15, 1998-2007****AMOUNTS, MATURITIES, INTEREST RATES, AND YIELDS**

Year	Principal Amount	Interest Rate	Initial Yield	Year	Principal Amount	Interest Rate	Initial Yield
1998	\$1,045,000	%	%	2003	\$940,000	%	%
1999	1,045,000			2004	940,000		
2000	1,045,000			2005	935,000		
2001	1,045,000			2006	935,000		
2002	1,040,000			2007	935,000		

The Bonds will be dated June 15, 1997. Principal on the Bonds will be payable on June 15 of the years in which the Bonds mature. Interest will be payable semiannually on June 15 and December 15, commencing on December 15, 1997. The Bonds are not subject to redemption prior to their stated maturities.

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

THE CITY COUNCIL

Sheila T. Russell, Mayor
Kathleen L. Born, Vice-Mayor
Henrietta Davis
Francis H. Duehay
Anthony D. Galluccio
Kenneth E. Reeves
Michael A. Sullivan
Timothy J. Toomey, Jr.
Katherine Triantafillou

CERTAIN APPOINTED OFFICIALS

Robert W. Healy, City Manager
Richard C. Rossi, Deputy City Manager
James P. Maloney, Jr., Assistant City Manager for Fiscal Affairs and
Treasurer/Collector
Russell B. Higley, City Solicitor
D. Margaret Drury, City Clerk
James A. Lindstrom, City Auditor

BOND COUNSEL

Palmer & Dodge LLP
One Beacon Street
Boston, MA 02108

FINANCIAL ADVISORS

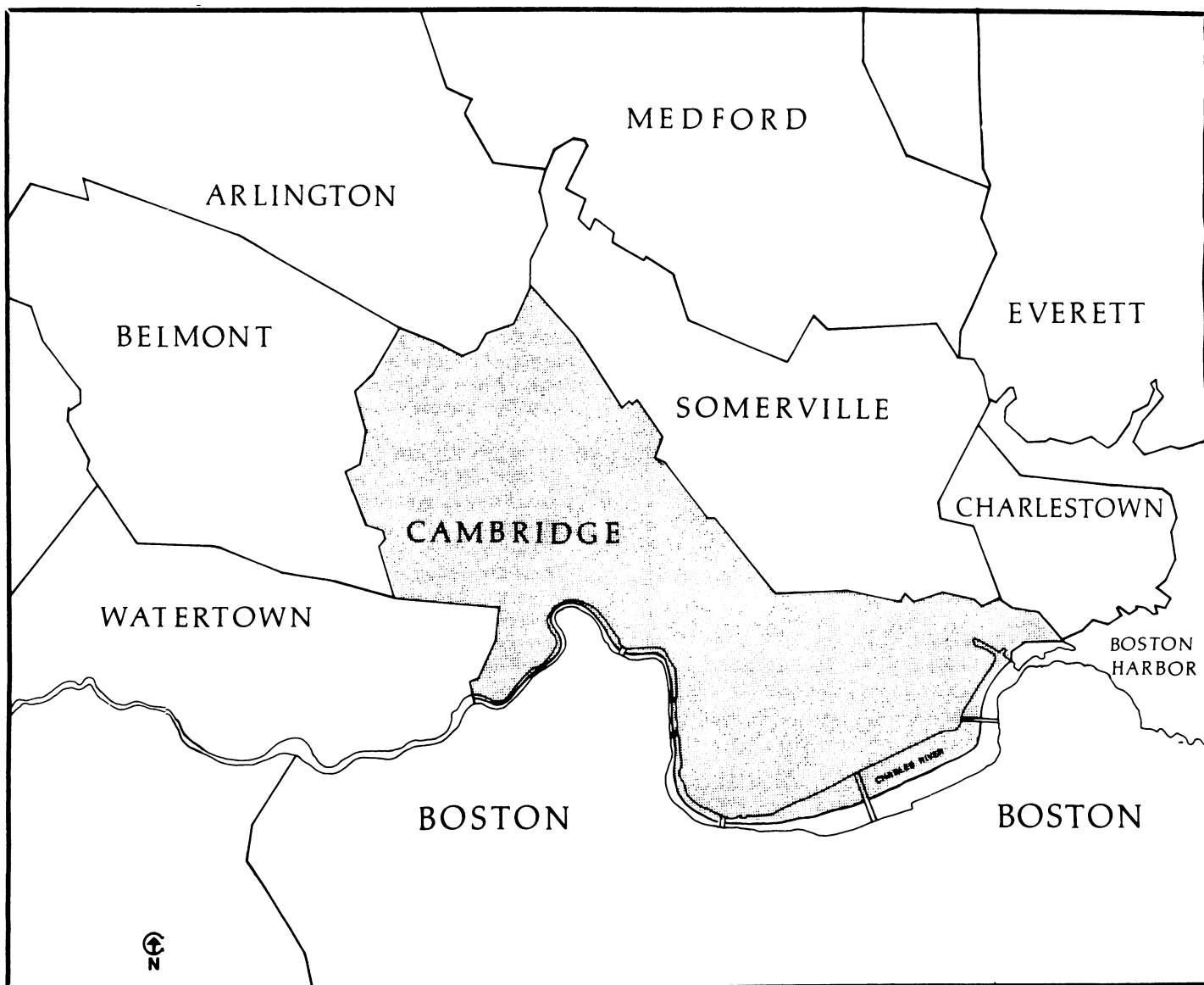
Government Finance Group, Inc.
4350 North Fairfax Drive
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CERTIFIED PUBLIC ACCOUNTANTS

KPMG Peat Marwick
99 High Street
Boston, MA 02110

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CAMBRIDGE AND SURROUNDING COMMUNITIES.

PART I: INTRODUCTION

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

The Issuer

The City of Cambridge is located in Middlesex County across the Charles River from the City of Boston. Cambridge, first settled in 1630, was originally incorporated as a town in 1636 and became a city in 1846. Since 1940, Cambridge has operated under a council-manager form of government with nine city councillors elected every two years. Occupying a land area of 6.26 square miles, the City has an estimated 1994 population of 99,890.

The Bonds

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 1997 in book-entry-only-form, dated June 15, 1997, are due June 15 in each year of the years 1998 through 2007 in the aggregate principal amount of \$9,905,000.

Security for the Bonds

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

Use of Proceeds

The proceeds of the Bonds will be used for improvements to Central Square including reconstructing streets and sidewalks and installing new traffic signals and street lighting, construct a new youth center, renovate an existing youth center, renovate several City buildings, acquire and install fiber optic cable and network equipment, purchase personal computers for City and School use, and separate surface drains and sewers.

Redemption

The Bonds are not subject to redemption prior to their stated maturity.

Tax Exemption

The opinion of Bond Counsel will state the following, under existing law: Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the City with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. **The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.** See "Tax Exemption" herein.

Legal Matters

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

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

Delivery

The Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser of the Bonds, subject to the receipt of an approving legal opinion by Palmer and Dodge LLP, Boston, Massachusetts, Bond Counsel. Delivery of the Bonds is expected on or about June 30, 1997.

Financial Advisor

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

Bond Counsel

Palmer and Dodge LLP, Boston, Massachusetts, is employed as Bond Counsel to the City in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issue of the Bonds are contingent on the sale and delivery of the Bonds.

Ratings

Ratings will be assigned by Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, and Standard & Poor's Ratings Group, 25 Broadway, New York, New York 10004 as shown on the front cover. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgement of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Bonds.

Auditors

A yearly independent audit of all accounts, books, records, and financial transactions of the City has been performed by KPMG Peat Marwick, Certified Public Accountants, of Boston, Massachusetts since fiscal year 1979. The opinion of the independent auditors for the period set forth in their report and the fiscal year 1996 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

Absence of Material Litigation

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

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

Miscellaneous

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

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

Disclosure

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

Additional Information

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

Continuing Disclosure

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

Any questions concerning the contents of this Official Statement should be directed to the following: James P. Maloney, Jr., Assistant City Manager for Fiscal Affairs, (617) 349-4220, or John G. Faria, Palmer & Dodge LLP, (617) 573-0100.

PART II: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated June 15, 1997, and will bear interest from that date which will be payable beginning December 15, 1997 and semi-annually thereafter on June 15 and December 15 until maturity. The Bonds will mature on June 15 each year as specified below:

<u>Due June 15</u>	<u>Principal Amount</u>	<u>Due June 15</u>	<u>Principal Amount</u>
1998	\$1,045,000	2003	\$940,000
1999	1,045,000	2004	940,000
2000	1,045,000	2005	935,000
2001	1,045,000	2006	935,000
2002	1,040,000	2007	935,000

Redemption

The Bonds are not subject to redemption prior to their stated maturities.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond Certificate will be issued for each maturity of the Bonds each in the aggregate principal amount of such maturity and will be deposited with DTC. The record date for debt service payment is the close of business on the last business day of the month prior to the month in which a debt service payment comes due.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to securities. Under its usual procedures DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on each payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

AUTHORIZATION AND USE OF PROCEEDS

The \$9,905,000 General Obligation Bonds consist of the following authorizations:

Central Square Improvements

\$3,585,000

\$3,585,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, s.7 by a loan order of the City Council adopted on June 26, 1995 to provide funds for improvements to Central Square including street and sidewalk reconstruction and traffic signal and street lighting installation.

Construction of Youth Center

\$3,600,000

\$3,600,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, s.7 (3) by a loan order of the City Council adopted on November 14, 1994 to provide funds for constructing, equipping, and furnishing the Frisoli Youth Center including playground and other site improvements.

Area 4 Youth Center

\$200,000

\$200,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, s.7 (3A) by a loan order of the City Council adopted on November 14, 1994 to provide funds for renovations to the Area 4 Youth Center including the installation of air conditioning in the structure.

Building Renovations

\$500,000

\$500,000 was authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council adopted on May 15, 1995 to provide funds for renovations to several public buildings.

Fiber Optic Network Infrastructure

\$1,000,000

\$1,000,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, s.7 by a loan order of the City Council adopted on May 12, 1997 to provide funds for the acquisition and installation of fiber optic cable and network equipment, including any renovations to City buildings necessary for the connections and internal wiring and related security improvements.

Acquisition of Personal Computers

\$520,000

\$520,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, s.7 by a loan order of the City Council adopted on May 12, 1997 to provide funds for the acquisition of personal computers for the City and School Department.

Sewer Construction

\$500,000

\$500,000 was authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council adopted on November 5, 1990 to provide funds for the reconstruction of the City's sewer system.

SECURITY AND REMEDIES

Full Faith and Credit

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

Tax Levy

Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for (and) all amounts necessary to satisfy final judgements." Specific provision is also made for including payments of rebate amounts not otherwise provided for and payments of notes in anticipation of federal aid or certain state aid in the next tax levy if the aid or reimbursement is no longer forthcoming. However, the total amount of a tax levy is limited by statute. The voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitations. (See *Tax Limitations* below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit. The City of Cambridge has not voted to exempt the debt service on the Bonds from the limitations.

No provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgements on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgements rendered after the tax levy has been fixed, subject to the General Debt Limit (see "Authorization of General Obligation Bonds and Notes" and "Debt Limits"). Subject to the State Director of Accounts for judgements above \$10,000, judgements may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings

In the opinion of Bond Counsel, the City of Cambridge is subject to suit on its general obligation bonds and notes. Courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgement on the bonds or notes from lawfully available funds or, if necessary, to order the City to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law (see *Tax Limitations* below). In exercising their

discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the City and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgement against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Utility and Enterprise Receipts; Revolving Funds

Massachusetts statutes also provide that certain water, gas and electric, sewer, and parking meter receipts may be used only for water, gas and electric, sewer, and parking and related purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, recreational or transportation facility; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with the use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. Also, the annual allowance for depreciation of a gas and electric plant is restricted to use for renewals and improvements or, with the approval of the State Department of Public Utilities, to pay debt incurred for plant reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financing are also not available for general municipal purposes.

State Distributions

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

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

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

Bankruptcy

Enforcement for a claim for payment of principal of or interest on general obligation bonds or notes would be subject to the applicable provisions of federal bankruptcy law and to the provisions of other statutes, if any, hereinafter enacted by the Congress or the State Legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

OPINION OF BOND COUNSEL

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

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

TAX EXEMPTION

The opinion of Palmer & Dodge LLP, Bond Counsel, will state that under existing law the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excluded from gross income for federal income tax purposes. These requirements include restrictions on the use, expenditure and investment of bond proceeds and also include the payment of rebates and penalties in lieu of rebates to the United States. Failure to comply with these requirements may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excluded from gross income for federal income tax purposes.

In addition to other requirements imposed by the Code, Section 148(f) of the Code requires an issuer of tax-exempt bonds to rebate to the United States certain excess earnings from investment of bond proceeds and other amounts, subject to certain exceptions. One of the exceptions applies when the gross proceeds of a bond issue are expended for the governmental purpose within certain specified periods after the date of issuance of the bonds. The City expects to expend all of the gross proceeds of the Bonds within the appropriate periods and, accordingly, expects the Bonds to qualify for this exception from the rebate requirement of the Code.

It should also be noted that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds and that for insurance companies subject to the tax imposed by Section 831 of the Code, the deduction for losses incurred is reduced by 15 percent of the sum of certain items including interest on the Bonds. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by the Code, and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, in the opinion of Bond Counsel, a deduction will be allowed to a financial institution for eighty percent of its interest expense allocable to the Bonds.

The opinion of Bond Counsel will also state that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds will be included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon will be included in the measure of Massachusetts corporate excise and franchise taxes.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

PART III: THE CITY

INTRODUCTION

The City of Cambridge is located in southeast Middlesex County across the Charles River from the City of Boston. The City is bordered by the Towns of Watertown and Belmont on the west and the Town of Arlington and the City of Somerville on the north, and occupies a land area of 6.26 square miles. The City's estimated population was 99,890 in 1994.

Cambridge, first settled in 1630 by a group from the Massachusetts Bay Company, was originally incorporated as a town in 1636 and became a city in 1846. Since 1940, the City has had a Council-Manager form of government.

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

CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT

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

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

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

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

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

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

CERTAIN ELECTED OFFICIALS AND ADMINISTRATIVE/FINANCIAL STAFF MEMBERS

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

The City Manager is the chief executive and administrative officer and carries out the policies of the City Council. With the assistance of the Deputy City Manager and three Assistant City Managers, he coordinates the functions of 41 municipal departments responsible for the delivery of service to residents. The City Manager is appointed by the City Council and serves at the pleasure of the Council. In 1997, the City Council approved a contract for the present City Manager, which expires June 30, 2000.

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

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

Principal Elected Officials

The following are the nine members of the City Council elected for two-year terms ending December 31, 1997:

Sheila T. Russell, Mayor	
Kathleen L. Born, Vice Mayor	Kenneth E. Reeves
Henrietta Davis	Michael A. Sullivan
Francis H. Duehay	Timothy J. Toomey, Jr.
Anthony D. Galluccio	Katherine Triantafillou

The following are the six members of the School Committee elected for two-year terms ending December 31, 1997:

Sheila T. Russell, Chairman	
Alfred B. Fantini	Susana M. Segat
Joseph G. Grassi	E. Denise Simmons
David P. Maher	Alice L. Turkel

Principal Executive Officers

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

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

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

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

James P. Maloney, Jr., Assistant City Manager for Fiscal Affairs and Treasurer/Collector since November, 1982.

Previously served the City as Chief Budget Analyst from 1978 to 1980 and Budget Analyst from 1974 to 1978. Also served as Budget Administrator for the County of Arlington, Virginia from 1980 to 1982, and a consultant to the Finance Department, Engelwood, New Jersey in 1976. Bachelor of Arts degree in Government from Suffolk University and a Masters degree in Public Administration from Northeastern University.

Susan B. Schlesinger, Assistant City Manager for Community Development since September, 1994.

Previously served the City as Director of Housing from 1987 to 1994. Homeownership/Rehabilitation Coordinator from 1986 to 1987, and Project Coordinator, Coop Ownership Program from 1985 to 1986. Also served as Planner/Assistant Administrator of the Community Action Agency of Somerville and in various educational positions for the City of Somerville. Bachelor of Arts in American History and Masters degree in Education from Northeastern University.

Jill Herold, Assistant City Manager for Human Services since September, 1980.

Previously served the City as Director of Human Services Planning, Community Development Department from 1978 to 1980. Executive Director of a non-profit organization from 1971 to 1978. Bachelor of Science degree from the University of Maryland.

Russell B. Higley, City Solicitor since March, 1976.

Previously served the City as Assistant City Solicitor from 1970 to 1976 and General Counsel to the Rent Control Board. Assistant District Attorney, Middlesex County from 1968 to 1969. In addition, Mr. Higley has his own private law practice in Cambridge. Bachelor of Science degree in Business Administration from Suffolk University and a Doctor of Jurisprudence degree from Suffolk Law School.

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

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

James A. Lindstrom, City Auditor since August, 1993.

Previously served as Executive Secretary for Chatham, Massachusetts from 1987 to 1993. Director of Administration & Planning/Finance Director for Amherst, Massachusetts from 1976 to 1987; Assistant Vice President and Area Controller, Citibank, New York, from 1974 to 1976; and Fiscal Officer, Paterson Redevelopment Agency, Paterson, New Jersey from 1969 to 1974. Bachelor of Arts in Economics from Hamilton College and Masters degree in Business Administration (Finance), Stanford University.

Mary Lou McGrath, Superintendent of the Cambridge School System since December, 1988.

Appointed by the Cambridge School Committee. Previously served as Interim Superintendent of Cambridge Public Schools from July 1988 to December 1988, Assistant Superintendent for Administration from October 1987 to July 1988, Director of Elementary Education from 1978 to 1987, Coordinator of Primary Education from 1975 to 1978, Acting Director of Primary Education from 1974 to 1975, Teacher in the Cambridge Public Schools from 1956 to 1974 and teacher in the Burlington School Department from 1955 to 1956. Bachelor of Science Degree, Elementary Education from State College, Salem, MA. Masters Degree in Education from Boston State College, Boston, MA.

GOVERNMENTAL SERVICES AND FACILITIES

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, public education in grades kindergarten through twelve, water and sewer services, parks and recreation, health and social services, libraries/culture, and maintenance of streets and highways. The principal services provided by Middlesex County are space for courts, a jail, and house of correction, and a registry of deeds. After default by the County in payment of General Obligation notes due in December, 1996, several bills have been introduced providing for abolition either of that county or of all county governments in the state. The Massachusetts Bay Transportation Authority ("MBTA") provides rapid transit service and bus coverage throughout the City with connections to the Metropolitan Boston area. The Metropolitan District Commission maintains certain parks and highways and provides

related police services. The Massachusetts Water Resources Authority ("MWRA") provides sewerage disposal services to the City. The Cambridge Housing Authority provides public housing for eligible low-income families, the elderly, and the handicapped.

The City's main municipal buildings include a City Hall, three general administrative buildings, a school administrative building, a public works garage and headquarters building, and a water treatment facility located at the City's reservoir. There are one police headquarters building, nine fire stations, six area libraries, plus a main branch, over sixty-nine parks and playground areas, a high school, plus thirteen elementary schools, located throughout the City.

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

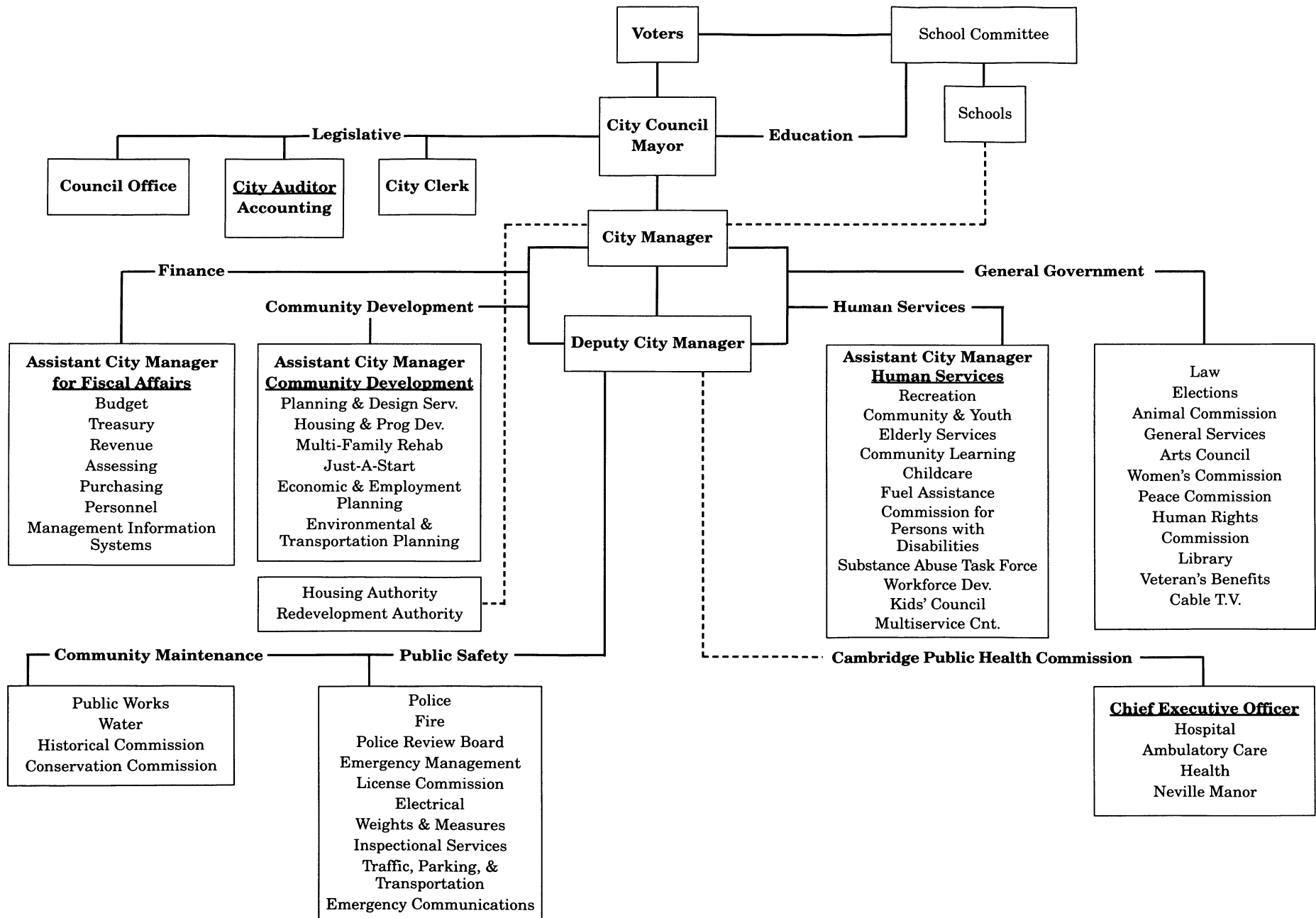
Federal buildings which are located in the City include offices for the Department of Transportation and the Social Security Administration. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

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

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

ORGANIZATIONAL CHART

City of Cambridge, Massachusetts



ECONOMIC AND DEMOGRAPHIC FACTORS

Economic Development Activity

The City of Cambridge has demonstrated a strong economic performance over the past several years, building from the recovery begun after the last recession. Over the past year, the City has continued to experience steady increases in assessed valuation, employment and net absorption of commercial real estate, due in large part to continued public sector economic development activities. In particular, the presence within Cambridge of both the Massachusetts Institute of Technology and Harvard University has greatly benefited the growth of high technology and biotechnology companies. The following discussion summarizes recent economic growth and activity in the City of Cambridge.

Assessed Valuation. Fiscal year 1997 total assessed valuation, including both real and personal property, is \$7.24 billion. Of that total, approximately \$2.70 billion consists of industrial, commercial, and personal property. New growth in the last year added approximately \$250.5 million to the taxable valuation base of the City.

The City's total assessed valuation increased by \$232 million, or 3.3 percent, from fiscal year 1996. These figures are comparable to the prior year's \$256 million, or 3.9 percent, increase. This trend is expected to continue through the next few years.

Employment. Given the diversified nature of the 103,988 documented jobs in Cambridge, the Cambridge economy continues to perform better than the economy of the Boston Metropolitan area or the Commonwealth of Massachusetts. In 1995 the City passed its previous employment peak achieved in 1990. Over the last sixteen years, the unemployment rate in Cambridge has been consistently lower than both the statewide and national rates. As of March, 1997 the unadjusted unemployment rate for Cambridge was 2.1%, while the Commonwealth's rate was 4.5%, and the rate for the United States 5.5%.

Commercial Real Estate Market. The construction of over 9.4 million square feet between 1980 and 1991 provided Cambridge with a solid base of Class A and quality high technology office/R&D space. New commercial construction has slowed since then as the Northeast has re-adjusted to new market forces, but the Cambridge market remains one of the healthiest in the region. Between 1992 and 1996 an additional 900,000 SF of new or substantially rehabilitated space came on line. Due to stability in the City's employment base and growth in the high tech and biotech sectors, the commercial vacancy rate in Cambridge continues to be lower than that of either Boston or the surrounding suburbs. At the end of 1996, the vacancy rate in Cambridge stood at 4.5%, compared to rates in Boston and suburban markets of 7.2% and 10% respectively. At present, approximately 594,000 SF of new commercial space is now under construction and over 190,000 SF of older underutilized or vacant structures is being renovated.

As companies continue to restructure and consolidate, net absorption in Cambridge remains steady and positive. In particular, growth of high tech and biotech companies has spurred additional absorption and some new construction of commercial space. Long term commitments from companies such as Biogen, which recently constructed an additional 148,000 SF of office/R&D space, with expansion rights for another 500,000 SF, shows the strength of the Cambridge market for maturing companies. Small and mid-sized companies continue to demonstrate steady and significant growth in Cambridge, with the signing of new leases with companies such as Perot Systems (60,000 SF), Toffias Fleischman & Shapiro (75,000 SF) and Firefly (174,000 SF), as well as several more software, communication and biotech companies in the 10-60,000 SF range.

Projections for development through the year 2010 include an additional 4.0-5.0 million SF of commercial space. Growth is expected to occur in the City's former industrial districts, which changed in response to the demands of the new economy. The City meters development through an orderly process, utilizing control over infrastructure, planned unit development, and zoning strategies. Presented below is a summary of the current economic activities and future potential of five major development areas along with a short City-wide summary.

Alewife. Located in the western part of the City near Fresh Pond Reservoir, the M.D.C. Alewife Reservation, and the Belmont and Arlington Town lines, Alewife consists of approximately 370 acres. The district lies within a thirty minute drive to Logan International Airport and downtown Boston, as well as residential suburbs and the Route 128 corridor. The area is served by the MBTA's Red Line rapid transit system through the Alewife Station, as well as by MBTA surface bus lines. A 2,000 car parking garage is located adjacent to the station and has direct access to Route 2.

Over 1.5 million square feet of prime office/R&D space was built in Alewife over the last fifteen years, including portions of two major planned developments on opposite sides of the MBTA station. With an improving market for leasing of new office, R&D, and retail space, renewed interest has developed in sites that have remained inactive for more than five years. Plans for up to 300,000 SF of new construction are anticipated within the next five years.

Alewife has become a center for companies in consulting and biotechnology. The area serves as headquarters for BBN, Genetics Institute, and Arthur D. Little. The Alewife area appeals to companies interested in a suburban setting within the City of Cambridge. The City has finalized a draft planning study for this area, updating the Alewife Master Plan completed in 1979. The planning study includes recommendations for upgrading the infrastructure and encouraging economic development, as well as preserving and enhancing environmental and recreational resources. The draft has been sent to the City Council for their review. Planned improvements to Fresh Pond Parkway will begin to implement elements of that plan.

Cambridgeport. This area, comprising 70-80 acres located along the Charles River between the Boston University Bridge and Central Square, is a former industrial area being redeveloped primarily for office/R&D with some retail, light manufacturing, and residential uses. Over 630,000 SF of new office/R&D space and manufacturing space as well as 280 housing units have been completed over the last fourteen years, with an estimated value in excess of \$90 million. Recent renovations include headquarters for Hybridon (91,000 SF), Modern Continental (72,000 SF) and Vertex (60,000 SF), and space for Lifeline Systems (200,000 SF).

Forest City Development, in conjunction with the Massachusetts Institute of Technology, is in the process of constructing a long term phased development of 2.3 million SF, including a major hotel, retail shopping center, office/R&D space, and 400 units of housing. Over 350,000 SF of office/R&D space has been completed and is fully occupied, and 225 units of housing are finished. Construction of the hotel, 90,000 SF of retail uses, including a 45,000 SF supermarket, 80,000 SF of additional office space, and a 1000 car garage are all underway.

East Cambridge Riverfront. This area lies directly across the Charles River from Boston at the Museum of Science and Charles River Dam area and between Kendall Square and North Point. East Cambridge is approximately 2 miles and 15 minutes travel time from Logan International Airport and consists of 60 acres of land.

The MBTA's Kendall Red Line and Lechmere Green Line rapid transit stations provide public transit access with connections to the metropolitan Boston area. The area is also well served by surface bus routes. Starting in the early 1980s, the redevelopment of the East Cambridge riverfront was stimulated by \$50 million in public improvements, including the creation of Lechmere Canal Park, Centanni Way, Front Park, and Charles Park. In addition, a 1000 car public parking garage opened and the City implemented roadway improvements throughout the area.

The total private development completed in the East Cambridge area over the last fifteen years includes 3.7 million square feet of new and renovated prime office/R&D and retail space, 200 hotel rooms, and over 750 housing units with a total value in excess of \$630 million. A 110 room hotel is presently under construction. East Cambridge has developed as a center for the computer and biotechnology industries, serving as headquarters for such firms as Lotus, Aspen Technologies, and Open Market in computer software and hardware, and Biopure in biotechnology. Lotus Development recently occupied a new 119,000 SF building.

The long term development potential in this area includes approximately 2.1 million SF, including major development space at ComEnergy.

Kendall Square. This 50 acre area lies across the Charles River from Boston at the Longfellow Bridge, adjacent to the MIT Campus and East Cambridge riverfront areas. The MBTA's renovated Kendall Red Line rapid transit station, surface bus routes, and a bus shuttle service all benefit this area. Buildings completed in the 1980's added over 2.0 million SF, to bring the total Kendall Square area to over 5.0 million SF of first class office/R&D space. The area is enhanced by an active commercial center at the Cambridge Center Marriott; a public plaza adjacent to the MBTA station; new streets, sidewalks, street furniture and trees; a year round fountain/steam sculpture; and other public open space.

The most recent new developments have been the completion of a 148,000 SF new building at 12 Cambridge Center for Biogen, Inc. as part of the firm's long-term development in the area, and the completion of a 63,000 SF expansion of the Whitehead Institute for Biological Research. The area also houses the headquarters of Computer Corporation of America, CSC/Index, Polaroid, Genzyme and Camp, Dresser & McKee. Office leasing is heavily influenced by the close proximity to MIT and Harvard

University. The ten to fifteen year development potential will accommodate another 1.7 million square feet of commercial space.

North Point. This is a 60 acre underutilized industrial and railroad service area situated in a strategic location adjacent to the Charles River. Boston's Central Artery Project emerges through North Point, and it is under intense planning review. Given the area's proximity to major research areas such as Massachusetts General Hospital and the East Cambridge/Kendall Square areas, North Point has a strong future development potential.

North Point could accommodate up to 2.0 million SF of mixed use development. The Commonwealth has agreed to fund infrastructure improvements to provide access through the North Point district and a new park along the Charles River. A 159,000 SF headquarters building for EF International, an educational services company, and a 435 unit housing development are both under construction. Detailed design of the riverside park and the roadway and utility layout continues apace to ensure their presence when the new construction is complete.

City-wide. While densely developed and limited in its further potential, the Harvard Square area continues to attract development interest. New construction totaling 150,000 SF of office, retail and residential space is actively under review by the City's regulatory agencies. Citywide, there is a clear, renewed interest in the construction of new market-rate housing, with more than 400 units seriously under consideration in projects ranging in scale from small infill developments to a 200 unit project.

Affordable Housing Preservation and Development

In the late 1960's and 1970's, Cambridge made extensive efforts to support federal programs for the production of new rental units for low and moderate income families and the elderly. During this period the number of publicly assisted units more than doubled from 2,111 in 1970 to approximately 5,000 in 1980. Since 1980, with the cutback in federal funds for housing production, the City has placed increased emphasis on the preservation and rehabilitation of the existing stock, especially in lower income neighborhoods. The recent elimination of rent control (effective December 31, 1996) has also been a major cause of the City's increased efforts to create and maintain affordable housing units. In fiscal year 1998, the City has budgeted \$4.5 million for the Affordable Housing Trust Fund, a 100 percent increase from fiscal year 1997. This appropriation is funded by \$1.5 million in savings from the elimination of the rent control budget and \$1.5 million from new property taxes generated by increases in assessed valuation of previously rent controlled real estate.

More than half of the City's \$4.203 million annual Community Development Block Grant, as well as other public and private funds, are allocated to a range of local housing programs. City programs support the rehabilitation of 1-4 unit owner-occupied structures and investor-owned multi-family properties, and create affordable homeownership and rental opportunities for Cambridge residents through conversion, infill construction, and the First Time Home Buyers Program. Since 1980, such programs have enabled the City to upgrade over 1,500 dwelling units. For example, since 1989 the Cambridge Affordable Housing Trust has committed \$5.2 million for the development of 740 affordable units, which, in turn, have leveraged over \$36 million in other funding. In addition, Cambridge has been designated a participating jurisdiction under the federal HOME program and receives an annual allocation of approximately \$700,000 from HUD for the provision of new and rehabilitated affordable housing units. In 1997 the City received a \$2.2 million federal grant from HUD to assist property owners in deleasing their units, supplementing a \$2.4 million grant received in 1994. Thus, it seems clear that the City's efforts have had a significant impact in preserving and improving an aging inventory of privately owned structures, while providing additional units of decent, affordable housing in existing buildings, and in some cases, new structures.

For the past decade, the Cambridge Housing Authority has successfully pursued a program of modernizing the public housing inventory. More than 920 units in the City's largest public housing developments have undergone major renovations at a cost of \$37.5 million in federal and state funds, and \$27.5 million more has been committed to additional modernization.

Employment

Because of the extensive development that has taken place, Cambridge has experienced unemployment rates significantly lower than the national and Massachusetts averages over the last nine years. In addition to new employment created by the growth of research and development and service industries, the City retains its traditional employers in the area of education, medicine, and government, which promotes the City's overall diversity.

The following table presents the number of employees for the calendar year 1995, as compiled by the Massachusetts Department of Employment and Training. The annual payroll for the more than 3,855 business and government agencies conducting business in Cambridge during 1995 totaled approximately \$4.2 billion.

**CITY OF CAMBRIDGE
EMPLOYMENT BY SECTOR
CALENDAR YEAR 1995**

	<u>1995 Average Employees</u>	<u>Percent of Total Employment</u>
Private Sector:		
Agriculture, Mining, & Other	240	0.2%
Construction	1,515	1.5
Manufacturing	6,407	6.2
Transportation, Communication, Utilities	2,147	2.1
Wholesale & Retail Trade	15,843	15.2
Financial, Insurance, Real Estate	3,085	3.0
Service Industries	67,204	64.6
Total Private	<u>96,441</u>	<u>92.7</u>
Public Sector:	<u>7,547</u>	<u>7.3</u>
TOTAL	<u>103,988</u>	<u>100.0%</u>

Source: Massachusetts Department of Employment and Training.

**CITY OF CAMBRIDGE
TOP TWENTY-FIVE EMPLOYERS
MAY 1997**

<u>Rank</u>	<u>Name of Employer</u>	<u>Nature of Business</u>	<u>1997 Employees</u>
1	MIT	Education	7,839
2	Harvard University	Education	7,337
3	City of Cambridge	Government	3,244
4	Lotus Development Corp./IBM	Computer Software	1,865
5	Mt. Auburn Hospital	Medical	1,627
6	Bolt, Beranek & Newman	Research & Development	1,511
7	Federal Government	Government	1,441
8	Cambridge Public Health Commission	Public Health	1,325
9	Polaroid	Photo & Optic Equipment	1,300
10	Draper Labs	Research & Development	1,238
11	Arthur D. Little	Management Consulting	1,111
12	Genzyme	Pharmaceutical Products	824
13	Star Market	Retail	807
14	Biogen	Biotechnology/R&D	780
15	Quest Diagnostics	Clinical Testing Services	700
16	Necco/Haviland	Confectionary Products	700
17	Camp, Dresser, McKee	Engineering	693
18	Commonwealth of Massachusetts	Government	659
19	Youville Hospital	Medical	585
20	Genetics Institute	Biotechnology/R&D	582
21	ABT Associates	Management Consulting	525
22	Lesley College	Education	452
23	Raytheon Engineering	Construction	440
24	Commonwealth Energy Systems	Utility	397
25	Monitor Company	Management Consulting	375
	TOTAL		<u>38,357</u>

Source: Cambridge Community Development Department

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

**UNEMPLOYMENT RATE
AVERAGE ANNUAL RATES
1989 TO 1997**

	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
1997 (March) (1)	2.1%	3.6%	4.5%	5.5%
1996	2.5	3.7	4.3	5.4
1995	3.3	4.7	5.6	5.6
1994	4.0	5.2	6.0	6.1
1993	4.6	6.0	6.9	6.8
1992	5.6	7.5	8.5	7.4
1991	6.0	7.7	9.0	6.7
1990	3.8	5.1	6.0	5.5
1989	2.8	3.4	4.0	5.3

(1) Unadjusted Monthly Average

Source: U.S. Dept. of Labor, Bureau of Labor Statistics

Retail and Services Industry

A variety of retail and service employers are located within the City of Cambridge. The following two tables present information on retail establishments and sales, and service establishments and sales for the 1992 calendar year, the most recent data available.

**CITY OF CAMBRIDGE
RETAIL ESTABLISHMENTS AND SALES
CALENDAR YEAR 1992 (1)**

	<u>Cambridge</u>			<u>Boston PMSA</u>		
	<u># of Firms With Payroll</u>	<u>Sales (000)</u>	<u>% of Total</u>	<u># of Firms With Payroll</u>	<u>Sales (000)</u>	<u>% of Total</u>
Building Materials and Lawn Products	16	\$ 22,420	2.1%	688	\$ 1,082,779	4.0%
General Merchandise Group	17	158,169	15.0	531	2,770,834	10.2
Food Stores	107	186,268	17.6	2,419	5,143,426	18.9
Automotive Dealers.....	6	43,206	4.1	735	4,841,928	17.8
Gasoline Service Stations.....	29	34,035	3.2	1,255	1,483,459	5.4
Apparel, Accessories Stores	115	117,205	11.1	2,071	2,209,752	8.1
Furnishings, Home Furnishings, Equipment Stores	82	94,070	8.9	1,408	1,250,240	4.6
Eating & Drinking Places	336	190,478	18.0	6,249	3,290,440	12.1
Drug Stores, Proprietary Stores	24	45,032	4.3	647	1,284,510	4.7
Miscellaneous Retail.....	220	166,582	15.8	4,623	3,901,271	14.3
Total.....	952	\$1,057,465	100.0%	20,626	\$27,258,639	100.0%

(1) Most recent data available.

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Census of Retail Trade.

**CITY OF CAMBRIDGE
SERVICE ESTABLISHMENTS AND SALES
CALENDAR YEAR 1992(1)**

	Cambridge			Boston PMSA		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Hotels, Motels, & Other Lodging Places..	15	\$ 108,032	2.8%	328	\$ 1,075,242	3.7%
Personnel Services	93	35,669	0.9	3,191	707,907	2.4
Business Services	325	1,810,326	46.1	6,605	9,362,460	31.8
Automotive Repair, Service, and Garages ..	48	22,875	0.6	2,248	1,111,507	3.8
Misc. Repair Services.....	18	3,801	0.1	820	404,559	1.4
Amusement and Recreation Services, Including Motion Pictures.....	67	70,492	1.8	1,450	1,121,029	3.8
Health Services, Except Hospitals	196	231,827	5.9	6,276	4,486,700	15.2
Legal Services	54	33,732	0.9	2,781	2,663,120	9.0
Selected Education Services.....	20	37,936	1.0	299	205,764	0.7
Social and Other Services.....	26	16,665	0.4	694	196,702	0.7
Engineering, Architectural, & Surveying Services.....	348	1,540,453	39.3	4,759	7,929,231	26.9
Miscellaneous Services ...	21	12,357	0.3	292	187,465	0.6
Total.....	1,231	\$3,924,165	100.0%	29,743	\$29,451,686	100.0%

(1) Most recent data available.

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Census of Service Industries.

Housing and Construction Activity

The data in the tables on the following page are presented to illustrate various housing characteristics for the City of Cambridge. The 1990 U.S. Census indicates that the total number of dwellings in the City was 41,979. Overall, the distribution of housing units is not skewed to any one type, with nine or more units and condominiums representing the largest percentage. As of January 1, 1996, the total number of units in the City was 42,073.

**CITY OF CAMBRIDGE
DWELLING UNITS BY TYPE
(As of January, 1996)**

<u>Type of Housing</u>	<u>Number of Buildings</u>	<u>Number of Units</u>	<u>% of Total</u>
One-Family	3,525	3,525	8.38%
Two-Family	3,171	6,342	15.07
Three-Family	1,655	4,965	11.80
Four to Eight Family	806	4,432	10.53
Nine or More Units	304	12,650	30.06
Condominiums	935	7,562	18.00
Mixed Res./Comm. Bldgs.	355	2,032	4.82
Rooming Houses	49	565	1.34
Total	10,800	42,073	100.00%

Source: City Department of Finance.

**CITY OF CAMBRIDGE
VALUE OF NEW CONSTRUCTION (1) AND DISTRIBUTION BY TYPE
FISCAL YEARS 1990 TO 1997**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
1997(2)	\$280,015,896	21%	79%
1996	185,204,825	33	67
1995	162,701,784	18	82
1994	178,799,112	24	76
1993	143,324,133	29	71
1992	145,693,744	21	79
1991	83,572,870	24	76
1990	178,232,594	32	68

(1) Includes improvements to existing properties.

(2) As of April 30, 1997

Source: Cambridge Inspectional Services Department.

Population and Income Characteristics

According to figures provided by the U.S. Census Bureau, as of 1994, the City of Cambridge had a population of 99,890. This figure represents a 4.3 percent increase from the 1990 population. The following table represents population figures for selected years.

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

<u>Year</u>	<u>Population</u>	<u>Rate of Change</u>
1994	99,890	2.4%
1992	97,526	1.8
1990	95,802	5.0
1988	91,260	1.4
1986	92,535	0.0
1984	92,535	-1.4
1982	93,841	-1.6
1980	95,322	-5.0
1970	100,361	-6.8
1960	107,716	-10.8
1950	120,740	—

Source: The 1990, 1980, 1970, 1960, and 1950 figures are from the U.S. Census. The 1982, 1984, 1986, 1988, 1992, and 1994 figures are from the U.S. Census, Current Population Report "Local Population Estimates."

The 1990 U.S. Census reported the City's median age to be approximately 31 years with a much greater representation of residents in the 25–34 year old age group than the national average. In addition, the City has a very high percentage of individuals who have graduated from high school and who have attended four or more years of college in comparison to the Massachusetts averages.

SELECTED POPULATION CHARACTERISTICS

<u>Characteristic</u>	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
Population (1).....	95,802	2,870,669	6,016,425	248,709,873
Median Age (1)				
1990.....	31.1	33.4	33.6	32.9
1980.....	28.6	31.3	31.2	30.0
1970.....	26.8	29.1	29.0	28.0
1960.....	29.6	32.0	32.1	29.5
Age Group (1)				
5–17.....	9.2%	14.3%	15.6%	18.2%
25–44.....	41.0	35.1	33.6	32.5
65 and over.....	10.5	12.9	13.6	12.6
Four or more years of college education				
25 years old & over (2)....	54.2%	35.4%(3)	27.2%	N/A
High school graduates				
25 years old & over (2)....	84.4%	84.3%(3)	80.0%	N/A

(1) Source: U.S. Department of Commerce, Bureau of the Census, 1990 Census of Population.

(2) Source: State Data Center, Massachusetts Institute for Social and Economic Research.

(3) Source: Middlesex County, Massachusetts.

Income

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

MEDIAN FAMILY INCOME

<u>Year</u>	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
1989	\$39,990	\$49,266	\$44,367	\$37,919
1979	17,845	22,848	21,166	19,917
1969	9,815	11,485	10,833	9,586

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

PER CAPITA INCOME

Year	Cambridge	Boston PMSA	Massachusetts	United States
1989	\$19,879	\$23,746	\$22,236	\$17,592
1979	7,957	9,880	10,096	9,494
1969	3,899	4,471	4,349	3,945

Source: U.S. Census Bureau.

EDUCATION

Elementary and Secondary Schools

The City of Cambridge public school enrollment totalled 8,168 for the school year. It is projected that the figures will show a slight increase over the next four years. In addition to the public school system, there are approximately eleven private and parochial schools in the City. In 1995-96, there were approximately 1,600 students enrolled in these schools.

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

CITY OF CAMBRIDGE PUBLIC EDUCATION FACILITIES 1996-1997 SCHOOL YEAR

13 Elementary Schools
1 High School
1 Administrative Building
3 Miscellaneous Buildings

Source: Cambridge School Department.

SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS SCHOOL YEARS 1997-2001 (1)

	1997	1998	1999	2000	2001
Elementary	5,539	5,588	5,595	5,587	5,570
Secondary	1,983	1,981	1,972	2,053	2,136
Ungraded	531	531	531	531	531
Total	8,053	8,100	8,098	8,171	8,237

(1) Enrollments are as of October 1 for the school years shown. The figures shown for 1997 are actual with the following years as projections.

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

Fiscal Year	K-8	9-12	Special	Total	Percentage Change
1997	5,539	1,983	531	8,053	-1.41%
1996	5,528	1,989	651	8,168	-1.48
1995	5,521	2,047	670	8,291	+1.39
1994	5,513	2,018	646	8,177	+1.92
1993	5,297	2,038	688	8,023	+1.92
1992	5,097	2,102	673	7,872	+1.48
1991	4,998	2,078	681	7,757	+1.60
1990	4,796	2,136	703	7,635	- .23
1989	4,657	2,253	743	7,653	- .67
1988	4,584	2,400	721	7,705	-1.49
1987	4,631	2,541	648	7,820	- .82

(1) Enrollments are as of October 1, for the fiscal years shown.
Source: Cambridge School Department.

Higher Education

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

Harvard University, the nation's oldest institution of higher learning, was established by the Great and General Court of the Massachusetts Bay Colony in 1636, just 16 years after the Pilgrims landed at Plymouth Rock. Harvard has grown from a school of 12 students and a single master to a university with an enrollment of approximately 18,700 degree candidates.

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

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

While the Massachusetts Institute of Technology began its life across the Charles River, in Boston, the University moved to Cambridge in the early part of this century.

The facilities of the undergraduate and graduate schools for M.I.T., with an enrollment of over 9,700 degree candidates, are located in the Kendall Square area of the City. These include the Graduate School for Architecture and Planning, the Graduate School of Management, the Graduate School of Science, and the Graduate School of Humanities and Social Science.

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

The Cambridge Public Health Commission

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

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

As stated previously, the primary aim of the home rule legislation was to allow the Cambridge Hospital the flexibility to affiliate with or acquire other area health care providers, and in particular allowed the Commission to acquire neighboring Somerville Hospital. In 1995, the Commission acquired Somerville Hospital's neighborhood health centers, and in July, 1996, the Commission acquired Somerville Hospital. The Commission will evaluate other affiliation opportunities as they arise.

The Commission is proceeding with plans for a \$60 million renovation and expansion of the Cambridge Hospital. The project includes the construction of a three story 70,000 square foot ambulatory care center, a 200 space underground parking facility, and major renovations of existing facilities. The ambulatory care center is expected to meet substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consists of \$30 million in City general obligation bonds, and a \$30 million equity contribution by the Commission. Construction commenced in February, 1997, and the general obligation bonds are expected to be issued in phases over the next two fiscal years. While the GO bonds issued for the project will be issued by the City and remain on the City's financial statements, in practice debt service will be paid by the Commission.

The City has historically provided tax support to the Cambridge Hospital and Neville Manor and has continued to do so for the Cambridge Public Health Commission. The level of future property tax support and the services to be provided by the Commission on behalf of the City are outlined in a seven year contract executed by the City and the Commission in June 1996. Under the terms of the contract, the Commission will receive \$17 million less in net property tax support than if FY1996 support had been carried forward for seven years at a constant level. In FY1996, the City provided \$10.896 million in property tax support to the Hospital, Neville Manor, and the Department of Public Health. In FY1997, the City provided tax support of \$8.598 million to the Commission, and the Commission remitted \$2 million to the City in payments-in-lieu-of taxes, resulting in net tax support of \$6.598 million. In FY1998, the City has budgeted tax support of \$8.598 million, and the Commission will remit payments-in-lieu-of taxes of \$1 million, resulting in net tax support of \$7.598 million.

PART IV: CITY INDEBTEDNESS AND CAPITAL PLAN

AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES

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

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

DEBT LIMITS

General Debt Limit

Under Massachusetts statutes, the General Debt Limit of the City of Cambridge consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit of the City is 2½ percent of the valuation of taxable property as last equalized by the State Department of Revenue. The City of Cambridge can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the State Emergency Finance Board.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, and solid waste disposal facility bonds, and, subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric and gas (subject to a separate limit equal to the General Debt Limit, including the same doubling provision). Industrial revenue bonds, electric revenue bonds and water pollution abatement revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes

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

TYPES OF OBLIGATIONS

General Obligations

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

Serial Bonds and Notes

These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds or notes issued for certain purposes, including self-supporting enterprise purposes and certain state-aided school projects, and for those projects for which debt service has been exempted from property tax limitations. The maximum

terms vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. They may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes. Serial bonds may be issued as “qualified bonds” with the approval of the State Emergency Board, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. The State Treasurer is required to pay the debt service on “qualified” bonds and thereafter to withhold the amount of the debt service from state aid or other state payments; administrative costs and any loss of interest income to the Commonwealth are to be assessed upon the City.

Bond Anticipation Notes

These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that (except for notes issued for certain school projects) for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. The maximum term of bonds issued to refund bond anticipation notes is measured from the date of the original issue of the notes.

Revenue Anticipation Notes

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

Grant Anticipation Notes

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

Revenue Bonds

Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth’s water pollution abatement revolving loan program. In addition, cities and towns having electric departments may issue revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Public Utilities. The City of Cambridge does not have an electric department, and has not authorized any other city revenue bonds with respect to the Hospital (see *The Cambridge Public Health Commission*).

**CITY OF CAMBRIDGE
STATEMENT OF INDEBTEDNESS
LONG-TERM BONDS AND TEMPORARY LOANS (1)
AS OF JUNE 30, 1997**

Bonds:

	<u>Outstanding Bonds Prior To This Issue</u>	<u>Authorized Unissued Prior To This Issue</u>	<u>Outstanding After This Issue</u>	<u>Authorized Unissued After This Issue</u>
Within General				
Debt Limit: (2)	\$40,253,995	\$96,772,798	\$50,158,995	\$86,867,798
Outside General				
Debt Limit:				
School (3)	15,770,000	0	15,770,000	0
Water	12,211,000	0	12,211,000	0
Sub Total	27,981,000	0	27,981,000	0
Total Bonds	<u>\$68,234,995</u>	<u>\$96,772,798</u>	<u>\$78,139,995</u>	<u>\$86,867,798</u>

Temporary Loans:

	<u>June 30, 1997</u>
Bond Anticipation	\$0
Grant Anticipation	0
Revenue Anticipation: (4)	
For Current Year	0
For Prior Year	0
	<u>\$0</u>

-
- (1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability.
- (2) At the present time, the Normal General Debt Limit is \$189,845,040 and the Double General Debt Limit (see "Debt Limit" above) is \$379,690,080.
- (3) The unpaid balance of state school construction grants payable over the life of outstanding school bonds for both principal and interest (interest is partially or wholly included in eligible costs of projects approved after January 1, 1971) was estimated at approximately \$14,778,319 on June 30, 1997. This amount is subject to annual appropriation by the State Legislature. Source: School Building Assistance Bureau.
- (4) The City has not borrowed in anticipation of revenues since fiscal year 1987.

Source: City Department of Finance.

CONTRACTS AND MUNICIPAL LEASES

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

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

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

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

The City has not entered into any substantial financing lease or installment purchase contracts, but does lease certain real estate at an annual aggregate rental cost of approximately \$453,000.

CITY OF CAMBRIDGE GROSS AND NET DIRECT DEBT (as of June 30, 1997) (1)

Type of Debt	Gross Debt	Funds Committed to Debt Redemption	Net Debt
Within General Limit ...	\$50,158,995	\$ 8,156,592 (2)	\$42,002,403
Outside General Limit:			
Schools	15,770,000	10,640,390 (3)	5,129,610
Water	12,211,000	0	12,211,000
Totals	\$78,139,995	\$18,796,982	\$59,343,013

(1) Includes current issue

(2) This figure includes the portion of equity earnings and contract assistance payments from the State related to the balance of the principal on sewer loans from the Massachusetts Water Pollution Abatement Trust (MWPAT). Equity earnings are based on the investment of MWPAT and proceeds with contract assistance payments appropriated on an annual basis by the State legislature.

(3) This figure represents the amount outstanding in principal reimbursements from the state for school construction projects as of June 30, 1997. Interest costs have been excluded from this figure in order to show only that portion of the State reimbursements which may be applied against the outstanding debt. These reimbursements are subject to annual appropriation by the State Legislature. Source: School Building Assistance Bureau.

Source: City Department of Finance.

OVERLAPPING DEBT

Massachusetts Water Resources Authority

The Massachusetts Water Resources Authority (the "Authority"), is an independent public authority of the Commonwealth. In 1985, the Authority assumed possession and control from the Metropolitan District Commission of a water distribution system and a sewer system (the "Systems") which provide wholesale services to 61 cities and towns located primarily in eastern Massachusetts, including most of the metropolitan Boston area. In addition to its operating responsibilities, the Authority is responsible for rehabilitating and repairing the systems to bring them into compliance with applicable environmental laws. The MWRA's rates and charges are among the highest in the nation and significant rate increases will continue each year in response to continuing increases in the operating expenses of the systems, principally resulting from increases in debt service costs incurred in connection with the financing of its capital program. The largest share of major capital improvements to the system is for projects relating to constructing and rehabilitating wastewater collection and treatment facilities in order to bring the sewer system's wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. These projects are conducted in substantial part under court orders entered by the U.S. District Court in a continuing Clean Water Act enforcement proceeding filed against the Authority and the Commonwealth by the U.S. Environmental Protection Agency.

The MWRA is empowered by the Act to operate, maintain and improve the Systems, to utilize on an exclusive basis all such quantities of water as may be safely yielded from the MDC's watershed system, to establish and collect rates and charges for the services and commodities furnished or supplied by the Systems without supervision or regulation by any office, department, board or other agency of the Commonwealth or any of its political subdivisions and to issue its bonds and notes and pledge its revenues therefor to carry out its corporate purposes.

The aggregate principal amount of bonds and notes of the MWRA that may be issued and outstanding at any time is currently limited by the Act to \$3.45 billion. The cost of the MWRA's capital program has been estimated by the MWRA to exceed \$4.7 billion in constant dollars through fiscal year 1999, and the MWRA expects to obtain increases in its debt limit in order to finance its capital programs.

Massachusetts Bay Transportation Authority

The Massachusetts Bay Transportation Authority (the "MBTA") is presently authorized by law to issue bonds, for capital purposes other than refunding, to an amount not exceeding \$3,556,300,000 outstanding at any time. Such bonds were outstanding as of February 1, 1997 in the amount of \$2,239,976,014. Such bonds are considered outstanding for debt limit purposes until actually paid at maturity or earlier redemption, regardless of whether or not they are considered outstanding under the General Bond Resolution. In addition, the MBTA is authorized to issue an additional \$1,511,830 for certain specified purposes, of which none are outstanding. The MBTA is also authorized to issue refunding bonds. Such refunding bonds are outstanding as of October 1, 1996 in the amount of \$1,312,680,000 (of which \$46,065,000 have been refunded).

In addition to the foregoing obligations of the MBTA, the MBTA is also responsible for the payment of obligations issued by the Boston Metropolitan District (hereinafter called the "BMD"). The BMD was created in 1929 to serve as a vehicle for the public financing required for transportation facilities in Boston and the thirteen other cities and towns comprising the inner core of the Metropolitan Area. The approximately \$41,799,000 BMD obligations outstanding on February 1, 1997, while general obligations of the entire area comprising the District, are primarily secured by bonds of the Metropolitan Transit Authority ("MTA"), predecessor agency to the MBTA, issued to BMD, or by contractual obligations of the MBTA to BMD. When the MBTA was created in 1964 to succeed the MTA, all of the debts of MTA were assumed by the MBTA. Accordingly, the MBTA is now obligated to pay the BMD annual amounts sufficient to pay debt service on its debt obligations held by the BMD. The debt service on these obligations is taken into account in computing the MBTA's Net Cost of Service. All financing for new construction or improvements to the transportation facilities is done by the MBTA. The BMD will not issue debt other than periodic refunding issues which will be necessary from time to time in order to level out the maturities of its debt and to correlate its debt maturities with the MBTA's principal obligations to it. The Commonwealth pays approximately 90 percent of the debt service on MBTA bonds.

The MBTA is further authorized to issue temporary notes for operating purposes and such notes were outstanding as of March 1, 1997 in the amount of \$325,000,000 and \$160,000,000 are due on September 5, 1997 and \$165,000,000 on February 28, 1998. The MBTA is further authorized to issue notes in anticipation of bonds. There were \$127,500,000 of such notes in the form of commercial paper outstanding as of February 27, 1997 and due at various times.

The MBTA has entered into five long-term leases providing for the lease of equipment. Under the terms of such leases, the MBTA will be required to make annual rental payments of approximately \$16.5 million in fiscal years 1997 to 2015. Pursuant to Section 28 of the Act, the Authority has entered into agreements with the Commonwealth, acting by and through its Executive Office for Administration and Finance, whereby the Commonwealth has agreed, subject to appropriation, to pay to the Authority Contract Assistance equal to 90% of the annual rental payments due under the leases.

The following table sets forth the portion of overlapping debt assessed to the City (1):

CITY OF CAMBRIDGE OVERLAPPING DEBT				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Middlesex				
County (2)	\$ 1,680,000	\$ 8,437,828	11.7%	\$ 196,560
Massachusetts Water Resources Authority (3)				
Sewer.....	2,651,177,000	(see above)	4.90	129,907,673
Massachusetts Bay Transportation Authority (4)	2,646,750,000	(see above)	4.91	129,955,425
Total.....				\$260,059,658

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

(2) Source: Treasurer, Middlesex County. Debt is as of May 15, 1997. Authorized debt includes debt authorized by the County Commissioner under general laws and debt permitted by special enabling acts whether or not yet voted by County Commissioners. County expenses including debt service on county bonds are assessed upon the cities and towns within the county in proportion to their taxable valuation as last equalized by the State Commissioner of Revenue. Amount shown here is based on most recent equalized valuations. On December 13, 1996, Middlesex County defaulted on the payment of \$4,500,000 Middlesex County Hospital Revenue Anticipation Notes. While the Notes are general obligations of the County under existing law, it is not expected that the default will have a material effect on the City.

(3) Source: MWRA. Debt as of June 30, 1996.

(4) Source: MBTA. The amount shown as the City's share of outstanding bonds includes that portion (90%) that is paid by the Commonwealth. Debt is as of May 15, 1997.

Source: City Department of Finance.

CITY OF CAMBRIDGE
KEY DEBT RATIOS
(as of June 30, 1997)

	<u>Amount (1)</u>	<u>Per Capita (2)</u>	<u>Ratio to Assessed Valuation (3)</u>
Gross Direct Debt	\$ 78,139,995	\$ 782	1.1%
Net Direct Debt (4).....	59,343,013	594	.8
Gross Direct and Gross Overlapping Debt	338,199,653	3,386	4.7
Net Direct and Net Overlapping Debt (5)	202,442,789	2,027	2.8

(1) Includes current bond issue.

(2) Based on 1994 population of 99,890.

(3) Based on an estimated January 1, 1996 assessed value of \$7,242,124,437.

(4) Includes general obligation bonds that are in practice repaid from user fees and thus are self-supporting. This includes GO bonds issued for water, sewer, and hospital purposes.

(5) Reflects State payment on MBTA outstanding debt.

Source: City Department of Finance.

CITY OF CAMBRIDGE
FIVE-YEAR DEBT SUMMARY
OUTSTANDING GENERAL OBLIGATION DEBT
FISCAL YEARS 1993 TO 1997 (1)
(\$ in 000s)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997 (2)</u>
Inside	\$37,164	\$37,647	\$42,594	\$44,085	\$50,159
Outside:					
School	8,820	13,720	22,436	18,458	15,770
Urban Renewal/					
Sewer.....	860	645	430	215	0
Garage	1,100	420	0	0	0
Water.....	10,250	9,328	11,947	15,309	12,211
Sub Total	21,030	24,600	34,813	33,982	27,981
Total.....	\$58,194	\$61,760	\$77,407	\$78,067	\$78,140

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

(2) Includes current issue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
GENERAL OBLIGATION BONDS
SCHEDULE OF PRINCIPAL AND INTEREST
PAYMENTS BY FISCAL YEAR
(As of June 30, 1997) (1)**

Fiscal Year	Principal	Interest	Principal This Issue	Interest This Issue (2)	Total
1998	\$12,913,884	\$ 3,415,501	\$1,045,000	\$ 495,250	\$17,869,635
1999	11,415,156	2,800,416	1,045,000	443,000	15,703,572
2000	10,085,059	2,211,342	1,045,000	390,750	13,732,151
2001	8,156,088	1,676,166	1,045,000	338,500	11,215,754
2002	6,852,554	1,271,227	1,040,000	286,250	9,450,031
2003	6,364,745	929,974	940,000	234,250	8,468,969
2004	6,038,650	608,207	940,000	187,250	7,774,107
2005	4,346,737	307,344	935,000	140,250	5,729,331
2006	1,547,485	121,103	935,000	93,500	2,697,088
2007	514,637	30,878	935,000	46,750	1,527,265
	<u>\$68,234,995</u>	<u>\$13,372,158</u>	<u>\$9,905,000</u>	<u>\$2,655,750</u>	<u>\$94,167,903</u>

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

(2) Based on an estimated rate of 5%.

Source: City Department of Finance.

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

The following table shows the rate at which the City's principal amount of debt will be retired based on the amount outstanding on June 30, 1997 including these Bonds.

Maturing Within	Amount to be Retired	Cumulative % Principal Retired
5 years	\$54,647,741	69.94%
10 years	78,139,995	100.00

Source: City Department of Finance.

**CITY OF CAMBRIDGE
RATIO OF GROSS DIRECT DEBT TO
ASSESSED VALUE AND GROSS DIRECT DEBT
PER CAPITA
FISCAL YEARS 1993 TO 1997**

Fiscal Year	Population (1)	Assessed Value (2)	Gross Direct Debt (3)	Ratio of Gross Direct Debt to Assessed Value	Gross Direct Debt Per Capita
1993	97,526	\$7,052,575,239	\$58,194,035	0.8%	\$597
1994	99,890	6,789,993,612	61,760,128	0.9	618
1995	99,890	6,754,946,242	77,407,264	1.1	775
1996	99,890	7,010,030,307	78,067,165	1.1	782
1997	99,890	7,242,124,437	78,139,995 (4)	1.1	782

(1) Population estimates are from U.S. Department of Commerce, Bureau of Census, Current Population Reports, "Local Population Estimates."

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

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

(4) Includes current issue.

Source: City Department of Finance.

CITY OF CAMBRIDGE
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT
TO TOTAL EXPENDITURES
FISCAL YEARS 1993 TO 1997

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service to Total Expenditures
1993	\$11,215,000	\$3,767,050	\$14,982,050	\$286,767,271	5.2%
1994	10,761,082	3,156,654	13,917,736	293,311,417	4.7
1995	11,028,198	3,775,533	14,803,731	300,864,245	4.9
1996	13,130,099	3,920,558	17,050,657	229,060,939 (2)	7.4
1997	14,450,828	3,992,008	18,442,836	223,591,350 (3)	8.2

- (1) Includes all categories of the City's general governmental expenditures.
(2) The significant decrease in total expenditures from the previous fiscal year is attributable to the separation of the Cambridge Public Health Commission from the City to an independent authority.
(3) Based on original budgeted figures.

PUBLIC INVESTMENT PROGRAM

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

Since fiscal year 1985 the City has formally funded a portion of its Public Investment Program on a "pay-as-we-go" basis out of current general fund revenues. This financing source has been increased from \$3,810,000 in fiscal year 1997 to \$6,480,000 in fiscal year 1998 in recognition of the City's improved "free cash" position. The five year plan calls for a total of \$23,480,000 in general fund revenues or free cash to be allocated to the Public Investment Fund. A substantial portion of this allotment has been set aside for the Affordable Housing Trust Fund.

The present plan, which was approved by the City Council on May 12, 1997, is a program of capital spending for the five-year period beginning July 1, 1997 and ending June 30, 2002. The projects in the plan, however, are considered for planning purposes and may be deleted, altered, or rescheduled in any manner, at any time, by the City Council. The estimated cost of the five-year program is \$128,107,100. The uses by project categories and major funding sources for the total program as noted in the Public Investment Program are projected as follows:

PUBLIC INVESTMENT PROGRAM
SUMMARY OF EXPENDITURES BY CATEGORY
FISCAL YEARS 1998 TO 2002

Expenditure Category	1998	1999	2000	2001	2002	Total
General						
Government ...	\$ 1,520,000	\$ 355,000	\$ 0	\$ 0	\$ 0	\$ 1,875,000
Public Safety	440,000	8,250,000	22,250,000	2,250,000	250,000	33,440,000
Community						
Maintenance & Development...	12,794,330	11,779,330	9,779,330	11,779,330	9,779,330	55,911,650
Human Resource						
Development	385,090	9,620,090	10,875,090	13,175,090	1,675,090	35,730,450
Education	150,000	250,000	250,000	250,000	250,000	1,150,000
Total	<u>\$15,289,420</u>	<u>\$30,254,420</u>	<u>\$43,154,420</u>	<u>\$27,454,420</u>	<u>\$11,954,420</u>	<u>\$128,107,100</u>

Source: "Public Investment Plan, Fiscal Year 1998 to Fiscal Year 2002."
Annual Budget Fiscal Year 1998, as adopted.

**PUBLIC INVESTMENT PROGRAM
USES AND SOURCES OF FUNDS
FISCAL YEARS 1998 TO 2002**

Uses	Total Amount	Percent of Total
General Government	\$ 1,875,000	1.46%
Public Safety.....	33,440,000	26.07
Community Maintenance and Development		
Housing Development	21,834,150	17.04
Economic Development.....	2,762,5000	2.16
Streets & Highways & Transportation ..	16,230,000	12.67
Water & Sewer	12,605,000	9.84
Other.....	2,480,000	1.94
Human Resource Development.....	35,730,450	17.41
Education	1,150,000	0.97
Total	<u>\$128,107,100</u>	<u>100.00%</u>

Sources	Total Amount	Percent of Total
Free Cash	\$ 7,230,000	5.64%
Property Taxes	16,250,000	12.68
Block Grant.....	10,230,175	7.99
Parking Fund.....	2,480,000	1.94
Utility Fees	9,855,000	7.69
Bond Proceeds.....	70,520,000	55.05
Chapter 90 Grant	10,000,000	7.81
Program Income.....	1,341,925	1.04
Golf Course	200,000	0.16
Total	<u>\$128,107,100</u>	<u>100.00%</u>

Source: "Public Investment Plan, Fiscal Year 1998 to Fiscal Year 2002."
Annual Budget Fiscal Year 1998, as adopted.

**PUBLIC INVESTMENT PROGRAM
SOURCES OF FINANCING
FISCAL YEARS 1998 TO 2002**

Financing Category	1998	1999	2000	2001	2002	Total
General Government:						
Property Taxes	— \$	355,000	—	—	—	\$ 355,000
Bond Proceeds	1,520,000	—	—	—	—	1,520,000
Subtotal	\$ 1,520,000	\$ 355,000	0	0	0	\$ 1,875,000
Public Safety:						
Property Taxes	\$ 440,000	250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 1,440,000
Bond Proceeds	—	8,000,000	22,000,000	2,000,000	—	32,000,000
Subtotal	\$ 440,000	\$ 8,250,000	\$22,250,000	\$ 2,250,000	\$ 250,000	\$ 33,440,000
Community Maintenance & Development:						
Property Taxes	\$ 2,810,000	\$ 2,645,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 14,455,000
Free Cash	2,830,000	565,000	210,000	210,000	210,000	4,025,000
Parking Fund	480,000	500,000	500,000	500,000	500,000	2,480,000
Water User Charges	600,000	600,000	600,000	600,000	600,000	3,000,000
Sewer Use Charges	1,855,000	1,250,000	1,250,000	1,250,000	1,250,000	6,855,000
Block Grant	1,950,945	1,950,945	1,950,945	1,950,945	1,950,945	9,754,725
Program Income	268,385	268,385	268,385	268,385	268,385	1,341,925
Chapter 90 Grant	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	10,000,000
Bond Proceeds	—	2,000,000	—	2,000,000	—	4,000,000
Subtotal	\$12,794,330	\$11,779,330	\$ 9,779,330	\$11,779,330	\$ 9,779,330	\$ 55,911,650
Human Resource Development:						
Free Cash	\$ 250,000	\$ 185,000	\$ 540,000	\$ 540,000	\$ 540,000	\$ 2,055,000
Block Grant	95,090	95,090	95,090	95,090	95,090	475,450
Bond Proceeds	—	9,300,000	10,200,000	12,500,000	1,000,000	33,000,000
Golf Course Fees	40,000	40,000	40,000	40,000	40,000	200,000
Subtotal	\$ 385,090	\$ 9,620,090	\$10,875,090	\$13,175,090	\$ 1,675,090	\$ 35,730,450
Education:						
Free Cash	\$ 150,000	250,000	250,000	250,000	250,000	\$ 1,150,000
Subtotal	\$ 150,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 1,150,000
Grand Total	\$15,289,420	\$30,254,420	\$43,154,420	\$27,454,420	\$11,954,420	\$128,107,100

Source: "Public Investment Plan, Fiscal Year 1998 to Fiscal Year 2002."
Annual Budget Fiscal Year 1998, as adopted.

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PART V: CITY FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND REPORTING STRUCTURE

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

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met.

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

Reporting Entity

The combined financial statements present information on organizations and activities of the City of Cambridge for which the City Council has oversight responsibility. These entities include the City's Water Department and the Cambridge Retirement System. The financial statements for the Retirement System are presented for the year ending December 31, 1995, which is the system's fiscal period for reporting to the Commissioner of the Retirement of the Commonwealth of Massachusetts. The operations of the Cambridge Housing Authority and the Cambridge Redevelopment Authority are not defined as part of the reporting entities as they are not subject to the financial controls of the City Manager or the City Council.

Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

Account Group

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

BUDGET AND APPROPRIATION PROCESS

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

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

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

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

City Department heads are generally required to submit their budget requests to the City Manager between November 1 and December 1. This schedule does not apply to the School Department, which must submit its request in time for the City Manager to include it in his submission to the Council.

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

Budget Comparison

The following table shows a comparison of the budgeted operating revenues and expenditures of the City for fiscal years 1994 through 1998. Health insurance, retirement and certain other employee benefit costs are included in departmental budgets. Debt service on school projects is included in the School's budget. Debt service on Cambridge Hospital and Neville Manor projects is included in the Hospital, Health, and Infirmary budget for fiscal years 1994 through 1997 and in the Debt Service budget for fiscal year 1998. Debt service on water projects is included in the Debt Service budget for fiscal year 1994 and in the Water budget for fiscal years 1995 through 1998.

The significant decrease in the total budget from fiscal year 1997 to 1998 is the result of the separation of the Cambridge Hospital, Neville Manor, and Health Department from the City and the establishment of the new entity, the Cambridge Public Health Commission (CPHC), as an independent authority on July 1, 1996. The fiscal year 1997 budget includes an appropriation for the CPHC because of the uncertainty of the CPHC's status at the time of the adoption of the budget.

The fiscal year 1998 budget of \$258,950,600 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 1998 tax rate. This figure includes an estimate of overlay deficits from the prior year as well as the overlay reserve for the current fiscal year. The fiscal year 1998 operating budget represents an increase of \$10,073,185, or 4.0%, over the fiscal year 1997 budget, adjusted for the separation of the CPHC, of \$248,877,415. The increase comprises salary adjustments for employees which are spread over most City departments, additional School expenditures of \$3,252,535, a \$1,614,670 increase in Debt Service which primarily reflects a different method of accounting for the loans from the Massachusetts Water Pollution Abatement Trust, and increases in certain priority areas as identified in a joint goal-setting meeting between the City Manager and City Council.

The largest source of funding, property taxes, increased from \$148.2 million to \$156.7 million. However, this is significantly below the projected levy limit of \$165.6 million. It should be noted that, in addition to the figures shown on the following page, \$15.6 million has been appropriated to the fiscal year 1998 Public Investment Fund for a wide range of capital improvement projects.

CITY OF CAMBRIDGE
BUDGETED REVENUES AND EXPENDITURES
FISCAL YEARS 1994 THROUGH 1998
(\$ in 000s)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998 (5)</u>
Revenues:					
Real & Personal Property Taxes(1)	\$139,414.0	\$144,445.7	\$144,441.8	\$148,210.4	\$156,730.8
Local Estimated Receipts:					
Motor Vehicle Excise	2,451.0	2,504.6	2,905.0	2,905.0	3,025.0
Water	7,526.6	8,005.9	9,080.9	9,395.2	8,982.4
Sewer	16,016.1	15,338.2	16,399.1	16,321.0	16,131.7
Hospital, Health & Infirmiry	64,306.3	70,083.1	80,381.6	80,771.7	0
Interest Income	875.0	825.0	1,100.0	1,100.0	1,638.7
Other Local Receipts	18,982.9	17,972.7	16,607.0	15,560.0	26,454.3
Subtotal	110,157.9	114,729.5	126,473.6	126,052.9	56,232.1
State Aid	34,349.2	35,804.2	35,824.1	35,763.3	36,030.2
Other Available Funds	16,465.5	14,742.6	20,361.1	19,579.3	9,957.6
Total Revenues	<u>\$300,386.6</u>	<u>\$309,722.0</u>	<u>\$327,100.6</u>	<u>\$329,605.9</u>	<u>\$258,950.7</u>
Expenditures:					
Deficits to be Raised:					
Overlay	\$ 3,878.9	\$ 1,452.8	\$ 840.4	\$ 500.0	\$ 1,500.0
Revenue	0	0	0	0	0
Overdrawn Expenditures	0	0	0	0	0
Other	840.0	877.4	865.6	870.0	847.3
Subtotal Deficits	4,718.9	2,330.2	1,706.0	1,370.0	2,347.3
Overlay Reserve	4,250.0	4,250.0	4,250.4	4,250.0	4,250.0
Fixed Expenses:					
State & County Assessments	758.1	1,037.9	1,080.3	1,107.3	1,019.1
Mass. Water Resources Authority	14,465.7	13,124.9	14,070.0	13,550.3	13,552.1
Debt Service(2)	8,556.8	6,387.5	6,461.5	7,190.9	10,557.1
Retirement System(3)	7,348.8	6,319.2	6,543.8	6,103.7	5,836.2
MBTA	6,098.2	6,267.9	6,457.3	6,618.7	6,776.5
Cambridge Public Health Commission	0	0	0	0	8,598.0
Other Fixed Costs(4)	942.9	1,142.9	1,192.9	1,488.0	1,488.0
Subtotal Fixed	<u>\$ 38,170.5</u>	<u>\$ 34,280.3</u>	<u>\$ 35,805.8</u>	<u>\$ 36,058.9</u>	<u>\$ 47,827.0</u>
Variable Expense (Budget):					
Schools	78,541.8	82,484.3	85,405.0	86,942.4	90,194.9
Police	20,009.3	22,312.5	22,701.4	22,752.2	23,278.6
Fire	20,190.3	20,788.1	20,857.2	21,754.9	22,068.4
Public Works:					
Water	4,756.8	7,640.8	8,430.8	9,029.8	8,982.4
Sewer	990.8	1,004.5	1,024.0	1,002.1	1,060.6
Highway	2,122.8	2,296.2	2,206.3	2,309.3	2,158.7
Other	12,225.6	12,451.1	12,442.6	12,608.5	13,704.4
Hospital, Health & Infirmiry	77,503.3	83,261.2	91,364.8	91,364.8	0
General Government	10,350.2	11,461.7	11,948.0	12,190.7	13,464.1
Other Variable	26,556.3	25,161.1	30,664.3	27,972.3	29,614.3
Subtotal Variable	<u>\$253,247.2</u>	<u>\$268,861.5</u>	<u>\$287,044.4</u>	<u>\$287,927.0</u>	<u>\$204,588.4</u>
Total Expenditures	<u>\$300,386.6</u>	<u>\$309,722.0</u>	<u>\$327,100.6</u>	<u>\$329,605.9</u>	<u>\$258,950.7</u>

(1) Before tax abatements.

(2) School, Hospital and Water costs for this category are included in the School, Hospital, and Water Budgets for 1995. In previous years, debt service on Water projects was included in this category.

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

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

(5) As of June 30, 1996, the Department of Health and Hospitals was transferred to an independent authority, the Cambridge Public Health Commission. Beginning in fiscal year 1998, this department will no longer be included in the City's budget.

Source: City Department of Finance.

PROPERTY TAXATION

Tax Rate and Valuation-General

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

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

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value." The last date that the Commissioner of Revenue made his redetermination of "equalized value" for the City of Cambridge was January 1, 1996.

The following tables show assessed and equalized valuations for the past five fiscal years and total assessed valuation by property classification for the fiscal years 1995, 1996, and 1997 and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses).

**CITY OF CAMBRIDGE
ASSESSED AND EQUALIZED VALUATIONS
FISCAL YEARS 1993 TO 1997**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
1997	\$7,006,073,437	\$236,051,000	\$7,242,124,437	\$7,593,801,600	95.4%
1996	6,782,990,307	227,040,000	7,010,030,307	7,508,093,800	90.3
1995	6,533,446,242	221,500,000	6,754,946,242	7,508,093,800	90.0
1994	6,576,193,610	213,800,000	6,789,993,612	7,984,791,000	85.0
1993	6,851,975,239	200,600,000	7,052,575,239	7,984,791,000	83.3

(1) As of January 1, 1996, 1995, 1994, 1993, and 1992, respectively.

(2) As of January 1, 1996, 1994, and 1992, respectively. Equalized valuations are determined biennially by the Commissioner of Revenue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
TOTAL ASSESSED VALUATION BY CLASSIFICATION
FISCAL YEARS 1995, 1996, AND 1997**

Class	1995 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$4,043,247,860	59.86%	34.56%
Commercial	2,059,386,655	30.49	49.70
Industrial	430,811,727	6.38	10.40
Personal Property	221,500,000	3.27	5.34
	<u>\$6,754,946,242</u>	<u>100.0%</u>	<u>100.0%</u>

Class	1996 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$4,301,221,539	61.36%	34.56%
Commercial	2,033,717,005	29.01	49.13
Industrial	448,051,763	6.39	10.82
Personal Property	227,040,000	3.24	5.49
	<u>\$7,010,030,307</u>	<u>100.0%</u>	<u>100.0%</u>

Class	1997 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$4,543,164,544	62.73%	34.78%
Commercial	2,021,952,595	27.92	48.86
Industrial	440,956,298	6.09	10.66
Personal Property	236,051,000	3.26	5.70
	<u>\$7,242,124,437</u>	<u>100.0%</u>	<u>100.0%</u>

Source: City Department of Finance.

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

**CITY OF CAMBRIDGE
PROPERTY TAX RATE
FISCAL YEARS 1993 to 1997**

Fiscal Year	Actual Tax Rate	Category	Estimated Full Value Tax Rate(1)	Average Rate(2)
1997	\$13.02 35.78	Residential Commercial/ Industrial	\$19.50	\$20.45
1996	13.32 34.89	Residential Commercial/ Industrial	19.24	20.61
1995	14.17 34.86	Residential Commercial/ Industrial	19.24	21.38
1994	13.79 32.78	Residential Commercial/ Industrial	17.46	20.53
1993	13.3 28.40	Residential Commercial/ Industrial	16.73	18.94

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

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

Source: City Department of Finance.

The following table sets forth the City's 10 largest taxpayers of real estate and personal property taxes and the assessed value of property owned by each such taxpayer. The aggregate assessed value of the 10 largest taxpayers represents 14.6 percent of the City's total assessable base for fiscal year 1997.

**CITY OF CAMBRIDGE
10 LARGEST TAXPAYERS
Fiscal Year 1997 (1)**

<u>Owner</u>	<u>Nature of Business</u>	<u>Assessed Valuation</u>	<u>Amount of Taxes</u>	<u>% of Total Tax Levy</u>
Commonwealth Energy	Utility	\$ 190,186,700	\$ 6,800,260	4.6%
Boston Properties	Commercial	165,499,400	5,903,205	4.0
M.I.T.	Educational	140,103,217	4,478,978(2)	3.0
Robert Jones and K. George Najarian	Commercial	95,976,600	3,366,257	2.3
CambridgeSide Galleria New England Development	Commercial	93,726,000	3,318,466	2.2
Asahi Seimei Prudential Associates ...	Commercial	92,427,400	3,307,052	2.2
Presidents and Fellows of Harvard College	Educational	109,639,721	2,470,130(2)	1.7
Spaulding & Slye Corp.	Commercial	59,203,600	2,118,305	1.4
E.M.I. Cambridge Limited Partnership	Commercial	56,757,500	2,030,783	1.4
The Congress Group	Commercial	57,419,800	1,849,290	1.3
Totals		<u>\$1,060,939,938</u>	<u>\$35,642,726</u>	<u>24.1%</u>

(1) As of January 1, 1996.

(2) Excludes in lieu payments on exempt property.

Source: City Department of Finance.

TAX LEVIES

Levy-General

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

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

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

Taxation to Meet Deficits

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

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

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

Tax Limitations

Chapter 580 of the Acts of 1980, which was proposed by an initiative petition known as “Proposition 2½”, was adopted at the November 4, 1980 general election and took effect on December 4, 1980. The law is subject to amendment or repeal by the State Legislature. The Legislation, as subsequently amended, imposes two separate limits on the annual tax levy of a city or town.

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

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent (subject to exceptions for property added to the tax rolls, or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year’s valuation). This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters. But an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitations, since the two limitations apply independently.

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

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

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

In addition, the statute limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the Massachusetts Water Resources Authority and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year’s assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option.” Under the statute any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax

exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Initiative Petitions

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

Tax Limitations: Effect on the City

Property Tax Levy

Cambridge, like most municipalities in Massachusetts, was severely impacted by the initial implementation of Proposition 2 1/2 in fiscal year 1981. Due to the extensive amount of tax-exempt properties located in the City and the City's dependence on property taxes as a funding source, Cambridge was initially forced to reduce its tax levy in order to comply with the new tax limitation. As the Northeast began to participate in the economic boom of the 1980's, the City also experienced unprecedented levels of new construction activity. This new qualified construction growth translated into record increases in the assessed valuation of real and personal property, allowing the City's secondary levy limit to increase by over 57 percent between fiscal years 1984-1990, while actual tax levy and total City expenditure growth over the same period was significantly less. In 1991, new construction activity declined by almost sixty percent as the most recent economic recession hit the Northeast. The loss of new growth caused the City's levy limit growth to decline, forcing a significant reduction in the gap between the levy limit and the City's actual tax levy. In fiscal year 1995, the margin between the actual tax levy and the levy limit was \$489,000, the lowest point in many years. However, by stabilizing the tax levy at \$144.4 million in fiscal year 1996, the City was able to increase the gap between the actual levy and the levy limit to \$6.2 million by taking advantage of moderate growth in the tax base as well as new growth of \$74.3 million. Although the tax levy increased to \$148.1 million in fiscal year 1997, the levy limit rose to \$158.8 million, thus widening the gap to \$10.7 million. Projections indicate that this gap will narrow only slightly over the next few years.

Motor Vehicle Excise Tax

Other revenue sources available to the City have also been significantly impacted due to the passage of Proposition 2 1/2. The motor vehicle excise tax rate was reduced from \$66 per \$1000 to \$25 per \$1000 in 1980, causing a substantial reduction in receipts. Although revenues from this source move with economic swings, the City has been able to record modest increases in most years over the past decade due to an "in-house" billing and tracking system. Projections for fiscal year 1997 indicate that \$3.5 million will be received from this source.

State Aid

In order to partially offset the reduction in local tax revenues caused by Proposition 2 1/2, the Massachusetts Legislature appropriated increasing amounts of local aid throughout the 1980's. However, after reaching a peak of \$44,426,564 in fiscal year 1988, state aid declined to \$32,135,332 in fiscal year 1992. In the ensuing years, this trend has been reversed and aid to the City from the Commonwealth has moved steadily upward to its fiscal year 1997 level of \$37,302,094. Although the City has not received its fiscal year 1998 State aid figures as of the date of this official statement, it is expected that State aid to the City will be equal to or greater than the fiscal year 1997 level.

Tax Limitations: Five-Year Projections

Fiscal year 1997 valuations, as a result of the City's policy of "trending" real estate values in years in which a complete revaluation is not performed, were certified at \$7.24 billion, an increase of \$232 million, or 3.3%, over fiscal year 1996 valuations. The value of existing properties decreased by \$19 million while new growth contributed an additional \$74 million to the tax base. As can be seen from the chart on the following page, it is anticipated that total assessed values will increase by an average of 3.6% over the next five fiscal years due to moderate increases in the value of existing properties and new construction. The chart on the following page illustrates the impact the anticipated increase in property values will have on the City's levy and levy limits through fiscal year 2001.

**CITY OF CAMBRIDGE
PROJECTED GROWTH IN PROPERTY VALUATION
FISCAL YEARS 1997 TO 2001**

Fiscal Year	Projected Assessments(1)	Projected Levy(1)	Primary Levy Limit(2)	Secondary Levy Limit(3)
1997	\$7,242,124,437	\$148,070,000	\$181,053,111	\$158,823,735
1998	7,575,892,284	156,730,801	189,397,307	165,642,591
1999	7,927,322,239	163,386,212	198,183,056	172,974,252
2000	8,087,610,802	170,581,250	202,190,270	179,616,224
2001	8,357,850,627	176,056,318	208,946,266	186,406,448

- (1) The figures shown for fiscal year 1997 are actuals; the figures for fiscal years 1998 through 2001 are estimates.
- (2) The primary levy limit is calculated at 2.5 percent of the projected assessment.
- (3) The secondary levy limit is the previous fiscal year's maximum allowable limit times 102.5 percent plus qualified new construction.

Source: City Department of Finance.

The Revaluation Process: A Review and Update

Massachusetts state law requires that real and personal property assessments be maintained at 100 percent of full market value. Every three years, values must be certified by the Massachusetts Department of Revenue as meeting this standard. In the intervening years, values are updated based on sales ratio analysis. In 1983, the first complete revaluation of real and personal property in over sixty years was completed and certified at \$2.9 billion for fiscal year 1984. The most recent certified full revaluation was completed for fiscal year 1996 and yielded a total valuation of \$7.010 billion. Sales ratio analysis produced a valuation of \$7.242 billion in fiscal year 1997.

The City has several general policies with respect to property assessments. First, values should be maintained at approximately 100 percent. Thus, Cambridge is among very few jurisdictions in the state which adjust values annually and thereby avoid the disrupting shifts in value (and taxes) which might otherwise occur every third year, when values must be certified by the state.

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

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

The following table shows the calculation of the tax levies for fiscal years 1993 to 1997.

CITY OF CAMBRIDGE
CALCULATION OF PROPERTY TAX LEVIES
FISCAL YEARS 1993 TO 1997
(\$ in 000s)

	1993	1994	1995	1996	1997
Gross Amount to be Raised:					
Total Appropriations.....	\$305,999	\$331,459	\$328,319	\$362,714	\$236,017
Overlay Deficits from Prior Years.....	1,983	3,879	1,453	840	352
Other Local Expenditures.....	1,615	840	877	866	1,959
State and County Assessments.....	6,732	6,912	7,308	7,538	7,621
Overlay for Current Year.....	3,500	4,250	4,250	4,250	4,250
Total to be Raised	<u>\$319,829</u>	<u>\$347,340</u>	<u>\$342,207</u>	<u>\$376,208</u>	<u>\$230,199</u>
Offsets:					
Estimated Receipts from State	32,661	34,337	35,795	35,824	37,302
Prior Year's Overestimates					
of State & County Assessments	31	12	9	0	36
Local Estimated Receipts	121,762	122,421	126,330	138,604	68,932
Other Available Funds	31,795	51,156	35,627	57,338	25,859
Total Offsets.....	<u>\$186,249</u>	<u>\$207,926</u>	<u>\$197,761</u>	<u>\$231,766</u>	<u>\$132,129</u>
Tax Levy.....	<u>\$133,580</u>	<u>\$139,414</u>	<u>\$144,446</u>	<u>\$144,442</u>	<u>\$148,070</u>

Source: City Department of Finance.

TAX COLLECTIONS AND ABATEMENTS

Payment Dates

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

Lien

Real property (land and buildings) is subject to a lien for the taxes assessed upon it, (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the third October 1, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien when it could not be enforced because of a legal impediment.

Personal Liability

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

Abatements and Overlay

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

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

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

CITY OF CAMBRIDGE TOTAL TAX LEVY, OVERLAY RESERVE, AND TAX COLLECTIONS FISCAL YEARS 1992 TO 1996

Fiscal Year	Tax Levy	Overlay Reserve for Abatements	Net Tax Levy(1)	Collections During Fiscal Year Payable (2)		Collections as of 6/30/96 (3)	
				Amount	% of Net Levy	Amount	% of Net Levy
1996	\$148,070,000	\$4,250,000	\$143,820,000	\$139,860,593	97.2%	\$139,860,593	97.2%
1995	144,445,748	4,250,000	140,195,748	139,545,078	99.5	139,119,159	99.2
1994	139,414,021	4,250,000	135,164,021	133,942,628	99.1	133,692,873	98.9
1993	133,580,000	3,500,000	130,080,000	123,754,263	95.1	124,423,316	95.7
1992	128,050,000	3,500,000	124,550,000	117,575,578	94.4	115,876,970	93.0

(1) Tax levy less overlay reserve for abatements.

(2) Actual collection of levy less refunds and amounts refundable including proceeds of tax titles and tax possessions but not including abatements or other credits.

(3) Audited for fiscal years 1992 through 1996.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
OVERLAY RESERVES AND ABATEMENTS
FISCAL YEARS 1992 TO 1996**

Fiscal Year	Overlay Reserve		Abatements	
	Amount	% of Total Levy	During Fiscal Year of Each Tax Levy	Since Fiscal Year Ended (through 6/30/96)
1996	\$4,250,000	2.9%	\$2,327,044	\$2,327,044
1995	4,250,000	2.9	1,415,733	3,097,846
1994	4,250,000	3.0	1,765,044	3,118,552
1993	3,500,000	2.6	2,742,849	4,470,614(1)
1992	3,500,000	2.7	2,604,220	6,034,912(1)

(1) The excess of abatements over overlay reserve has been funded from future fiscal year tax levies.

Source: City Department of Finance.

TAXES OUTSTANDING

Taking and Sale

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

Legislation enacted in 1996 authorizes public sales by cities and towns of delinquent property tax receivables, either individually or in bulk.

**OVERDUE PROPERTY TAXES
FISCAL YEARS 1992 TO 1996**

Fiscal Year	Aggregate(1)	For Current Year	Tax Title and Tax Possessions
1996	\$ 4,447,397	\$ 2,759,449	\$12,746,521
1995	5,179,797	3,566,375	13,567,271
1994	5,431,112	3,826,997	15,194,754
1993	9,013,046	7,532,963	14,058,577
1992	9,807,232	8,529,667	10,719,697

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

Source: City Department of Finance.

FEDERAL AND STATE AID

Federal

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

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

**CITY OF CAMBRIDGE
PRINCIPAL FEDERAL AID BY SOURCE
FISCAL YEARS 1992 TO 1996**

Fiscal Year	Community Development Block Grant	Other	Total From Federal Government
1996	\$2,967,120	\$ 7,167,785	\$10,134,905
1995	3,792,710	6,470,567	10,263,277
1994	2,962,120	4,287,530	7,249,650
1993	3,340,702	7,084,323	10,425,025
1992	2,873,703	14,155,273	17,028,976

Source: City Department of Finance.

State

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. None of the major local aid programs has a termination date under existing law and while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

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

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities may defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities choosing to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. The City did not choose to defer payment of teachers' summer compensation.

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

**CITY OF CAMBRIDGE
MAJOR STATE ASSISTANCE BY SOURCE
FISCAL YEARS 1992 TO 1996**

Fiscal Year	School Construction	School Operations	Other	Total From State
1996	\$2,558,516	\$4,040,547	\$28,865,687	\$35,464,750
1995	3,542,821	3,378,300	28,232,954	35,154,075
1994	2,613,488	2,574,464	28,116,341	33,304,293
1993	1,843,253	2,067,050	27,603,597	31,513,900
1992	2,413,200	2,082,640	27,780,233	32,276,073

Source: City Department of Finance. See also *Tax Limitations: Other Effects*, above.

MOTOR VEHICLE EXCISE TAX

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

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

Between fiscal year 1985 and fiscal year 1996, motor vehicle excise tax revenue increased from \$1.9 million to approximately \$3.5 million, an increase of approximately 84 percent. This increase has been due to several factors, including the economic recovery of the mid-1990's, increased automobile sales, and the City's implementation of an in-house tracking and collection system.

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

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

RECEIPTS FROM MOTOR VEHICLE EXCISE TAX FISCAL YEARS 1992 TO 1996

<u>Fiscal Year</u>	<u>Receipts(1)</u>
1996	\$3,494,905
1995	3,571,220
1994	2,923,460
1993	3,353,825
1992	2,526,449

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

Source: City Department of Finance.

ROOM OCCUPANCY EXCISE

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

RECEIPTS FROM ROOM OCCUPANCY EXCISE FISCAL YEARS 1992 to 1996

<u>Fiscal Year</u>	<u>Receipts</u>
1996	\$3,261,967
1995	3,179,026
1994	2,823,002
1993	2,694,058
1992	2,359,477

Source: City Department of Finance.

PUBLISHED FINANCIAL INFORMATION

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

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

The first table shows general fund balance sheets for fiscal years 1992 through 1996, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 1992 through 1996.

As can be seen from the tables on the following pages, the General Fund balance has steadily increased over the past three fiscal years with a corresponding increase in the undesignated portion of the fund equity.

CITY OF CAMBRIDGE
GENERAL FUND BALANCE SHEETS
FISCAL YEARS 1992 TO 1996(1)
(as of June 30)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
ASSETS					
Cash	\$32,213,743	\$25,180,624	\$33,567,749	\$44,855,049	\$40,436,647
Receivables(2)					
Taxes	9,807,232	9,013,045	5,431,112	5,179,797	4,447,397
Tax Title and Possessions	10,719,697	14,058,577	15,194,754	13,567,271	12,746,521
Motor Vehicle Excise	2,036,061	1,897,906	1,957,769	1,924,011	2,553,717
Departmental	2,142,873	2,657,224	2,037,159	1,773,182	1,957,497
Allowable for Uncollectible					
Receivables	(15,766,644)	—	—	—	—
Due From Other Funds	—	2,197,079	—	—	9,278,696
Other Assets	—	806,791	1,332,612	1,291,783	803,000
Total Assets	<u>\$41,152,962</u>	<u>\$55,811,246</u>	<u>\$59,521,155</u>	<u>\$68,591,093</u>	<u>\$72,223,475</u>
LIABILITIES AND FUND EQUITY					
Warrants Payable	\$ 1,476,576	\$ 1,113,898	\$ 1,418,328	\$ 1,272,138	\$ 1,042,235
Accrued Liabilities	—	—	—	—	—
Accrued Tax Abatement Refund	1,563,351	3,407,381	3,682,426	6,331,484	6,433,453
Other	15,051,707	10,805,606	10,437,307	11,052,629	13,845,763
Due to Other Funds	228,592	—	228,592	161,547	—
Deferred Revenue	6,658,474	27,039,190	20,275,631	15,715,603	14,694,983
Total Liabilities	<u>\$24,978,700</u>	<u>\$42,366,075</u>	<u>\$36,042,284</u>	<u>\$34,533,401</u>	<u>\$36,016,434</u>
Fund Equity:					
Fund Balances					
Reserved for Encumbrances ..	4,843,074	5,800,832	6,094,801	3,525,435	5,181,502
Reserved for Specific Purposes ..	396,272	48,657	1,750,000	4,170,000	4,945,862
Undesignated	10,943,916	7,595,682	15,634,070	26,362,257	26,079,677
Total Fund Equity	<u>16,174,262</u>	<u>13,445,171</u>	<u>23,478,871</u>	<u>34,057,692</u>	<u>36,207,041</u>
Total Liability & Fund Equity	<u>\$41,152,962</u>	<u>\$55,811,246</u>	<u>\$59,521,155</u>	<u>\$68,591,093</u>	<u>\$72,223,475</u>

(1) See Appendix A for complete financial report for 1996. Copies of the financial reports for 1995, 1994, 1993, and 1992 are available upon request.

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

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1992, 1993, 1994, 1995, and 1996.

CITY OF CAMBRIDGE
GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL FOR FISCAL YEARS 1992 TO 1996 (1)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Revenues:					
Property Taxes	\$118,108,622	\$121,079,220	\$141,787,234	\$143,418,805	\$141,530,307
In Lieu of Tax Receipts	2,643,079	2,588,670	2,870,519	3,073,983	3,334,571
Hotel/Motel Tax	2,359,477	2,694,058	2,823,002	3,179,026	3,261,967
Intergovernmental Revenue	32,276,073	31,513,900	33,304,293	35,154,074	35,464,750
Sewer Use	12,442,709	17,833,123	16,048,846	16,591,548	17,691,787
Motor Vehicle Excise	2,526,449	3,353,825	2,923,460	3,803,920	3,494,905
Interest	1,548,691	738,873	773,149	1,769,975	2,112,448
Other	8,215,168	10,701,955	12,892,869	13,726,021	16,169,190
Total Revenues	<u><u>180,120,268</u></u>	<u><u>190,503,624</u></u>	<u><u>213,423,372</u></u>	<u><u>220,717,352</u></u>	<u><u>223,059,925</u></u>
Expenditures:					
General Government	16,460,298	18,454,613	18,524,599	18,218,594	17,841,754
Public Safety	47,273,054	48,410,734	52,202,270	53,814,494	55,362,097
Community Maintenance and Development	19,968,133	20,507,497	20,460,533	18,090,274	19,228,871
Health Department	970,846	1,019,412	1,390,902	1,413,148	—(2)
Human Resource Development	8,719,185	9,312,711	9,401,445	9,439,256	10,153,097
Education	71,550,633	73,243,290	77,667,803	81,368,055	85,836,373
Judgements and Claims	3,689,594	1,847,476	1,255,903	11,804	846,400
State Assessments	15,905,663	18,763,597	19,563,908	19,751,955	21,066,948
Operating Subsidy to Cambridge Hospital and Neville Manor	—	—	—	—	10,896,015
Debt Service:					
Principal	4,435,000	4,980,000	4,466,693	4,691,994	5,705,099
Interest	1,755,661	1,704,654	1,370,248	1,392,978	1,677,773
Total Expenditures	<u><u>190,728,067</u></u>	<u><u>198,243,984</u></u>	<u><u>206,304,304</u></u>	<u><u>208,192,552</u></u>	<u><u>228,614,427</u></u>
Transfers from Other Funds: (Net)...	<u>272,594</u>	<u>5,011,269</u>	<u>2,914,632</u>	<u>(1,945,979)</u>	<u>7,703,851</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(10,335,205)	(2,729,091)	10,033,700	10,578,821	2,149,349
Fund Equity at beginning of year	<u>26,509,467</u>	<u>16,174,262</u>	<u>13,445,171</u>	<u>23,478,871</u>	<u>34,057,692</u>
Fund Equity at end of year	<u><u>\$ 16,174,262</u></u>	<u><u>\$ 13,445,171</u></u>	<u><u>\$ 23,478,871</u></u>	<u><u>\$ 34,057,692</u></u>	<u><u>\$ 36,207,041</u></u>

(1) Does not include water and hospital revenues and expenditures.

(2) Included in hospital enterprise fund in 1996.

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1992, 1993, 1994, 1995, and 1996.

SURPLUS REVENUE AND FREE CASH

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

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

CITY OF CAMBRIDGE SURPLUS REVENUE AND CERTIFIED FREE CASH FISCAL YEARS 1992 TO 1996

July 1	Surplus Revenue or (Deficit)(1)(2)	Free Cash
1996	\$29,229,576	\$20,866,888
1995	27,597,685	19,457,004
1994	19,074,529	15,269,468
1993	13,716,416	9,992,031
1992	14,216,751	12,417,136

- (1) Surplus revenue is not reduced by revenue deficits from tax abatements in excess of overlay or revenue deficits resulting from non-property tax receipts being less than estimates, both of which are added to the next tax levy. It also does not include special funds, such as water.
- (2) The calculation of Free Cash by the Department of Revenue is based on financial statements prepared by the City's Finance Department in accordance with uniform Municipal Accounting System (UMAS) principles. This method differs in certain areas from Generally Accepted Accounting Principles (GAAP), which causes a difference between the figures shown here as Surplus Revenue or (Deficit), or Undesignated Fund Balance, and those shown on the KPMG Peat Marwick audited financial statements on page 54.

Source: City Department of Finance.

INVESTMENTS

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

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

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

RETIREMENT PLAN

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

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

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

The amount required to pay the pensions over and above employee contributions and investment income was traditionally provided on an essentially pay-as-you-go basis, but legislation enacted since 1981 has provided for changes in the funding of both state and local retirement systems.

Beginning in 1982 the Commonwealth assumed responsibility for cost-of-living adjustments for local retirement systems. In 1983 legislation was enacted establishing the Pension Reserves Investment Trust ("PRIT") Fund to receive and manage funds to offset future pension costs of state and local systems to the extent of their participation in the assets of the PRIT Fund. The law now provides that annual appropriations by the Commonwealth for unfunded pension liabilities will be deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of December 31, 1989. The law calls for annual State appropriations amounting to at least 1.3% of State payroll.

"Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate are set aside for future, not current, pension liabilities. (Under prior law, local systems had been allowed to use excess earnings to reduce their annual appropriations for benefits paid to retirees.) Each system not joining PRIT is required to establish a pension reserve fund to receive excess earnings. Cities and towns may voluntarily appropriate to the pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

Legislation enacted in 1987 provided for the funding of the Commonwealth's unfunded pension liability over a period not greater than 40 years. In addition, that legislation contains financial incentives for each local governmental unit to establish its own state-approved funding schedule to eliminate its unfunded actuarial liability by June 30, 2028. Annual state pension funding grants are to be provided for the first fifteen years of an approved funding schedule, beginning with the fiscal year ended June 30, 1990; the grants are to be funded from designated percentages of increases in state revenues. The funding provisions for local systems are subject to local acceptance.

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

The annual contributions of the City to the contributory and non-contributory retirement system for the current year and most recent years are set forth below:

**CITY OF CAMBRIDGE
CONTRIBUTIONS TO CITY PENSION FUNDS
FISCAL YEARS 1994 TO 1998**

Fiscal Year	Contributory (1)	Non-contributory	Total
1998	\$14,353,636(2)	\$1,725,380	\$16,079,016
1997	17,627,020	1,800,000	19,427,020
1996	17,253,140	1,733,985	18,987,125
1995	15,906,955	1,821,733	17,901,955
1994	13,860,307	1,937,442	15,797,749

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

(2) Does not include the portion allocated to the Cambridge Public Health Commission which was previously included in this figure.

Source: City Department of Finance.

An actuarial study conducted by an independent audit firm determined that the unfunded pension liability of the Cambridge Retirement System was \$107,647,773 as of January 1, 1996. The study has also provided cost options available to the City under Chapter 697 of the Acts of 1987. The City has used the results of this study to begin a long term actuarial funding of the system under Chapter 697. The City adopted Chapter 697 in December, 1989.

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

EMPLOYEE RELATIONS AND COLLECTIVE BARGAINING

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

The City has approximately 3,509 employees, of whom approximately 70.4 percent belong to unions or other collective bargaining groups.

CITY OF CAMBRIDGE CITY UNIONS AND COLLECTIVE BARGAINING GROUPS

<u>Groups</u>	<u>Department</u>	<u>Number of Employees Represented</u>	<u>Contract Expires</u>
International Public Employees Association	City-Wide	359	6/30/99
Teachers and Administrators (Mass. Teachers Assoc.)	School	869	8/31/99
Clerical	School	82	6/30/99
Custodians (Local 1611 AFL-CIO)	School	93	6/30/97
Food Service	School	51	6/30/97
Safety Specialist	School	16	6/30/97
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	171	8/31/97
Substitute Teachers	School	105	8/31/96
International Assoc. of Firefighters	Fire	268	6/30/97
Patrol Officers	Police	197	6/30/94
Superior Officers	Police	48	6/30/94
Traffic Supervisors	Police	52	6/30/97
Independent Water Workers Association	Water	42	6/30/00
Professional Librarians	Library	64	6/30/97
Code Inspectors (AFSCME) Services	Inspectional	6	6/30/97
Daycare Workers	Human Services	39	6/30/97
Public Works Administrators		9	6/30/99
		<u>2,471</u>	

Source: City Personnel Department.

/s/ _____
James P. Maloney, Jr.
City Treasurer

June , 1997

APPENDIX A

There follows in this appendix financial statements of the City of Cambridge, Massachusetts, for the fiscal year ended June 30, 1996 together with the Auditor's report thereon by KPMG Peat Marwick of Boston, Massachusetts. These have been reproduced with the permission of KPMG Peat Marwick. Any questions concerning information contained herein should be directed to Mr. Michael Maschio, KPMG Peat Marwick, 99 High Street, Boston, Massachusetts 02110, telephone (617) 988-1000.

**CITY OF CAMBRIDGE, MASSACHUSETTS
FINANCIAL STATEMENTS
For the Year Ended June 30, 1996**

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Independent Auditors' Report

The City Manager and Honorable Members of the City Council
City of Cambridge, Massachusetts:

We have audited the general purpose financial statements for the City of Cambridge, Massachusetts, as of and for the year ended June 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cambridge, Massachusetts, at June 30, 1996, and the results of its operations and cash flows of its proprietary and similar trust funds for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund, and individual account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Cambridge, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The required supplementary information on page 37 is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, to the supplementary information. However, we did not audit the information and express no opinion on it.

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GENERAL PURPOSE FINANCIAL STATEMENTS

These "general purpose financial statements" provide a broad financial overview for users requiring less detailed information than is presented in the individual statements for each separate fund and account group.

CITY OF CAMBRIDGE, MASSACHUSETTS
Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1996

<u>Assets and Other Debits</u>	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-term Obligations</u>	
Cash and investments (note 5)	\$ 40,436,647	14,117,042	-	2,829,753	714,889	279,248,089	-	-	337,346,420
Receivables:									
Property taxes	4,447,397	-	-	-	-	-	-	-	4,447,397
Tax titles and possessions	12,746,521	-	-	-	-	-	-	-	12,746,521
Motor vehicle excise	2,553,717	-	-	-	-	-	-	-	2,553,717
Accounts	1,957,497	50,823	-	2,578,068	-	285,515	-	-	4,871,903
Accounts receivable - developer	-	1,000,000	-	-	-	-	-	-	1,000,000
Allowance for uncollectible receivables	-	-	-	(262,966)	-	-	-	-	(262,966)
Due from other funds (note 8)	9,278,696	1,749	-	-	-	-	-	-	9,280,445
Due from other governments	-	2,300,189	1,616,946	-	-	1,627,559	-	-	5,544,694
Fixed assets (net, where applicable, of accumulated depreciation) (note 6)	-	-	-	65,014,694	2,838	-	324,330,085	-	389,347,617
Other assets	803,000	-	-	-	-	7,655,726	-	-	8,458,726
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	-	-	<u>68,745,278</u>	<u>68,745,278</u>
Total assets and other debits	\$ <u>72,223,475</u>	<u>17,469,803</u>	<u>1,616,946</u>	<u>70,159,549</u>	<u>717,727</u>	<u>288,816,889</u>	<u>324,330,085</u>	<u>68,745,278</u>	<u>844,079,752</u>

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Balance Sheet - All Fund Types and Account Groups (Continued)

June 30, 1996

<u>Liabilities, Fund Equity and Other Credits</u>	<u>Governmental Fund Types</u>			<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-term Obligations</u>	
Liabilities:									
Warrants payable	\$ 1,042,235	10,106,921	-	-	-	-	-	-	11,149,156
Accrued liabilities:									
Tax abatement refunds	6,433,453	-	-	-	-	-	-	-	6,433,453
Guarantee deposits and amounts due to other taxing authorities	-	-	-	-	-	1,489,105	-	-	1,489,105
Compensated absences (note 7)	-	-	-	178,646	-	-	-	8,942,982	9,121,628
Claims (notes 7 and 14)	-	-	-	-	-	-	-	2,734,131	2,734,131
Other	13,845,763	453,552	1,435,726	229,441	-	467,745	-	-	16,432,227
Due to other funds (note 8)	-	1,193,731	7,205,959	880,755	-	-	-	-	9,280,445
Deferred compensation (note 12)	-	-	-	-	-	25,161,990	-	-	25,161,990
Deferred revenue	14,694,983	354,679	-	-	-	-	-	-	15,049,662
General obligation bonds and notes payable (note 7)	-	-	-	9,709,000	-	-	-	57,068,165	66,777,165
Total liabilities	<u>36,016,434</u>	<u>12,108,883</u>	<u>8,641,685</u>	<u>10,997,842</u>	<u>-</u>	<u>27,118,840</u>	<u>-</u>	<u>68,745,278</u>	<u>163,628,962</u>
Fund equity (deficit) and other credits:									
Investments in general fixed assets	-	-	-	-	-	-	324,330,085	-	324,330,085
Retained earnings	-	-	-	59,161,707	717,727	-	-	-	59,879,434
Fund balance (deficit):									
Reserved for encumbrances	5,181,502	3,379,713	27,515,094	-	-	-	-	-	36,076,309
Reserved for specific purposes (note 8)	4,945,862	3,373,214	-	-	-	261,698,049	-	-	270,017,125
Unreserved	<u>26,079,677</u>	<u>(1,392,007)</u>	<u>(34,539,833)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,852,163)</u>
Total fund equity, (deficit) and other credits	<u>36,207,041</u>	<u>5,360,920</u>	<u>(7,024,739)</u>	<u>59,161,707</u>	<u>717,727</u>	<u>261,698,049</u>	<u>324,330,085</u>	<u>-</u>	<u>680,450,790</u>
Commitments and contingencies (note 14)									
Total liabilities, fund equity (deficit) and other credits	\$ <u>72,223,475</u>	<u>17,469,803</u>	<u>1,616,946</u>	<u>70,159,549</u>	<u>717,727</u>	<u>288,816,889</u>	<u>324,330,085</u>	<u>68,745,278</u>	<u>844,079,752</u>

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Statement of Revenues, Expenditures and Changes in Fund Equity All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 1996

	Governmental Fund Types			Fiduciary Fund Type	Totals
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:					
Property taxes	\$ 141,530,307	-	-	-	141,530,307
Payments in lieu of tax receipts	3,334,571	-	-	-	3,334,571
Hotel/motel excise tax	3,261,967	-	-	-	3,261,967
Intergovernmental	35,464,750	14,714,938	3,333,223	-	53,512,911
Sewer use	17,691,787	-	-	-	17,691,787
Motor vehicle excise	3,494,905	-	-	-	3,494,905
Investment income	2,112,448	1,403,977	907,956	1,174,894	5,599,275
Other	<u>16,169,190</u>	<u>11,079,780</u>	<u>-</u>	<u>2,486,402</u>	<u>29,735,372</u>
Total revenues	<u>223,059,925</u>	<u>27,198,695</u>	<u>4,241,179</u>	<u>3,661,296</u>	<u>258,161,095</u>
Expenditures:					
Current:					
General government	17,841,754	-	-	-	17,841,754
Public safety	55,362,097	-	-	-	55,362,097
Community maintenance and development	19,228,871	5,368,758	-	-	24,597,629
Human resource development	10,153,097	-	-	-	10,153,097
Education	85,836,373	7,687,344	-	-	93,523,717
Fuel assistance	-	837,360	-	-	837,360
Judgments and claims	846,400	-	-	-	846,400
State assessments	21,066,948	-	-	-	21,066,948
Other	-	-	-	645,691	645,691
Operating subsidy to Cambridge Hospital and Neville Manor	10,896,015	1,686,897	-	670,815	13,253,727
Capital outlay	-	-	22,943,640	-	22,943,640
Debt service:					
Principal retirement (note 7)	5,705,099	-	-	-	5,705,099
Interest	<u>1,677,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,677,773</u>
Total expenditures	<u>228,614,427</u>	<u>15,580,359</u>	<u>22,943,640</u>	<u>1,316,505</u>	<u>268,454,932</u>
Excess (deficiency) of revenues over expenditures	<u>(5,554,502)</u>	<u>11,618,336</u>	<u>(18,702,461)</u>	<u>2,344,790</u>	<u>(10,293,837)</u>
Other financing sources (uses):					
Operating transfers from other funds (note 13)	16,306,040	166,532	9,434,397	4,081,162	29,988,131
Operating transfers to other funds (note 13)	(8,602,189)	(14,574,872)	(2,060,000)	(4,287,307)	(29,524,368)
Proceeds from debt (note 7)	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Total other financing sources (uses)	<u>7,703,851</u>	<u>(12,908,340)</u>	<u>7,374,397</u>	<u>(206,145)</u>	<u>1,963,763</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	2,149,349	(1,290,004)	(11,328,064)	2,138,645	(8,330,074)
Fund equity at beginning of year	<u>34,057,692</u>	<u>6,650,924</u>	<u>4,303,325</u>	<u>20,660,813</u>	<u>65,672,754</u>
Fund equity at end of year	\$ <u>36,207,041</u>	<u>5,360,920</u>	<u>(7,024,739)</u>	<u>22,799,458</u>	<u>57,342,680</u>

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues and Expenditures - Budgetary Basis
General Fund - Budget and Actual
Year ended June 30, 1996

	1996 Budget (note 4)	1996 Actual	Variance Favorable (Unfavorable)	1995 Actual
Revenues:				
Property taxes	\$ 144,441,845	144,441,845	-	144,445,748
Provisions for tax abatements and adjustments	(4,250,381)	(4,250,381)	-	(4,250,000)
Payments in lieu of tax receipts	3,198,000	3,334,571	136,571	2,907,983
Hotel/motel excise tax	2,686,000	3,261,967	575,967	3,179,026
Intergovernmental	35,402,517	35,464,750	62,233	35,154,075
Sewer use	17,437,145	17,691,787	254,642	16,591,548
Motor vehicle excise	2,905,000	3,494,905	589,905	3,571,220
Investment income	1,100,000	2,143,441	1,043,441	1,690,237
Other	<u>11,211,028</u>	<u>14,004,678</u>	<u>2,793,650</u>	<u>12,426,018</u>
Total revenues	<u>214,131,154</u>	<u>219,587,563</u>	<u>5,456,409</u>	<u>215,715,855</u>
Expenditures:				
Current:				
General government	18,087,738	17,352,067	735,671	18,439,681
Public safety	55,248,935	54,986,388	262,547	53,707,656
Community maintenance and development	20,431,834	20,317,721	114,113	19,711,035
Human resource development	10,822,851	10,713,945	108,906	9,909,005
Education	85,958,704	85,952,725	5,979	81,351,321
Judgments and claims	402,400	402,368	32	271,804
Intergovernmental	21,533,025	20,952,766	580,259	19,752,268
Enterprise fund subsidies	10,896,015	10,896,015	-	9,674,315
Debt service:				
Principal retirement	5,806,674	5,805,474	1,200	4,797,090
Interest	<u>1,791,612</u>	<u>1,681,470</u>	<u>110,142</u>	<u>1,294,440</u>
Total expenditures	<u>230,979,788</u>	<u>229,060,939</u>	<u>1,918,849</u>	<u>218,908,615</u>
Deficiency of revenues over expenditures	<u>(16,848,634)</u>	<u>(9,473,376)</u>	<u>7,375,258</u>	<u>(3,192,760)</u>
Other financing sources (uses):				
Operating transfers in (out):				
Special revenue funds	13,281,872	11,427,298	(1,854,574)	11,049,167
Capital projects funds	(6,956,355)	(6,393,355)	563,000	(3,681,341)
Trust funds	3,613,923	2,304,858	(1,309,065)	(4,540)
Enterprise fund	<u>365,050</u>	<u>365,050</u>	<u>-</u>	<u>365,050</u>
Total other financing sources	<u>10,304,490</u>	<u>7,703,851</u>	<u>(2,600,639)</u>	<u>7,728,336</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses	<u>(6,544,144)</u>	<u>(1,769,525)</u>	<u>4,774,619</u>	<u>4,535,576</u>
Other budget items:				
Free cash appropriations	7,384,550			
Prior year deficits raised	<u>(840,406)</u>			
Total other budget items	<u>6,544,144</u>			
Net budget and actual	\$ <u>-</u>			

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Equity All Proprietary Fund Types and Nonexpendable Trust Funds

Year ended June 30, 1996

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- expendable Trust</u>	
Operating revenues:				
Charges for services	\$ 9,262,252	74,615	-	9,336,867
Donations	-	-	27,210	27,210
Investment income	-	-	99,053	99,053
Other	<u>819,889</u>	<u>-</u>	<u>-</u>	<u>819,889</u>
Total operating revenues	<u>10,082,141</u>	<u>74,615</u>	<u>126,263</u>	<u>10,283,019</u>
Operating expenses:				
Administration	2,175,079	-	-	2,175,079
Service and support programs	1,346,570	37,996	-	1,384,566
Depreciation	<u>1,405,209</u>	<u>11,088</u>	<u>-</u>	<u>1,416,297</u>
Total operating expenses	<u>4,926,858</u>	<u>49,084</u>	<u>-</u>	<u>4,975,942</u>
Operating income	5,155,283	25,531	126,263	5,307,077
Nonoperating revenues and expenses:				
Interest expense	<u>671,937</u>	<u>-</u>	<u>-</u>	<u>671,937</u>
Income before operating transfers and discontinued operations	4,483,346	25,531	126,263	4,635,140
Operating transfers from other funds (note 13)	-	-	147	147
Operating transfers to other funds (note 13)	<u>(365,050)</u>	<u>-</u>	<u>(98,860)</u>	<u>(463,910)</u>
Income before discontinued operations	4,118,296	25,531	27,550	4,171,377
Discontinued operations (note 16):				
Income from operations of Cambridge Hospital and Neville Manor	9,375,805	-	-	9,375,805
Loss on disposal of Cambridge Hospital and Neville Manor	<u>(85,223,969)</u>	<u>-</u>	<u>-</u>	<u>(85,223,969)</u>
Net income (loss) after discontinued operations	(71,729,868)	25,531	27,550	(71,676,787)
Retained earnings/fund equity:				
Beginning of year	<u>130,891,575</u>	<u>692,196</u>	<u>1,463,494</u>	<u>133,047,265</u>
End of year	\$ <u><u>59,161,707</u></u>	<u><u>717,727</u></u>	<u><u>1,491,044</u></u>	<u><u>61,370,478</u></u>

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Statement of Cash Flows All Proprietary Fund Types and Nonexpendable Trust Funds

Year ended June 30, 1996

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- expendable Trust</u>	<u>(Memorandum Only)</u>
Cash flows from operating activities:				
Operating income	\$ 5,155,283	25,531	126,263	5,307,077
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	1,405,209	11,088	-	1,416,297
Provision for bad debts	109,103	-	-	109,103
Change in assets and liabilities:				
Accounts receivable	(1,076,961)	-	-	(1,076,961)
Accrued liabilities	74,672	-	-	74,672
Interfund payables	(223,519)	-	-	(223,519)
Net cash provided by operating activities	<u>5,443,787</u>	<u>36,619</u>	<u>126,263</u>	<u>5,606,669</u>
Cash flows from noncapital financing activities:				
Discontinued operations	(27,858,838)	-	-	(27,858,838)
Operating transfer - in	-	-	147	147
Operating transfer - out	(365,050)	-	(98,860)	(463,910)
Net cash used for non-capital financing activities	<u>(28,223,888)</u>	<u>-</u>	<u>(98,713)</u>	<u>(28,322,601)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(2,316,912)	-	-	(2,316,912)
Principal paid on revenue bonds	(2,238,000)	-	-	(2,238,000)
Interest paid on revenue bonds	(671,937)	-	-	(671,937)
Net cash used for capital and related financing activities	<u>(5,226,849)</u>	<u>-</u>	<u>-</u>	<u>(5,226,849)</u>
Cash flows from investing activities:				
Sales of investments	-	-	4,914	4,914
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>4,914</u>	<u>4,914</u>
Net increase (decrease) in cash and cash equivalents	(28,006,950)	36,619	32,464	(27,937,867)
Cash and cash equivalents at beginning of year	<u>30,836,703</u>	<u>678,270</u>	<u>448,772</u>	<u>31,963,745</u>
Cash and cash equivalents at end of year	\$ <u>2,829,753</u>	<u>714,889</u>	<u>481,236</u>	<u>4,025,878</u>
Supplemental disclosures:				
Cash and cash equivalents - Non expendable Trust			481,236	
Cash and cash equivalents - Pension Trust			11,591,277	
Cash and cash equivalents - Expendable Trust			<u>14,398,369</u>	
Total cash and cash equivalents			26,470,882	
Investments			252,777,207	
Total cash and investments per B/S			<u>279,248,089</u>	

See accompanying notes to general purpose financial statements.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

This section explains the accounting principles used in the preparation of the general purpose financial statements, explains definitions of various terms used in the report, provides detailed breakdowns of certain figures used in the report, and explains how the financial statements prepared under the Budgetary Basis of accounting relate to those prepared under Generally Accepted Accounting Principles as applicable to governmental units.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

(1) The Financial Reporting Entity

In accordance with the requirements of the Governmental Accounting Standards Board ("GASB") Statement No. 14, the general purpose financial statements present information on the City of Cambridge, Massachusetts (the "primary government"), and its component units. The component unit, discussed below, is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. The inclusion of the component unit in the City's general purpose financial statements does not affect its legal standing.

(a) Primary Government

Settled in 1630 by a group from the Massachusetts Bay Company, the City of Cambridge 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 its 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.

(b) Discontinued Operations

On July 1, 1996, operations of the Cambridge Hospital and Neville Manor Nursing Home were reorganized into a separate legal entity. Accordingly, these Enterprise Funds have been reported as discontinued operations using a measurement date of June 30, 1996. This transaction is further described in note 16 under subsequent events.

(c) Individual Component Unit Disclosure

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 three members: the City Auditor who serves as ex-officio; an individual elected by participants in the System; and an individual chosen by the other two members. The System provides pension benefits to retired City 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 blurring.

Financial statements for the system are included herein for its fiscal year ended December 31, 1995 and are available from its offices in Cambridge City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts.

(d) Joint Ventures

Municipal joint ventures pool resources to share the costs, risks and rewards of providing services to their participants, the general public or others. The City is a participant in a joint venture to operate the Massachusetts Bay Transportation Authority (MBTA), a

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

component unit of the Commonwealth of Massachusetts (the "Commonwealth"). The City is indirectly liable for debt (see note 7) and other expenses incurred by the MBTA. The MBTA, created in 1964 as a body politic and corporate and political subdivision of the Commonwealth, provides rapid transit and other mass transportation services to the City and to 78 other cities and towns within its jurisdiction. The City's annual assessment, including debt service, from the MBTA for 1996 amounted to \$6,615,479. The City does not have an equity interest in the MBTA.

Complete financial statements for the MBTA can be obtained from the MBTA administrative offices at 10 Park Plaza, Boston, Massachusetts 02116.

The Massachusetts Water Resources Authority (the "Authority"), a public instrumentality of the Commonwealth, provides water supply services and sewage collection, treatment and disposal services to various cities and towns within the Commonwealth, including the City.

The Authority is governed by an eleven-member Board of Directors chaired by the Commonwealth's Secretary of Environmental Affairs. Four board members are appointed by the Governor, three by the Mayor of Boston, Massachusetts, three by the Authority's Advisory Board and one upon the recommendation of the Mayor of Quincy, Massachusetts and Board of Selectmen of Winthrop, Massachusetts.

While the City does not have an equity interest in the Authority, it is indirectly liable for its debt (see note 7) and certain other Authority expenses. The City's annual assessment for 1996, including debt service from the Authority was \$13,196,458.

Complete financial statements for the Authority can be obtained at the Authority's administrative offices at 100 First Avenue, Boston, Massachusetts 02129.

(e) Related Organization

The Manager is 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 accounting policies of the City of Cambridge, Massachusetts, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies followed by the City:

(a) Basis of Presentation - Fund Accounting

The operations of the City are recorded in the following funds and account groups:

GOVERNMENTAL FUND TYPES

Governmental Funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in proprietary funds and non expendable trust funds). The measurement focus is based upon determination of changes in financial position and the flow of current financial resources. The following are the City's governmental fund types:

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

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

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

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

PROPRIETARY FUND TYPES

Proprietary Funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income and capital maintenance. The following are the City's proprietary fund types:

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

Internal Service Fund - This fund is used to account for the financing of services provided by one department to other departments of the City, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (1) expendable trust funds, (2) nonexpendable trust funds, (3) pension trust funds, and (4) agency funds. Expendable trust funds are accounted for similar to governmental funds. Nonexpendable trust funds and pension trust funds are accounted for similar to proprietary funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations. The following are the City's account groups:

General Fixed Assets Account Group - This account group is used to account for all fixed assets of the City, except for fixed assets purchased through proprietary funds.

General Long-term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except for debt issued for enterprise funds.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

(b) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, and self-insured claims, which are recorded in the general long-term obligations account group.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Other revenues are recorded when received in cash, except investment earnings which are recorded as earned.

The accrual basis of accounting is used by proprietary funds, nonexpendable trust funds, and pension trust funds. The City has elected to apply to these funds accounting principles applicable to the private sector issued through November 30, 1989, unless those principles conflict with or contradict pronouncements of the Governmental Accounting Standards Board.

(c) Investments

Investments of pension trust funds and deferred compensation plans are presented in the accompanying general purpose financial statements at fair market value. All other investments are stated at cost or amortized cost, which approximates market.

(d) Cash Equivalents

For purposes of the statement of cash flows, the proprietary and nonexpendable trust funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Encumbrances and Continuing Appropriations

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 to reserve that portion of the applicable appropriation, is employed in the General Fund as a significant aspect of budgetary control.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

Unencumbered appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations" and all other appropriations lapse at year-end. Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed by the end of the fiscal year.

Encumbrances and continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities. Encumbrances and continuing appropriations are combined with expenditures for budgetary comparison purposes.

(f) Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, eligible employees are compensated for unused sick and vacation leave (subject to certain limitations) at specified payment rates established by contract, regulation or policy. The cost of compensated absences for employees of proprietary funds is recorded as earned. For other funds, the noncurrent portion of the liability for compensated absences is reported in the general long-term obligations account group.

The liabilities for accrued sick leave are determined based on the number of allowable days accumulated at the balance sheet (vesting method).

(g) General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. Purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value at the time received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest been capitalized because it is not material.

(h) Property, Plant and Equipment - Enterprise and Internal Service Funds

Property, plant and equipment owned by the proprietary funds is stated at historical cost or estimated fair market value at the time received. Net interest costs are capitalized on projects during the construction period. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements other than buildings	10-20 years
Equipment	5-30 years

(Ccontinued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

(i) Total Columns - Memorandum Only

Total columns on the general purpose financial statements are captioned "Total Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

(3) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The City has an ultimate right to foreclose on property for which taxes have not been paid. A tax lien is issued on the property when more than one year's tax is overdue. Property taxes levied are recorded as receivables in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting described in note 2.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the City. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a City-wide referendum vote.

(4) Budget Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for the general fund for which the level of expenditure may not legally exceed appropriations for each department or undertaking classified in the following categories:

- (1) Salaries and wages,
- (2) Other ordinary maintenance,
- (3) Travel and training, and
- (4) Extraordinary expenditures.

Proposed expenditure appropriations for all departments and operations of the City, except that of public schools, are prepared under the direction of the City Manager. School Department appropriations are acted upon directly by the School Committee up to the level of certain prior year school appropriations. The City Manager may recommend additional sums for school purposes. In addition, the City Manager may submit to the City Council such supplementary appropriation orders as are deemed necessary. The City Manager may amend appropriations within the above mentioned categories for a department without seeking City Council approval.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

The City Council may reduce or reject any item in budgets submitted by the City Manager but may not increase or add items without the recommendation of the City Manager. Supplemental appropriations for the year ended June 30, 1996, after the setting of the tax rate, were \$2,753,621 and are reflected in the budgetary basis financial statements.

The City follows a gross budgeting concept pursuant to which expenditures financed by special revenue funds and trust funds are budgeted as general fund expenditures and are financed by transfers from these funds to the general fund.

The City's General Fund budget is prepared on a basis other than generally accepted accounting principles (GAAP basis). The actual results of operations in the Statement of Revenues and Expenditures - Budgetary Basis - General Fund, are presented on a "budget basis" to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis are that:

- (a) Revenues are recorded when cash is received except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

A summary of the differences between the results of operations presented on a budgetary basis and those presented in accordance with GAAP is as follows:

	<u>Revenues</u>	<u>Expenditures</u>
As reported on a budgetary basis	\$ 219,587,563	229,060,939
Adjustments:		
To record revenue and other financing sources on a modified accrual basis of accounting	3,472,362	-
To adjust for encumbrances and continuing appropriations	<u>-</u>	<u>(446,512)</u>
As reported on GAAP basis	\$ <u>223,059,925</u>	<u>228,614,427</u>

(5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

In addition, the Cambridge Retirement System and administrators of the Employees Deferred Compensation plan have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

Deposits

The following summary presents the amount of City deposits which are fully insured or collateralized with securities held by the City or its agent in the City's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name (Category 2), and those deposits which are not collateralized (Category 3) at June 30, 1996.

	Bank Balances			Total	
	Category			Bank	Carrying
	1	2	3	Balance	Amount
Cash	\$ 300,000	-	4,953,837	5,253,837	5,654,279
Money market	<u>401,905</u>	<u>11,591,277</u>	<u>7,088,135</u>	<u>19,081,317</u>	<u>13,716,132</u>
Total	\$ <u>701,905</u>	<u>11,591,277</u>	<u>12,041,972</u>	<u>24,335,154</u>	<u>19,370,411</u>

Investments

The City categorizes investments according to the level of risk assumed by the City. Category 1 includes investments that are insured, registered or held by the City's agent in the City's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the City's name. Investments in MMDT, mutual funds and insurance contracts, pooled funds, are not categorized.

	Category			Not Categorized	Carrying Amount	Estimated Market Value
	1	2	3			
MMDT	\$ -	-	-	65,198,803	65,198,803	65,198,803
Mutual funds	-	-	-	25,161,988	25,161,988	25,161,988
Common stocks	-	107,095,250	-	-	107,095,250	107,095,250
Corporate bonds	-	78,197,091	-	-	78,197,091	80,197,091
U.S. Treasury notes	-	35,379,431	-	-	35,379,431	35,400,410
Insurance contracts	-	-	-	<u>6,943,446</u>	<u>6,943,446</u>	<u>6,943,446</u>
Total	\$ -	<u>220,671,772</u>	-	<u>97,304,237</u>	<u>317,976,009</u>	<u>319,996,988</u>

The composition of the City's bank-recorded deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of state and federal aid, and capital outlays throughout the year.

Of the investments reflected in the preceding table, investments of the Cambridge Retirement System constitute 68% of the amount in Category 2.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

(6) Fixed Assets

A summary of general fixed assets activity in the general fixed assets account group for the year ended June 30, 1996 follows:

	Balance June 30, <u>1995</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>1996</u>
Land	\$ 172,062,238	-	-	172,062,238
Buildings	106,049,481	909,681	(125,773)	106,833,389
Improvements other than buildings	11,037,189	541,917	(3,519)	11,575,587
Equipment	22,729,416	5,867,506	(1,700,723)	26,896,199
Construction in progress	<u>4,323,448</u>	<u>2,639,224</u>	<u>-</u>	<u>6,962,672</u>
	<u>\$ 316,201,772</u>	<u>9,958,328</u>	<u>(1,830,015)</u>	<u>324,330,085</u>

The City initiated a fixed assets system in fiscal 1986 for its general fixed assets and adjusts these records for additions and disposals as of the end of each fiscal year. These amounts are based on actual historical costs wherever possible. Land and building costs are based on current appraised value adjusted to estimated cost at date of purchase. Improvements other than buildings and equipment are valued at estimated cost when actual cost information was impractical to obtain. Construction in progress is valued at cost.

The sources of funds used to acquire fixed assets were impractical to obtain; therefore, the sources of fixed assets are not presented.

A summary of proprietary fund type property, plant, and equipment at June 30, 1996 follows:

	<u>Enterprise</u>	<u>Internal Service</u>
Land	\$ 39,264,325	-
Buildings	9,349,880	-
Improvements other than buildings	15,509,289	-
Equipment	<u>10,271,059</u>	<u>171,181</u>
Less accumulated depreciation	<u>(9,379,859)</u>	<u>(168,343)</u>
	<u>\$ 65,014,694</u>	<u>2,838</u>

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

Construction in progress at June 30, 1996 is comprised of the following:

	<u>Project Authorization</u>	<u>Expended</u>	<u>Committed</u>
General Fixed Assets:			
Senior center	\$ 4,280,000	3,981,976	298,024
City hall renovations	5,350,000	440,570	4,909,430
Geographic information	1,500,000	771,676	728,324
East Cambridge youth center	345,085	308,685	36,400
Morse school	9,830,000	533,337	9,296,663
Fitzgerald school	<u>14,432,000</u>	<u>926,428</u>	<u>13,505,572</u>
	<u>\$ 35,737,085</u>	<u>6,962,672</u>	<u>28,774,413</u>
Water Fund:			
Water treatment plant	<u>\$ 3,550,000</u>	<u>-</u>	<u>-</u>

(7) Long-term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. Bonds reported in the proprietary funds are expected to be paid from proprietary fund revenues. Bonds reported in the general long-term obligations account group are expected to be paid from general fund revenues.

The following is a summary of general obligation bond and notes payable transactions of the City for the year ended June 30, 1996:

	<u>General Obligation *</u>	<u>Enterprise Fund</u>	<u>Total</u>
Bonds and notes payable at June 30, 1995	\$ 58,935,264	11,947,000	70,882,264
Debt retired: Serial bonds	9,257,099	2,238,000	11,495,099
Additional debt	1,500,000	-	1,500,000
Cambridge Hospital and Neville Manor debt	<u>5,890,000</u>	<u>-</u>	<u>5,890,000</u>
Bonds and notes payable at June 30, 1996	<u>\$ 57,068,165</u>	<u>9,709,000</u>	<u>66,777,165</u>

*Note: Cambridge Hospital and Neville Manor debt included as part of the Public Health System reorganization (see note 16).

Principal retirement of general obligation bonds and notes payable has been reflected in the general purpose financial statements as debt service expenditures of \$5,705,099 and education expenditures of \$3,552,000 totaling \$9,257,099 of principal costs.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

The following is a summary of the composition of general long-term obligations outstanding at June 30, 1995 and 1996:

<u>Description and Repayment Terms</u>	<u>Date of Obligation</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding June 30, 1995</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 1996</u>
General purpose, serial maturities through June 15, 2006	6/15/87 to 6/15/96	\$ 5,585,000	6/15/06	4.3% to 6.0%	\$ 2,595,000	-	560,000	2,035,000
Urban redevelopment, serial maturities through February 1, 2004	7/1/85 to 2/1/94	29,865,000	2/1/04	3.75% to 6.6%	13,845,000	-	2,740,000	11,105,000
Schools, serial maturities through February 1, 2004	6/15/78 to 6/15/96	47,900,000	2/1/06	3.75% to 5.75%	24,863,000	-	3,552,000	21,311,000
Street reconstruction, serial maturities through June 15, 1999	6/15/87 to 6/15/89	6,500,000	6/15/99	5.6% to 6.5%	1,900,000	-	650,000	1,250,000
Sewer, serial maturities through August 1, 2008	9/1/72 to 6/15/96	16,874,180	8/1/08	2.35% to 5.75%	14,732,264	-	1,755,099	12,977,165
Section 108 HUD notes payable		2,500,000			1,000,000	1,500,000	-	2,500,000
*Hospital, serial maturities through June 15, 2000	6/15/87 to 6/15/90	14,850,000	6/16/00	5.6% to 6.6%	-	4,990,000	-	4,990,000
*Neville Manor, serial maturities through June 15, 2002	6/15/92	<u>1,500,000</u>	6/15/02	4.3% to 5.3%	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>900,000</u>
Total bonds and notes payable		\$ <u>125,574,180</u>			<u>58,935,264</u>	<u>7,390,000</u>	<u>9,257,099</u>	<u>57,068,165</u>
Accrued compensated absences					9,056,361		113,379	8,942,982
Accrued claims					<u>2,445,000</u>	<u>1,103,981</u>	<u>814,850</u>	<u>2,734,131</u>
Total general long-term obligations					\$ <u>70,436,625</u>	<u>8,493,981</u>	<u>10,185,328</u>	<u>68,745,278</u>

*Note: Cambridge Hospital and Neville Manor debt included as part of the Public Health System reorganization (see note 16).

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

The annual requirements to amortize all general long-term obligation bonds and notes payable outstanding as of June 30, 1996, are as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 10,472,828	2,877,993	13,350,821
1998	8,755,176	2,328,357	11,083,533
1999	7,281,631	1,869,118	9,150,749
2000	6,356,045	1,492,333	7,848,378
2001	5,489,582	1,147,805	6,637,387
Thereafter	<u>18,712,903</u>	<u>2,188,126</u>	<u>20,901,029</u>
	\$ <u>57,068,165</u>	<u>11,903,732</u>	<u>68,971,897</u>

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance and flow of monies through various restricted accounts, and minimum revenue bond coverages. The City is in compliance with all such significant limitations and restrictions.

The City has entered into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). The loans provide funding for the Sewer Separation Project. According to the loan agreements, the City will be subsidized on a periodic basis for debt and interest costs. Loan repayments commenced on February 1, 1995 and end on August 1, 2008, with interest rates ranging from 2.35% to 5.25%.

The City is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance 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, 1996, the City may issue approximately \$154,415,180 additional general obligation debt under the normal debt limit. The City has approximately \$33,490,000 of debt exempt from the debt limit.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

Authorized and unissued debt at June 30, 1996, is as follows:

School Renovations	\$ 2,400,000
City Hall Renovations	5,050,000
Hospital Construction	30,000,000
Sewer Separation Project	29,408,456
Section 108 Biotechnology	3,500,000
Engineering/New Water Treatment Plan	3,600,000
806 Mass Avenue Renovations	230,000
Water Main Replacement	2,000,000
Fitzgerald School Renovations	14,432,000
Morse School Renovations	9,830,000
Central Square enhancements	3,550,000
Building Renovations	500,000
Emergency Communications	3,300,000
East Cambridge Youth Center	3,562,000
Area IV Youth Center	200,000
One Per Cent for the Arts	134,000
Agassiz School	640,000
FiberOptic Network Infrastructure	1,000,000
Acquisition of Personal Computers	<u>600,000</u>
	\$ <u>113,936,456</u>

At June 30, 1996, the City had grants receivable from the School Building Assistance Bureau (SBAB) of \$17,200,278 to defray principal and interest costs related to \$23,706,000 of school bonds outstanding. Grants are subject to annual appropriation by the State legislature. The amount of the grants is based on estimated construction costs of school projects which may be revised upon audit by the SBAB. During 1996, the City received \$2,558,516 of such assistance. Assuming satisfactory audit results and annual appropriations by the State legislature, \$2,921,959 will be received in 1997, \$2,316,282 in 1998 and the balance will be received in subsequent years.

Enterprise Fund serial bond issues outstanding at June 30, 1996 for the Water Fund were \$9,709,000. The interest rates ranged from 3.75% to 6.6%. Outstanding debt matures in subsequent fiscal years as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 2,278,000	713,645	2,991,645
1998	2,078,000	568,526	2,646,526
1999	2,080,000	431,981	2,511,981
2000	1,693,000	294,688	1,987,688
2001	667,000	173,376	840,376
Thereafter	<u>913,000</u>	<u>298,176</u>	<u>1,211,176</u>
	\$ <u>9,709,000</u>	<u>2,480,392</u>	<u>12,189,392</u>

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

The Massachusetts Water Resources Authority (MWRA), the Massachusetts Bay Transportation Authority (MBTA), and Middlesex County assess the City a net cost of service, including debt service requirements, in accordance with various formulas. The following summary sets forth the unaudited amount of long-term debt of each entity as well as the City's share of the debt at June 30, 1996 and the City's 1996 assessment from each entity:

	Long-term debt <u>outstanding</u> (unaudited)	The City's estimated <u>share</u>	The City's estimated <u>indirect debt</u>	1996 Assessment including <u>debt service</u>
MBTA	\$ 2,727,335,000	4.93%	\$ 134,413,244	\$ 6,615,479
MWRA	2,908,475,000	5.06%	134,114,306	13,196,458
Middlesex County	1,990,000	10.00%	199,000	222,300

(8) Individual Fund Receivables, Payables and Fund Balances Reserved for Specific Purposes

Individual balances of amounts due from and to other funds at June 30, 1996 are as follows:

	Due from <u>other funds</u>	Due to <u>other funds</u>
General Fund	\$ 9,278,696	-
Capital Projects Fund	-	7,205,959
Enterprise Funds:		
Water Fund	-	880,755
Special Revenue Funds:		
Other Grants	1,749	-
CDBG Grants	-	1,000,000
School Grants	-	175,663
Fuel Assistance Grants	-	18,068
	<u>\$ 9,280,445</u>	<u>9,280,445</u>

Fund balances are reserved for the following purposes as of June 30, 1996:

General Fund:	
Fiscal 1997 appropriations	\$ 4,395,862
One Percent for the Arts	25,000
Public works/equipment	55,000
Preventive Park Maintenance Program	75,000
Transportation Studies	150,000
War Memorial Renovations	100,000
Building Improvements	<u>145,000</u>
	\$ <u>4,945,862</u>
Special Revenue Funds:	
CDBG Grants	82,517
Fuel Assistance Grants	169,141
Parking Funds	<u>3,121,556</u>
	\$ <u>3,373,214</u>

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

Trust Funds:

Retirement System	237,467,547
City Stabilization	5,372,859
School Stabilization	2,324,151
Health Claims	10,633,892
Housing	3,340,680
Cemetery Perpetual Care	1,569,601
School	169,190
Neville Manor	74,007
Library	158,414
Other Trust Funds	<u>647,708</u>

\$ 261,698,049

(9) Segment Information for Enterprise Funds

The City maintains Enterprise Funds which provide hospital, nursing home and water services. Segment information for the year ended June 30, 1996 follows:

	<u>Hospital and Neighborhood Health Centers</u>	<u>Neville Manor</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ -	-	10,082,141	10,082,141
Operating income	<u>-</u>	<u>-</u>	<u>5,155,283</u>	<u>5,155,283</u>
Net operating transfers (out)	<u>-</u>	<u>-</u>	<u>(365,050)</u>	<u>(365,050)</u>
Depreciation expense	<u>-</u>	<u>-</u>	<u>1,405,209</u>	<u>1,405,209</u>
Net income before discontinued operations	-	-	4,118,296	4,118,296
Discontinued operations:				
Income (loss) from operations	10,800,978	(1,425,173)	-	9,375,805
(Loss) on disposal	<u>(82,598,539)</u>	<u>(2,625,430)</u>	<u>-</u>	<u>(85,223,969)</u>
Net income after discontinued operations	<u>(71,797,561)</u>	<u>(4,050,603)</u>	<u>4,118,296</u>	<u>71,729,868</u>
Fixed assets	<u>-</u>	<u>-</u>	<u>65,014,694</u>	<u>65,014,694</u>
Net working capital	<u>-</u>	<u>-</u>	<u>3,856,013</u>	<u>3,856,013</u>
Total assets	<u>-</u>	<u>-</u>	<u>70,159,549</u>	<u>70,159,549</u>
Long-term obligations	<u>-</u>	<u>-</u>	<u>9,709,000</u>	<u>9,709,000</u>
Total retained earnings	<u>-</u>	<u>-</u>	<u>59,161,707</u>	<u>59,161,707</u>

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

Trust Funds:

Retirement System	237,407,547
City Stabilization	5,372,859
School Stabilization	2,324,151
Health Claims	10,633,892
Housing	3,340,680
Cemetery Perpetual Care	1,569,601
School	169,190
Neville Manor	74,007
Library	158,414
Other Trust Funds	<u>647,708</u>

\$ 261,698,049

(9) Segment Information for Enterprise Funds

The City maintains Enterprise Funds which provide hospital, nursing home and water services. Segment information for the year ended June 30, 1996 follows:

	<u>Hospital and Neighborhood Health Centers</u>	<u>Neville Manor</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ -	-	10,082,141	10,082,141
Operating income	-	-	5,155,283	5,155,283
Net operating transfers (out)	-	-	(365,050)	(365,050)
Depreciation expense	-	-	1,405,209	1,405,209
Net income before discontinued operations	-	-	4,118,296	4,118,296
Discontinued operations:				
Income (loss) from operations	10,800,978	(1,425,173)	-	9,375,805
(Loss) on disposal	(82,598,539)	(2,625,430)	-	(85,223,969)
Net income after discontinued operations	(71,797,561)	(4,050,603)	4,118,296	71,729,868
Fixed assets	-	-	65,014,694	65,014,694
Net working capital	-	-	3,856,013	3,856,013
Total assets	-	-	70,159,549	70,159,549
Long-term obligations	-	-	9,709,000	9,709,000
Total retained earnings	-	-	59,161,707	59,161,707

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Saving Fund	\$ 82,275,928	Active members' contribution balance
Annuity Reserve Fund	22,814,894	Retired members' contribution account
Military Service Credit	588	Members' contribution account while on military leave
Expense Account	123,758	Balance of amount appropriated for administering the system
Pension Reserve Fund	59,369,176	Amounts appropriated to fund future retirement benefits
Pension Fund	<u>69,298,716</u>	Remaining net assets
Total	\$ <u>233,883,060</u>	

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

(e) Investment Concentration

There were no investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5% or more of plan net assets.

(11) Other Post-employment Benefit Disclosures

All retired employees eligible for pension benefits as well as teachers covered under the Commonwealth of Massachusetts Teachers' Retirement System ("TRS") receive certain post-retirement benefits including major health, dental, and life insurance under Chapter 32 of the MGL. The City funds 90% of health insurance premiums, with the remaining 10% paid by the retiree. The City also funds 75% of life insurance premiums, with the remaining 25% paid by the retiree. The City funds 100% of dental and vision premiums. The number of employees covered was 1,561 at June 30, 1996. The City's cost of these post-retirement benefits for fiscal 1996 was \$4,023,278 and is funded and accounted for on a pay-as-you-go basis.

(12) Deferred Compensation Plan

The City has a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The Plan, available to all City employees, permits them to defer a portion of their current salary to future years. The deferred compensation is not available to the participants until termination, retirement, death or unforeseeable emergency.

In accordance with Section 457 of the Internal Revenue Code, all amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or rights are (until made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the Plan) subject only to the claims of the City's general creditors.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

Participants' rights created under the Plan are equivalent to those of general creditors of the City and only in an amount equal to the fair market value of the deferred account maintained with respect to each participant. Plan assets have been used for no purpose other than to pay benefits. In addition, the City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. The City records the plan assets and the related liability to plan participants as an agency fund.

The City and its agent have no liability for losses under the Plan, but do have the duty of care that would be required of an ordinary prudent investor.

The Plan allows its participants to direct their contributions among several publicly traded mutual funds and other pooled investment vehicles, as provided by the Plan. These investment vehicles routinely use derivatives in varying degrees to achieve their overall performance objectives, however, these investments are immaterial in total. The Plan's investments are not subject to review or approval by the City.

The assets and liabilities of the City's deferred compensation plan with a market value of \$25,161,990 are included in Agency Funds at June 30, 1996.

(13) Operating Transfers, Net

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Expendable Trust</u>	<u>Non- Expendable Trust</u>
Parking Receipts	\$ 11,427,298	(12,114,298)	687,000	-	-	-
Capital Improvements	(5,423,355)	-	5,423,355	-	-	-
Sewer Reconstruction	(970,000)	-	970,000	-	-	-
Water Overhead	365,050	-	-	(365,050)	-	-
Health Claims Trust	1,943,337	-	-	-	(1,943,337)	-
Miscellaneous Trusts	-	-	-	-	12,980	(12,980)
Cemetery Perpetual Care	45,000	-	-	-	40,733	(85,733)
School Stabilization	316,521	-	-	-	(316,521)	-
Housing Trust	-	-	(2,000,000)	-	2,000,000	-
Community Development Block Grant	-	(2,294,042)	2,294,042	-	-	-
	<u>\$ 7,703,851</u>	<u>(14,408,340)</u>	<u>7,374,397</u>	<u>(365,050)</u>	<u>(206,145)</u>	<u>(98,713)</u>

(14) 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.

Police Department vehicles are insured through an outside agency and all other vehicle damage and loss is self-insured. 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

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

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 a Blue Cross/Blue Shield PPO (Preferred Provider Organization) medical plan under which it makes actual claims payments. In this case, Blue Cross/Blue Shield acts as a claims processor and a transfer of risk does not occur. Approximately 70% 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 10% of the cost of healthcare with the remainder paid by the City. These costs are amounted for in the general fund. The contribution rate for retirees is 1% for those who qualify for Medicare and 10% for those who do not. While the City does not carry stop-loss insurance, it has set aside \$10,633,892 in a trust fund for this purpose. The City maintains a working deposit with Blue Cross/Blue Shield of \$803,000 at June 30, 1996.

Liabilities for claims incurred but not paid or reported are recorded in the general long-term obligations account group.

Changes in the self insurance liability for the fiscal year ended June 30, 1996 are as follows:

	<u>General Long-Term Obligations Account Group</u>	
	<u>1996</u>	<u>1995</u>
Accrued claims, beginning of year	\$ 2,445,000	2,165,584
Incurred claims	1,103,981	1,486,442
Payments of claims attributable to events of both current and prior fiscal years	<u>814,850</u>	<u>1,207,026</u>
Accrued claims, end of year	\$ <u>2,734,131</u>	<u>2,445,000</u>

There are numerous cases pending in courts throughout the Commonwealth where the City of Cambridge is a defendant. In addition, the City has been named as a defendant in a legal action with a general contractor of the Haggerty School. In regards to this action the City has filed counterclaims against several subcontractors. Legal counsel is unable to determine the likelihood of an unfavorable decision, if any. 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.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1996

(15) Fund Deficits

The following funds had deficit equity balances at June 30, 1996:

Special Revenue:	
Other Grants	\$ <u>(74,603)</u>
*Capital Projects	\$ <u>(7,024,739)</u>

*Note: Capital projects deficits will be raised through future bond issues and federal and state grants.

(16) Subsequent Events

(a) Reorganization of Public Health System

On June 30, 1996, the Cambridge Public Health Commission (the "Commission") was created as the successor to the City's Department of Health and Hospitals ("Department"). Beginning July 1, 1996 the Commission is authorized to enter into agreements with the City and Somerville Hospital, a non-profit organization, to effect the creation of a new public health system, including Cambridge Hospital, Neville Manor Nursing Home, and the operations and facilities of Somerville Hospital.

All cash, accounts receivable, personal property and inventory of the Department have been transferred to the Commission. The transfer of real property to the Commission was effected by a lease agreement. All debt and obligations of the Department will be assumed by the Commission; provided, however, that City bonds and notes will remain general obligations of the City.

The City and the Commission will enter into a contract whereby the City will provide funding for a portion of public health costs.

(b) Bond Issuance

On July 8, 1996, the City issued \$13,790,000 in General Obligation bonds carrying an average interest rate of 4.90%. The bonds mature 6/15/06 and will be used to finance the costs of projects in the City's capital improvement plan.

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REQUIRED SUPPLEMENTARY INFORMATION

The following schedule presents historical trend information for the Cambridge Retirement System. The information is presented in accordance with the requirements of Statement Nos. 25 and 27 of the Governmental Accounting Standards Board.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

(In Thousands)

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded AAL (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a Percentage of Covered Payroll (B-A)/C
1/1/96	233,883	341,531	107,648	68.48%	114,387	94.11%
1/1/94	182,632	323,644	141,012	56.43%	109,775	128.46%
1/1/93	158,595	279,715	121,120	56.70%	99,063	122.27%
1/1/91	118,507	251,035	132,528	47.21%	83,460	158.79%

Information prior to 1/1/91 is not available.

Schedules of Contributions from Employers

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
1995	20,669	100.00%
1994	19,029	100.00%
1993	16,843	100.00%
1992	16,507	100.00%
1991	15,814	100.00%

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/96
Actuarial cost method	Entry Age Normal Cost
Amortization method	Approximate level percent of payroll-open
Remaining amortization period	Varied based upon Active or Retired status 12 yr. Retirees/Early 28 yr. Active members
Asset valuation method	Market Value
Actuarial assumption:	
Investment rate of return	8.00%
Projected salary increases	6.00%
Cost-of-living adjustments	None (funded by Commonwealth of Massachusetts)

SUPPLEMENTARY STATEMENTS AND SCHEDULES

The following section provides detailed information on the General, Special Revenue, Enterprise, and Trust and Agency Funds included in the general purpose financial statements. Information on real, personal, and excise tax collections, and schedules of the long-term debt obligations and general fixed assets of the City is also provided in this section.

SPECIAL REVENUE 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 that 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.

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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Special Revenue Funds

June 30, 1996

<u>Assets</u>	<u>CDBG Grants</u>	<u>School Grants</u>	<u>Fuel Assistance</u>	<u>Parking Fund</u>	<u>Other Grants</u>	<u>Total</u>
Cash and short-term investments	\$ 1,441,603	-	-	3,070,733	9,604,706	14,117,042
Accounts receivable	-	-	-	50,823	-	50,823
Accounts receivable-developer	1,000,000	-	-	-	-	1,000,000
Due from other funds	-	-	-	-	1,749	1,749
Due from other governments	<u>319,168</u>	<u>1,048,235</u>	<u>255,119</u>	<u>-</u>	<u>677,667</u>	<u>2,300,189</u>
 Total assets	 \$ <u>2,760,771</u>	 <u>1,048,235</u>	 <u>255,119</u>	 <u>3,121,556</u>	 <u>10,284,122</u>	 <u>17,469,803</u>
 <u>Liabilities and Fund Equity</u>						
Warrants payable	-	-	-	-	10,106,921	10,106,921
Accrued liabilities - other	178,254	-	23,494	-	251,804	453,552
Due to other funds	1,000,000	175,663	18,068	-	-	1,193,731
Deferred revenue	<u>-</u>	<u>354,679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>354,679</u>
 Total liabilities	 <u>1,178,254</u>	 <u>530,342</u>	 <u>41,562</u>	 <u>-</u>	 <u>10,358,725</u>	 <u>12,108,883</u>
Fund equity:						
Reserved for encumbrances	1,500,000	631,140	44,416	-	1,204,157	3,379,713
Reserved for specific purposes	82,517	-	169,141	3,121,556	-	3,373,214
Unreserved	<u>-</u>	<u>(113,247)</u>	<u>-</u>	<u>-</u>	<u>(1,278,760)</u>	<u>(1,392,007)</u>
 Total fund equity	 <u>1,582,517</u>	 <u>517,893</u>	 <u>213,557</u>	 <u>3,121,556</u>	 <u>(74,603)</u>	 <u>5,360,920</u>
 Total liabilities and fund equity	 \$ <u>2,760,771</u>	 <u>1,048,235</u>	 <u>255,119</u>	 <u>3,121,556</u>	 <u>10,284,122</u>	 <u>17,469,803</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Equity

Special Revenue Funds

Year ended June 30, 1996

	Community Development Block Grants	School Grants	Fuel Assistance	Parking Fund	Other Grants	Total
Revenues:						
Intergovernmental	\$ 3,095,094	7,013,402	1,366,685	-	3,239,757	14,714,938
Investment income	52,152	830,920	5,720	515,185	-	1,403,977
Other:						
Permits	-	-	-	22,535	153,167	175,702
Fines	-	-	-	6,386,187	-	6,386,187
Charges for services	-	-	-	4,515,511	-	4,515,511
Miscellaneous	-	-	-	2,380	-	2,380
Total revenues	<u>3,147,246</u>	<u>7,844,322</u>	<u>1,372,405</u>	<u>11,441,798</u>	<u>3,392,924</u>	<u>27,198,695</u>
Expenditures:						
Cambridge Hospital Operations						
Subsidy	-	-	-	-	1,686,897	1,686,897
Education	-	7,687,344	-	-	-	7,687,344
Fuel assistance	-	-	837,360	-	-	837,360
Community maintenance and development	<u>1,820,222</u>	<u>-</u>	<u>398,989</u>	<u>-</u>	<u>3,149,547</u>	<u>5,368,758</u>
Total expenditures	<u>1,820,222</u>	<u>7,687,344</u>	<u>1,236,349</u>	<u>-</u>	<u>4,836,444</u>	<u>15,580,359</u>
Excess (deficiency) of revenues over expenditures	1,327,024	156,978	136,056	11,441,798	(1,443,520)	11,618,336
Other financing (uses) sources:						
Operating transfers from other funds	-	-	-	166,532	-	166,532
Operating transfers to other funds	(2,294,042)	-	-	(12,280,830)	-	(14,574,872)
Proceeds of debt	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Excess (deficiency) of revenues over expenditures and transfers	532,982	156,978	136,056	(672,500)	(1,443,520)	(1,290,004)
Fund equity at beginning of year	<u>1,049,535</u>	<u>360,915</u>	<u>77,501</u>	<u>3,794,056</u>	<u>1,368,917</u>	<u>6,650,924</u>
Fund equity at end of year	\$ <u>1,582,517</u>	<u>517,893</u>	<u>213,557</u>	<u>3,121,556</u>	<u>(74,603)</u>	<u>5,360,920</u>

ENTERPRISE FUND

Water Fund

This fund is used to account for the operations and maintenance of the City's water system. Revenues are recorded primarily on the basis of charges issued for water services. Expenses for water department capital improvements as well as debt service on any bonds issued to finance those improvements are included in the Water Enterprise Fund.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Enterprise Funds

June 30, 1996

<u>Assets</u>		Hospital and Neighborhood Health Centers	Neville Manor	<u>Water</u>	<u>Total</u>
Cash and short-term investments	\$	-	-	2,829,753	2,829,753
Accounts receivable		-	-	2,578,068	2,578,068
Allowance for uncollectible receivables		-	-	(262,966)	(262,966)
Fixed assets		-	-	<u>65,014,694</u>	<u>65,014,694</u>
 Total assets	 \$	 <u>-</u>	 <u>-</u>	 <u>70,159,549</u>	 <u>70,159,549</u>
 <u>Liabilities and Retained Earnings</u>					
Accrued liabilities:					
Compensated absences and accrued payroll	\$	-	-	178,646	178,646
Accrued liabilities - other		-	-	229,441	229,441
Due to other funds		-	-	880,755	880,755
General obligation bonds payable		-	-	<u>9,709,000</u>	<u>9,709,000</u>
Total liabilities		<u>-</u>	<u>-</u>	<u>10,997,842</u>	<u>10,997,842</u>
 Retained earnings		 -	 -	 59,161,707	 59,161,707
Contributed capital		-	-	<u>59,161,707</u>	<u>59,161,707</u>
		<u>-</u>	<u>-</u>	<u>59,161,707</u>	<u>59,161,707</u>
 Total liabilities and retained earnings	 \$	 <u>-</u>	 <u>-</u>	 <u>70,159,549</u>	 <u>70,159,549</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenses and Changes in Retained Earnings

Enterprise Funds

Year ended June 30, 1996

	Hospital and Neighborhood Health Centers	Neville Manor	Water	Total
Operating revenues:				
Charges for services	\$ -	-	9,262,252	9,262,252
Other	-	-	819,889	819,889
Total operating revenues	-	-	10,082,141	10,082,141
Operating expenses:				
Administration	-	-	2,175,079	2,175,079
Service and support programs	-	-	1,346,570	1,346,570
Depreciation	-	-	1,405,209	1,405,209
Total operating expenses	-	-	4,926,858	4,926,858
Operating income	-	-	5,155,283	5,155,283
Nonoperating revenues and expenses:				
Interest expense	-	-	671,937	671,937
Income before operating transfers	-	-	4,483,346	4,483,346
Operating transfers to other funds	-	-	(365,050)	(365,050)
Net income before discontinued operations	-	-	4,118,296	4,118,296
Discontinued operations:				
Income (loss) from discontinued operations	10,800,978	(1,425,173)	-	9,375,805
Loss on disposal of discontinued operations	(82,598,539)	(2,625,430)	-	(85,223,969)
Net income (loss) after discontinued operations	(71,797,561)	(4,050,603)	4,118,296	(71,729,868)
Retained earnings:				
Beginning of year	71,797,561	4,050,603	55,043,411	130,891,575
End of year	\$ -	-	59,161,707	59,161,707

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Cash Flows

Enterprise Funds

Year ended June 30, 1996

	Hospital and Neighborhood Health Centers	Neville Manor	Water	Total
Cash flows from operating activities:				
Operating income	\$ -	-	5,155,283	5,155,283
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	-	-	1,405,209	1,405,209
Provision for bad debts	-	-	109,103	109,103
Change in assets and liabilities:				
Accounts receivable	-	-	(1,076,961)	(1,076,961)
Accrued liabilities	-	-	74,672	74,672
Interfund payables	<u>-</u>	<u>-</u>	<u>(223,519)</u>	<u>(223,519)</u>
Net cash provided by (used for) operating activities	<u>-</u>	<u>-</u>	<u>5,443,787</u>	<u>5,443,787</u>
Cash flows from noncapital financing activities:				
Operating transfer-out	-	-	(365,050)	(365,050)
Discontinued operations	<u>(25,940,472)</u>	<u>(1,918,366)</u>	<u>-</u>	<u>(27,858,838)</u>
Net cash used for noncapital financing activities	<u>(25,940,472)</u>	<u>(1,918,366)</u>	<u>(365,050)</u>	<u>(28,223,888)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	(2,316,912)	(2,316,912)
Principal paid on revenue bonds	-	-	(2,238,000)	(2,238,000)
Interest paid on revenue bonds	<u>-</u>	<u>-</u>	<u>(671,937)</u>	<u>(671,937)</u>
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>(5,226,849)</u>	<u>(5,226,849)</u>
Net decrease in cash and cash equivalents	(25,940,472)	(1,918,366)	(148,112)	(28,006,950)
Cash and cash equivalents at beginning of year	<u>25,940,472</u>	<u>1,918,366</u>	<u>2,977,865</u>	<u>30,836,703</u>
Cash and cash equivalents at end of year	\$ <u>-</u>	<u>-</u>	<u>2,829,753</u>	<u>2,829,753</u>

FIDUCIARY FUNDS

The City's Fiduciary Funds are used to account for the 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. These include expendable trust funds, nonexpendable trust funds, pension trust funds, and agency funds.

The Trust Funds, which are described later in this section of the report, are segregated into four categories: School Trust Funds, Neville Manor Nursing Home Trust Funds, Library Trust Funds, and Other Funds. The last sentence of each Trust Fund narrative lists the expendable balances which represent the income/interest portion of the Trust. In general, the City has a policy to limit expenditures from the Trusts to the total accumulated income/interest amount so that the principal of the Trusts is protected.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Fiduciary Funds

June 30, 1996

Assets	Pension Trust Funds	Nonexpendable Trust Funds					Expendable Trust Funds										Total
	Retirement Trust Fund	School Fund	Neville Manor Fund	Library Fund	Cemetery Funds	Other Fund	School Fund	Neville Fund	Library Fund	Cemetery Fund	Health Claims Trust Fund	City Stabilization Trust Fund	School Stabilization Trust Fund	Housing Funds	Other Funds	Agency Fund	
Cash and short-term investments	\$ 11,591,277	35,504	25,733	44,499	314,954	60,546	133,686	48,274	103,741	255,013	3,744,745	3,305,589	2,324,151	2,406,903	587,162	1,489,105	26,470,882
Other investments	217,649,166	-	-	10,000	999,634	-	-	-	-	-	6,889,147	2,067,270	-	-	-	25,161,990	252,777,207
Accounts receivable	285,340	-	-	174	-	-	-	-	-	-	-	-	-	-	-	-	285,514
Due from other governments	1,627,559	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,627,559
Other assets	<u>6,721,950</u>	-	-	-	-	-	-	-	-	-	-	-	-	<u>933,777</u>	-	-	<u>7,655,727</u>
Total assets	\$ <u>237,875,292</u>	<u>35,504</u>	<u>25,733</u>	<u>54,673</u>	<u>1,314,588</u>	<u>60,546</u>	<u>133,686</u>	<u>48,274</u>	<u>103,741</u>	<u>255,013</u>	<u>10,633,892</u>	<u>5,372,859</u>	<u>2,324,151</u>	<u>3,340,680</u>	<u>587,162</u>	<u>26,651,095</u>	<u>288,816,889</u>
Liabilities and Fund Equity																	
Accrued liabilities - other	\$ 467,745	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	467,745
Guarantee deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,489,105	1,489,105
Deferred compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<u>25,161,990</u>	<u>25,161,990</u>
Total liabilities	<u>467,745</u>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	<u>26,651,095</u>	<u>27,118,840</u>
Fund balance:																	
Reserved for specific purposes	<u>237,407,547</u>	<u>35,504</u>	<u>25,733</u>	<u>54,673</u>	<u>1,314,588</u>	<u>60,546</u>	<u>133,686</u>	<u>48,274</u>	<u>103,741</u>	<u>255,013</u>	<u>10,633,892</u>	<u>5,372,859</u>	<u>2,324,151</u>	<u>3,340,680</u>	<u>587,162</u>	-	<u>261,698,049</u>
Total fund balance	<u>237,407,547</u>	<u>35,504</u>	<u>25,733</u>	<u>54,673</u>	<u>1,314,588</u>	<u>60,546</u>	<u>133,686</u>	<u>48,274</u>	<u>103,741</u>	<u>255,013</u>	<u>10,633,892</u>	<u>5,372,859</u>	<u>2,324,151</u>	<u>3,340,680</u>	<u>587,162</u>	-	<u>261,698,049</u>
Total liabilities and fund equity	\$ <u>237,875,292</u>	<u>35,504</u>	<u>25,733</u>	<u>54,673</u>	<u>1,314,588</u>	<u>60,546</u>	<u>133,686</u>	<u>48,274</u>	<u>103,741</u>	<u>255,013</u>	<u>10,633,892</u>	<u>5,372,859</u>	<u>2,324,151</u>	<u>3,340,680</u>	<u>587,162</u>	<u>26,651,095</u>	<u>288,816,889</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenses and Changes in Fund Equity

Nonexpendable Trust Funds

Year ended June 30, 1996

	<u>Nonexpendable Trust Funds</u>					
	<u>School Fund</u>	<u>Neville Manor Fund</u>	<u>Library Fund</u>	<u>Cemetery Funds</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:						
Donations	\$ 2,310	-	50	24,850	-	27,210
Investment income	<u>1,984</u>	<u>1,491</u>	<u>2,954</u>	<u>85,733</u>	<u>6,891</u>	<u>99,053</u>
Total operating income	<u>4,294</u>	<u>1,491</u>	<u>3,004</u>	<u>110,583</u>	<u>6,891</u>	<u>126,263</u>
Operating transfers to other funds	(1,979)	(1,491)	(2,854)	(85,733)	(6,803)	(98,860)
Operating transfers from other funds	<u>147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147</u>
Net income	<u>2,462</u>	<u>-</u>	<u>150</u>	<u>24,850</u>	<u>88</u>	<u>27,550</u>
Retained earnings/fund equity:						
Beginning of year	<u>33,042</u>	<u>25,733</u>	<u>54,523</u>	<u>1,289,738</u>	<u>60,458</u>	<u>1,463,494</u>
End of year	<u>35,504</u>	<u>25,733</u>	<u>54,673</u>	<u>1,314,588</u>	<u>60,546</u>	<u>1,491,044</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Cash Flows

Nonexpendable Trust Funds

Year ended June 30, 1996

	<u>School Fund</u>	<u>Neville Manor Fund</u>	<u>Library Fund</u>	<u>Cemetery Fund</u>	<u>Other Funds</u>	<u>Total</u>
Cash flows from operating activities:						
Operating income	\$ 4,294	1,491	3,004	110,583	6,891	126,263
Net cash (used for) provided by operating activities	<u>4,294</u>	<u>1,491</u>	<u>3,004</u>	<u>110,583</u>	<u>6,891</u>	<u>126,263</u>
Cash flows from noncapital financing activities:						
Operating transfers - in	147	-	-	-	-	147
Operating transfers - out	<u>(1,979)</u>	<u>(1,491)</u>	<u>(2,854)</u>	<u>(85,733)</u>	<u>(6,803)</u>	<u>(98,860)</u>
Net cash used for non-capital non-financing activities	<u>(1,832)</u>	<u>(1,491)</u>	<u>(2,854)</u>	<u>(85,733)</u>	<u>(6,803)</u>	<u>(98,713)</u>
Cash flows from investing activities:						
Proceeds from sale of investment securities	-	-	4,914	-	-	4,914
Net cash provided by investment activities	<u>-</u>	<u>-</u>	<u>4,914</u>	<u>-</u>	<u>-</u>	<u>4,914</u>
Net increase in cash and cash equivalents	2,462	-	5,064	24,850	88	32,464
Cash and cash equivalents at beginning of year	<u>33,042</u>	<u>25,733</u>	<u>39,435</u>	<u>290,104</u>	<u>60,458</u>	<u>448,772</u>
Cash and cash equivalents at end of year	\$ <u>35,504</u>	<u>25,733</u>	<u>44,499</u>	<u>314,954</u>	<u>60,546</u>	<u>481,236</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Equity

Expendable Trust Funds

Year ended June 30, 1996

	Expendable Trust Funds									
	School Fund	Neville Manor Fund	Library Fund	Cemetery Fund	Health Claims Trust Fund	City Stabilization Trust Fund	School Stabilization Trust Fund	Housing Fund	Other Funds	Total
Revenues:										
Investment income	\$ 6,748	2,629	5,533	10,476	748,988	313,327	-	55,609	31,584	1,174,894
Donations	23,199	-	45,885	-	-	-	-	23,637	1,000	93,721
Employee deduction	-	-	-	-	2,287,294	-	-	-	-	2,287,294
Other	-	-	-	-	-	-	-	4,047	101,340	105,387
Total revenues	<u>29,947</u>	<u>2,629</u>	<u>51,418</u>	<u>10,476</u>	<u>3,036,282</u>	<u>313,327</u>	<u>-</u>	<u>83,293</u>	<u>133,924</u>	<u>3,661,296</u>
Expenditures:										
Other	6,026	2,437	46,233	-	2,700	-	-	476,703	111,592	645,691
Operating health claims subsidy	-	-	-	-	670,815	-	-	-	-	670,815
Total expenditures	<u>6,026</u>	<u>2,437</u>	<u>46,233</u>	<u>-</u>	<u>673,515</u>	<u>-</u>	<u>-</u>	<u>476,703</u>	<u>111,592</u>	<u>1,316,506</u>
Excess (deficiency) of revenues over expenditures	23,921	192	5,185	10,476	2,362,767	313,327	-	(393,410)	22,332	2,344,790
Transfers:										
Operating transfers from other funds	1,979	1,491	2,854	85,733	856,663	-	1,125,639	2,000,000	6,803	4,081,162
Operating transfers to other funds	(147)	-	-	(45,000)	(2,800,000)	-	(1,442,160)	-	-	(4,287,307)
Excess (deficiency) of revenue over expenditures and transfers	25,753	1,683	8,039	51,209	419,430	313,327	(316,521)	1,606,590	29,135	2,138,645
Fund equity at beginning of year	<u>107,933</u>	<u>46,591</u>	<u>95,702</u>	<u>203,804</u>	<u>10,214,462</u>	<u>5,059,532</u>	<u>2,640,672</u>	<u>1,734,090</u>	<u>558,027</u>	<u>20,660,813</u>
Fund equity at end of year	<u>\$ 133,686</u>	<u>48,274</u>	<u>103,741</u>	<u>255,013</u>	<u>10,633,892</u>	<u>5,372,859</u>	<u>2,324,151</u>	<u>3,340,680</u>	<u>587,162</u>	<u>22,799,458</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities Agency Funds

Year ended June 30, 1996

<u>Assets</u>	Balance June 30, 1995	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 1996
Contract Bids	\$ 40,189	1,355	150	41,394
Plans	2,065	-	-	2,065
Tree Removals	485	-	-	485
Driveways	580,519	195,129	700,000	75,648
Street Openings	190,879	41,500	157,750	74,629
Sidewalk Openings	150	-	-	150
In Lieu of Bond	70,945	-	-	70,945
License Commission	19,445	735	9,430	10,750
Cambridge Police Detail	(225,190)	2,402,779	2,400,196	(222,607)
Cambridge Fire Detail	961	39,448	40,442	(33)
Dog Licenses	(911)	15,123	-	14,212
Sporting Licenses	(59)	12,906	12,799	48
Dog Officer	570	-	-	570
Constable Fees	4,056	70,467	72,813	1,710
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	2,161	7,209	3,483	5,887
Accident & life Insurance	98,238	100,220	141,955	56,503
Medicare	3,213	11	-	3,224
Car Seat Program	1,539	-	-	1,539
Deferred Compensation	1,410	-	-	1,410
Commonwealth Health	(10,701)	10,701	-	-
Legal Fees	27,000	11,898	29,723	9,175
Retirement Office Payroll	62,801	-	61,295	1,506
New England Life	229,700	124,759	-	354,459
Continental Casualty	(2,753)	5,279	6,338	(3,812)
Teacher Insurance Reimbursement	4,940	-	-	4,940
Teachers Retirement	270,743	68,237	2,054	336,926
Excise Registry Fees	13,857	-	-	13,857
3 Bidglow Contingency Fund	51,025	13,654	25,458	39,221
Retroactive Wages	6	-	-	6
Land Court Fees	23,348	5,810	-	29,158
Choke Program	1,182	-	-	1,182
Unclaimed Checks	319,573	-	131	319,442
Stop Payments	23,138	-	-	23,138
Sewer Abatement Appraisal Fee	5,395	-	-	5,395
Twelve Mt. Auburn	25,000	-	17,316	7,684
Blue Cross	6,112	-	-	6,112
Hackney Applications	4,746	640	-	5,386
Purchase of Bike Racks	1,386	396	-	1,782
Recycling Bins	267	91	-	358
ERI Funds	-	-	-	-
Levangie/J.P. Construction Co.	45,252	2,550	-	47,802
620 Memorial Dr. YMA	-	81,832	-	81,832
Forty-Three Mt. Auburn Rents	-	2,899	-	2,899
Deferred Compensation	<u>20,921,289</u>	<u>4,552,270</u>	<u>311,569</u>	<u>25,161,990</u>
Total	\$ <u>22,876,099</u>	<u>7,767,898</u>	<u>3,992,902</u>	<u>26,651,095</u>

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities Agency Funds (continued)

Year ended June 30, 1996

<u>Liabilities</u>	Balance June 30, 1995	Additions	Deductions	Balance June 30, 1996
Guarantee deposits and amounts due other:				
Contract Bids	\$ 40,189	1,355	150	41,394
Plans	2,065	-	-	2,065
Tree Removals	485	-	-	485
Driveways	580,519	195,129	700,000	75,648
Street Openings	190,879	41,500	157,750	74,629
Sidewalk Openings	150	-	-	150
In Lieu of Bond	70,945	-	-	70,945
License Commission	19,445	735	9,430	10,750
Cambridge Police Detail	(225,190)	2,402,779	2,400,196	(222,607)
Cambridge Fire Detail	961	39,448	40,442	(33)
Dog Licenses	(911)	15,123	-	14,212
Sporting Licenses	(59)	12,906	12,799	48
Dog Officer	570	-	-	570
Constable Fees	4,056	70,467	72,813	1,710
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	2,161	7,209	3,483	5,887
Accident & life Insurance	98,238	100,220	141,955	56,503
Medicare	3,213	11	-	3,224
Car Seat Program	1,539	-	-	1,539
Deferred Compensation	1,410	-	-	1,410
Commonwealth Health	(10,701)	10,701	-	-
Legal Fees	27,000	11,898	29,723	9,175
Retirement Office Payroll	62,801	-	61,295	1,506
New England Life	229,700	124,759	-	354,459
Continental Casualty	(2,753)	5,279	6,338	(3,812)
Teacher Insurance Reimbursement	4,940	-	-	4,940
Teachers Retirement	270,743	68,237	2,054	336,926
Excise Registry Fees	13,857	-	-	13,857
3 Bidglow Contingency Fund	51,025	13,654	25,458	39,221
Retroactive Wages	6	-	-	6
Land Court Fees	23,348	5,810	-	29,158
Choke Program	1,182	-	-	1,182
Unclaimed Checks	319,573	-	131	319,442
Stop Payments	23,138	-	-	23,138
Sewer Abatement Appraisal Fee	5,395	-	-	5,395
Twelve Mt. Auburn	25,000	-	17,316	7,684
Blue Cross	6,112	-	-	6,112
Hackney Applications	4,746	640	-	5,386
Purchase of Bike Racks	1,386	396	-	1,782
Recycling Bins	267	91	-	358
ERI Funds	-	-	-	-
Levangie/J.P. Construction Co.	45,252	2,550	-	47,802
620 Memorial Dr. YMA	-	81,832	-	81,832
Forty-three Mt. Auburn Rents	-	2,899	-	2,899
Deferred Compensation	20,921,289	4,552,270	311,569	25,161,990
Total	\$ 22,876,099	7,767,898	3,992,902	26,651,095

Other Schedules

The following schedules present detailed information on the City's real estate, personal property, and motor vehicle excise taxes, bonds payable, and general fixed assets as of June 30, 1996.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 1996

	Uncollected June 30, 1995	Commitments	Abatements	Transfers to Tax Title	Refunds	Collections	Adjustments Increase (decrease)	Uncollected June 30, 1996
Real estate taxes:								
1979 and prior	\$ 163,652	-	-	-	-	-	765	164,417
1980	34,138	-	-	-	-	-	95	34,233
1981	41,557	-	-	-	-	327	116	41,346
1982	39,554	-	-	-	250	1,023	(220)	38,561
1983	57,137	-	(1,177)	-	-	1,443	(1,078)	55,793
1984	38,023	-	387	-	-	50	(58)	37,528
1985	37,433	-	-	-	-	-	(1,730)	35,703
1986	8,936	-	-	-	-	-	83	9,019
1987	3,795	-	(692)	-	-	-	(578)	3,909
1988	745	-	-	-	-	(669)	(557)	857
1989	4,254	-	-	-	-	-	121	4,375
1990	8,964	-	-	-	-	2,183	2,333	9,114
1991	129,383	-	-	-	14,480	482	(12,845)	129,536
1992	6,076	-	164,698	-	196,105	-	(31,227)	6,256
1993	4,345	-	172,418	-	217,798	(23,418)	(62,164)	3,979
1994	182	-	619,049	-	751,094	901	(129,454)	1,872
1995	3,405,809	-	1,672,007	1,854,189	2,387,137	1,913,654	(349,789)	3,307
1996	-	<u>136,572,391</u>	<u>2,232,001</u>	<u>-</u>	<u>452,756</u>	<u>132,595,766</u>	<u>438,119</u>	<u>2,635,499</u>
	<u>3,983,983</u>	<u>136,572,391</u>	<u>4,858,691</u>	<u>1,854,189</u>	<u>4,019,620</u>	<u>134,491,742</u>	<u>(156,068)</u>	<u>3,215,304</u>
Personal property taxes:								
1988	164,542	-	-	-	-	-	-	164,542
1989	142,889	-	181	-	-	-	-	142,708
1990	154,755	-	-	-	-	-	-	154,755
1991	139,931	-	2,189	-	-	511	-	137,231
1992	159,489	-	-	-	-	360	-	159,129
1993	199,905	-	11,892	-	-	2,972	-	185,041
1994	73,737	-	10,716	-	-	572	-	62,449
1995	160,566	-	10,106	-	30,487	78,051	(608)	102,288
1996	-	<u>7,935,660</u>	<u>95,043</u>	<u>-</u>	<u>-</u>	<u>7,717,583</u>	<u>916</u>	<u>123,950</u>
	<u>1,195,814</u>	<u>7,935,660</u>	<u>130,127</u>	<u>-</u>	<u>30,487</u>	<u>7,800,049</u>	<u>308</u>	<u>1,232,093</u>
Motor vehicle excise taxes:								
1986	114,770	-	74	-	64	2,283	-	112,477
1987	168,694	-	991	-	213	4,093	203	164,026
1988	189,217	85	153	-	-	6,731	50	182,468
1989	226,681	150	688	-	64	8,264	-	217,943
1990	181,009	-	543	-	-	7,238	135	173,363
1991	190,381	403	742	-	223	10,969	(92)	179,204
1992	144,595	596	595	-	125	8,595	34	136,160
1993	153,915	664	4,119	-	1,561	19,852	319	132,488
1994	214,867	17,464	13,325	-	11,620	69,051	(2,052)	159,523
1995	339,882	823,641	68,009	-	52,594	896,201	(574)	251,333
1996	-	<u>3,431,625</u>	<u>60,700</u>	<u>-</u>	<u>7,408</u>	<u>2,542,061</u>	<u>2,460</u>	<u>844,732</u>
	<u>\$ 1,924,011</u>	<u>4,274,628</u>	<u>149,939</u>	<u>-</u>	<u>73,872</u>	<u>3,575,338</u>	<u>6,483</u>	<u>2,553,717</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds Payable

June 30, 1996

	Interest Rates	Issue Dates	Final Maturity Date	Balance June 30, 1995	Additions	*Retired	Balance June 30, 1996
Inside Debt Limit:							
Surface drainage loan	5.4%	10/15/76	10/15/96	\$ 150,000	-	75,000	75,000
Hospital loan (boiler renovation)	7.0%	7/1/85	7/1/93	-	-	-	-
Lechmere Canal Park loan	7.0%	7/1/85	7/1/95	400,000	-	400,000	-
Lechmere parking garage	6.1-6.2%	7/1/85	7/1/94	-	-	-	-
Building acquisition	5.6-5.7%	6/15/87	6/15/97	400,000	-	200,000	200,000
Hospital loan (boiler renovation)	5.6-5.7%	6/15/87	6/15/97	300,000	-	150,000	150,000
Public Building renovation	5.6-5.7%	6/15/87	6/15/97	120,000	-	60,000	60,000
Streets and sidewalks	5.6-5.7%	6/15/87	6/15/97	600,000	-	300,000	300,000
Building renovations	5.9-6.4%	6/15/88	6/15/98	900,000	-	300,000	600,000
Streets and sidewalks	5.9-6.4%	6/15/88	6/15/98	300,000	-	100,000	200,000
Building renovations	6.4-6.5%	6/15/89	6/15/99	740,000	-	185,000	555,000
Hospital loan (boiler renovation)	6.4-6.5%	6/15/89	6/15/99	2,000,000	-	500,000	1,500,000
Open space improvements	6.4-6.5%	6/15/89	6/15/99	660,000	-	165,000	495,000
Streets and sidewalks	6.4-6.5%	6/15/89	6/15/99	1,000,000	-	250,000	750,000
Building renovations	6.4-6.6%	6/15/90	6/15/00	525,000	-	105,000	420,000
Hospital	6.4-6.6%	6/15/90	6/15/00	3,175,000	-	635,000	2,540,000
Hospital loan (boiler renovation)	6.4-6.6%	6/15/90	6/15/00	1,000,000	-	200,000	800,000
Open space improvements	6.4-6.6%	6/15/90	6/15/00	1,300,000	-	260,000	1,040,000
Building renovation	5.8-6.0%	6/15/91	6/15/01	225,000	-	40,000	185,000
Fire station renovations	5.8-6.0%	6/15/91	6/15/01	600,000	-	100,000	500,000
Open space renovations	5.8-6.0%	6/15/91	6/15/01	1,020,000	-	170,000	850,000
Public art acquisition	5.8-6.0%	6/15/91	6/15/01	40,000	-	40,000	-
Building acquisition - senior center	4.3-5.3%	6/15/92	6/15/02	660,000	-	330,000	330,000
Building acquisition - teen center	4.3-5.3%	6/15/92	6/15/02	1,345,000	-	195,000	1,150,000
Elementary school renovation	4.3-5.3%	6/15/92	6/15/02	480,000	-	240,000	240,000
Fire station renovations	4.3-5.3%	6/15/92	6/15/02	350,000	-	50,000	300,000
Nursing home renovations	4.3-5.3%	6/15/92	6/15/02	1,050,000	-	150,000	900,000
Open space improvements	4.3-5.3%	6/15/92	6/15/02	1,260,000	-	180,000	1,080,000
Public art acquisition	4.3-5.3%	6/15/92	6/15/02	40,000	-	20,000	20,000
Sewer separation project loan	2.35-5.5%	5/21/93	8/1/08	5,745,190	-	594,446	5,150,744
Sewer loan	3.75-4.3%	2/1/94	2/1/04	450,000	-	50,000	400,000
Open space improvements	3.75-4.3%	2/1/94	2/1/04	1,575,000	-	175,000	1,400,000
Sewer bond		2/17/94	2/15/99	781,740	-	195,435	586,305
Open space improvement	5.5%-5.9%	11/1/94	11/1/99	4,400,000	-	440,000	3,960,000
Sewer loan	5.5%-5.9%	11/1/94	11/1/99	500,000	-	50,000	450,000
Sewer separation project loan	4.0%-5.25%	5/1/95	2/1/05	<u>6,675,334</u>	-	<u>575,218</u>	<u>6,100,116</u>
Total Inside Debt Limit				<u>40,767,264</u>	-	<u>7,480,099</u>	<u>33,287,165</u>
Outside Debt Limit:							
School:							
High School Loan	5.7%	6/15/78	6/15/98	3,465,000	-	1,155,000	2,310,000
School Building Renovation	5.6-5.7%	6/15/87	6/15/97	360,000	-	180,000	180,000
Elementary school construction	3.75-4.3%	2/1/94	2/1/04	8,338,000	-	765,000	7,573,000
Elementary school construction	5.5%-5.9%	11/1/94	11/1/99	<u>12,100,000</u>	-	<u>1,097,000</u>	<u>11,003,000</u>
				<u>24,263,000</u>	-	<u>3,197,000</u>	<u>21,066,000</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds Payable (continued)

June 30, 1996

	<u>Interest Rates</u>	<u>Issue Dates</u>	<u>Final Maturity Date</u>	<u>Balance June 30, 1995</u>	<u>Additions</u>	<u>*Retired</u>	<u>Balance June 30, 1996</u>
Sewer Projects:							
Sewer Loan	5.4%	10/15/76	10/15/96	<u>430,000</u>	<u>-</u>	<u>215,000</u>	<u>215,000</u>
				<u>430,000</u>	<u>-</u>	<u>215,000</u>	<u>215,000</u>
Water Projects:							
Reservoir Cover	6.4-6.5%	6/15/89	6/15/99	400,000	-	100,000	300,000
Reservoir Cover	6.4-6.5%	6/15/90	6/15/00	4,000,000	-	800,000	3,200,000
Reservoir Cover	5.8-6.0%	6/15/91	6/15/01	2,495,000	-	380,000	2,115,000
Reservoir Cover	4.3-5.3%	6/15/92	6/15/02	400,000	-	200,000	200,000
Reservoir Cover	3.75-3.8%	2/1/94	2/1/99	1,157,000	-	290,000	867,000
Treatment plant renovations	3.75-4.3%	2/1/94	2/1/04	495,000	-	55,000	440,000
Treatment plant renovations	5.5-5.9%	11/1/94	11/1/99	2,000,000	-	313,000	1,687,000
Water main replacements	5.5-5.9%	11/1/94	11/1/99	<u>1,000,000</u>	<u>-</u>	<u>100,000</u>	<u>900,000</u>
				11,947,000		2,238,000	9,709,000
Section 108 Notes Payable				1,000,000	1,500,000	-	2,500,000
Total Outside Debt Limit				<u>37,640,000</u>	<u>1,500,000</u>	<u>5,650,000</u>	<u>33,490,000</u>
				\$ <u>78,407,264</u>	<u>1,500,000</u>	<u>13,130,099</u>	<u>66,777,165</u>

*Note: Includes Cambridge Hospital and Neville Manor debt retirements for fiscal year 1996.

CITY OF CAMBRIDGE, MASSACHUSETTS
Schedule of General Fixed Assets - by Function and Activity
Year ended June 30, 1996

<u>Function and Activity</u>	<u>Total</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Equipment</u>
General Government:					
Control:					
Legislative	54,191	-	-	-	54,191
Executive	<u>131,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,569</u>
Total Control	<u>185,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>185,760</u>
Staff Agencies:					
Elections	41,988	-	-	-	41,988
Finance	1,649,253	-	-	-	1,649,253
Law	79,533	-	-	-	79,533
Employee Benefits	2,091	-	-	-	2,091
Animal Commission	1,964	-	-	-	1,964
Public Celebrations	<u>110,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,549</u>
Total Staff Agencies	<u>1,885,378</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,885,378</u>
Total General Government	<u>2,071,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,071,138</u>
Public Safety:					
Building inspection	17,790	-	-	-	17,790
License	20,227	-	-	-	20,227
Weights and measures	10,219	-	-	-	10,219
Emergency management	40,694	-	-	-	40,694
Fire Protection	8,945,665	3,274,675	1,806,228	-	3,864,762
Police Protection	5,081,970	999,803	485,605	-	3,596,562
Traffic and Parking	21,921,627	1,952,080	18,095,215	-	1,874,332
Electrical	453,460	50,000	21,542	-	381,918
Emergency Commission	<u>2,459,551</u>	<u>-</u>	<u>1,211,712</u>	<u>-</u>	<u>1,247,839</u>
Total Public Safety	<u>38,951,203</u>	<u>6,276,558</u>	<u>21,620,302</u>	<u>-</u>	<u>11,054,343</u>
Community Maintenance and Development:					
Public Works	50,843,042	23,350,662	15,893,413	6,172,964	5,426,003
Community Development	3,585,967	-	57,711	3,195,254	333,002
Historical Commission	161,146	-	-	81,066	80,080
Conservation Commission	2,575	-	-	-	2,575
Rent Control	76,909	-	-	-	76,909
Cable Television	<u>222,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,066</u>
Total Community Maintenance and Development	<u>54,891,705</u>	<u>23,350,662</u>	<u>15,951,124</u>	<u>9,449,284</u>	<u>6,140,635</u>
Human Resource Development:					
Library	1,680,528	125,000	1,208,656	-	346,872
Human Services	90,141,173	87,242,253	891,635	1,277,517	729,768
Human Rights Commission	12,414	-	-	-	12,414
Women's Commission	5,709	-	-	-	5,709
Health Department/School Health	8,253	-	-	-	8,253
Veteran Benefits	<u>19,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,181</u>
Total Human Resource Development	<u>91,867,258</u>	<u>87,367,253</u>	<u>2,100,291</u>	<u>1,277,517</u>	<u>1,122,197</u>
Public School	<u>129,586,109</u>	<u>55,067,765</u>	<u>67,161,672</u>	<u>848,786</u>	<u>6,507,886</u>
Construction in Progress	<u>6,962,672</u>	<u>-</u>	<u>6,962,672</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>324,330,085</u>	<u>172,062,238</u>	<u>113,796,061</u>	<u>11,575,587</u>	<u>26,896,199</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Changes in General Fixed Assets - by Function and Activity

Year Ended June 30, 1996

<u>Function and Activity</u>	<u>General Fixed Assets June 30, 1995</u>	<u>Additions</u>	<u>Disposals</u>	<u>General Fixed Assets June 30, 1996</u>
General Government:				
Control:				
Legislative	\$ 42,589	13,103	(1,501)	54,191
Executive	<u>113,119</u>	<u>18,450</u>	<u>-</u>	<u>131,569</u>
Total Control	<u>155,708</u>	<u>31,553</u>	<u>(1,501)</u>	<u>185,760</u>
Staff Agencies:				
Elections	37,292	11,307	(6,611)	41,988
Finance	1,437,747	315,435	(103,929)	1,649,253
Law	64,188	36,762	(21,417)	79,533
Employee Benefits	2,091	-	-	2,091
Animal Commission	5,429	-	(3,465)	1,964
Public Celebrations	<u>111,968</u>	<u>1,260</u>	<u>(2,679)</u>	<u>110,549</u>
Total Staff Agencies	<u>1,658,715</u>	<u>364,764</u>	<u>(138,101)</u>	<u>1,885,378</u>
Total General Government	<u>1,814,423</u>	<u>396,317</u>	<u>(139,602)</u>	<u>2,071,138</u>
Public Safety:				
Building Inspection	11,494	8,434	(2,138)	17,790
License	20,227	-	-	20,227
Weights and measures	10,219	-	-	10,219
Emergency management	41,285	-	(591)	40,694
Fire protection	8,890,468	426,782	(371,585)	8,945,665
Police protection	3,897,883	1,184,087	-	5,081,970
Traffic and parking	21,811,681	109,946	-	21,921,627
Electrical	669,582	-	(216,122)	453,460
Emergency Commission	<u>1,086,475</u>	<u>2,109,047</u>	<u>(735,971)</u>	<u>2,459,551</u>
Total Public Safety	<u>36,439,314</u>	<u>3,838,296</u>	<u>(1,326,407)</u>	<u>38,951,203</u>
Community Maintenance and Development:				
Public Works	49,916,314	1,186,451	(259,723)	50,843,042
Community Development	2,970,296	633,484	(17,813)	3,585,967
Historical Commission	137,683	36,632	(13,169)	161,146
Conservation Commission	75	2,500	-	2,575
Rent Control	79,048	-	(2,139)	76,909
Cable television	<u>169,427</u>	<u>52,639</u>	<u>-</u>	<u>222,066</u>
Total Community Maintenance	<u>53,272,843</u>	<u>1,911,706</u>	<u>(292,844)</u>	<u>54,891,705</u>
Human Resource Development:				
Library	1,573,823	107,400	(695)	1,680,528
Human Services	90,060,255	151,385	(70,467)	90,141,173
Human Rights Commission	9,360	3,054	-	12,414
Women's Commission	5,709	-	-	5,709
Health Department/School Health	8,253	-	-	8,253
Veteran's Benefits	<u>4,285</u>	<u>14,896</u>	<u>-</u>	<u>19,181</u>
Total Human Resource Development	<u>91,661,685</u>	<u>276,735</u>	<u>(71,162)</u>	<u>91,867,258</u>
Public Schools	<u>128,690,059</u>	<u>896,050</u>	<u>-</u>	<u>129,586,109</u>
Construction in Progress	<u>4,323,448</u>	<u>2,639,224</u>	<u>-</u>	<u>6,962,672</u>
Totals	\$ <u>316,201,772</u>	<u>9,958,328</u>	<u>(1,830,015)</u>	<u>324,330,085</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Cambridge Hospital Assets, Liabilities and Fund Equity

Year Ended June 30, 1996

Assets

Cash and short-term investments	\$ 48,128,526
Other funds due from City	10,106,921
Accounts receivable	13,091,446
Allowance for doubtful accounts	<u>(4,368,426)</u>
Accounts receivable, net	8,723,020
Prepaid expenses	159,479
Inventory and other assets	<u>697,839</u>
Total current assets	67,815,785
Assets limited as to use:	
By City Council for building	17,163,971
By City Council for funded depreciation	15,639,884
By City Council for capital acquisitions	<u>271,674</u>
Total assets limited as to use	33,075,529
Property, plant and equipment	71,714,257
Accumulated depreciation	<u>(30,067,683)</u>
Property, plant and equipment, net	<u>41,646,574</u>
Total assets	\$ <u><u>142,537,888</u></u>

Liabilities and Retained Earnings

Liabilities:

Accounts payable and accrued expenses	\$ 4,862,594
Salaries and compensated absences	4,020,487
Due to third parties, current	4,276,457
Bonds payable, current	1,485,000
Capital lease obligation, current	287,925
Deferred revenue	<u>10,515,789</u>
Total current liabilities	25,448,252
Due to third parties, noncurrent	29,283,385
Bonds payable, noncurrent	3,505,000
Capital lease obligation, noncurrent	<u>713,916</u>
Total liabilities	58,950,553

Retained earnings:

Retained earnings/fund equity	82,598,539
Contributed capital	901,117
Restricted grant funds	<u>87,679</u>

Total liabilities and fund balance \$ 142,537,888

Note: This schedule is reported as discontinued operations in the City of Cambridge financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Cambridge Hospital Operations

Year Ended June 30, 1996

Net patient service revenue	\$ 62,316,083
Other	<u>49,592,063</u>
Total operating revenues	<u>111,908,146</u>
Administration	438,532
Finance	4,441,479
Service and support progs	70,681,853
General services	10,811,976
Depreciation	3,554,268
Provision for bad debts	18,339,740
Other	<u>6,588,308</u>
Total operating expenses	<u>114,856,156</u>
Operating loss	(2,948,010)
Interest income	4,244,942
Interest expense	<u>(465,314)</u>
Income before operating transfers	831,618
Operating transfers from other funds	<u>9,969,360</u>
Net income	10,800,978
Retained earnings:	
Beginning of year	<u>71,797,561</u>
End of year	\$ <u><u>82,598,539</u></u>

Note: This schedule is reported as discontinued operations in the City of Cambridge financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Neville Manor Assets, Liabilities and Fund Equity

Year Ended June 30, 1996

Assets

Cash and short-term investments (overdraft)	\$ (21,119)
Accounts receivable	3,394,382
Allowance for doubtful accounts	<u>(541,830)</u>
Accounts receivable, net	2,852,552
Inventory and other assets	<u>213,334</u>
Total current assets	3,044,767
Assets limited as to use:	
By City Council for capital acquisitions	<u>149,378</u>
Total assets limited as to use	149,378
Property, plant and equipment	9,399,965
Accumulated depreciation	<u>(1,340,769)</u>
Property, plant and equipment, net	8,059,196
Total assets	\$ <u>11,253,341</u>

Liabilities and Retained Earnings

Accounts payable and accrued expenses	\$ 673,803
Salaries and compensated absences	562,638
Due to third parties, current	801,090
Bonds payable, current	<u>150,000</u>
Total current liabilities	2,187,531
Bonds payable, noncurrent	<u>750,000</u>
Total liabilities	2,937,531
Retained earnings/fund equity	2,625,430
Contributed capital	<u>5,690,380</u>
Total liabilities and fund balance	\$ <u>11,253,341</u>

Note: This schedule is reported as discontinued operations in the City of Cambridge financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Neville Manor Operations

Year ended June 30, 1996

Net patient service revenue	\$ 9,266,941
Other	<u>125,327</u>
Total operating revenues	<u>9,392,268</u>
Administration	650,106
Service and support programs	7,561,674
General services	3,033,533
Depreciation	133,808
Provision for bad debts	<u>282,158</u>
Total operating expenses	<u>11,661,279</u>
Operating loss	(2,269,011)
Interest income	61,296
Interest expense	<u>(51,458)</u>
Loss before operating transfers	(2,259,173)
Operating transfers from other funds	<u>834,000</u>
Net loss	(1,425,173)
Retained earnings:	
Beginning of year	<u>4,050,603</u>
End of year	\$ <u><u>2,625,430</u></u>

Note: This schedule is reported as discontinued operations in the City of Cambridge financial statements.

PROPOSED FORM OF LEGAL OPINION

PALMER & DODGE LLP

ONE BEACON STREET, BOSTON, MA 02108-3190

Telephone: (617) 573-0100

Facsimile: (617) 227-4420

(Date of Delivery)

James P. Maloney, Jr.
City Treasurer
City of Cambridge
Cambridge, Massachusetts

(Cambridge Municipal Purpose Loan of 1997 Bonds)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of \$9,905,000 Municipal Purpose Loan of 1997 Bonds dated June 15, 1997, by the City of Cambridge, Massachusetts.

On the basis of this examination we are of opinion, as of the date hereof and under existing law, as follows:

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

(2) The interest on the bonds is exempt from Massachusetts personal income taxes, and the bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the bonds.

(3) The interest on the bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1983, as amended (the "Code"); it should be noted, however, that interest on the bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the bonds. Except as expressed in the following paragraph, we express no opinion regarding other federal tax consequences arising with respect to the bonds.

(4) The bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.

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

Yours faithfully,

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cambridge, Massachusetts (the "Issuer") in connection with the issuance of its \$9,905,000 Municipal Purpose Loan of 1997 Bonds dated June 15, 1997 (the "Bonds"). The Issuer covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. *Definitions.* For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

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

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

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

SECTION C. *Provision of Annual Reports.*

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

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

SECTION 4. *Content of Annual Reports.* The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated June 9, 1997 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, and (vi) pension obligations of the Issuer, and

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

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and the audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. *Reporting of Material Events.*

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

It should be noted, however, that as of this date events of the types listed in paragraphs 2, 3, 4, 5, 8 and 10 above are not applicable to the Bonds.

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

SECTION 6. *Termination of Reporting Obligation.* The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds or payment in full of all of the Bonds.

SECTION 7. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 8. *Default.* In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 9. *Beneficiaries.* This Disclosure Certificate shall insure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: _____, 1997

CITY OF CAMBRIDGE

By _____
Treasurer

City Manager

- [EXHIBIT A: List of National Repositories]
- [EXHIBIT B: Form of Notice of Failure to File Annual Report]

CITY OF CAMBRIDGE
MASSACHUSETTS\$9,905,000
GENERAL OBLIGATION BONDS
MUNICIPAL PURPOSE LOAN OF 1997
(Bank-Qualified)**Time and Place of Sale**

The City of Cambridge, Massachusetts, will receive written proposals until 11:00 a.m. (local time) on Wednesday, June 18, 1997 at Cambridge City Hall, First Floor, Office of the Treasurer, Cambridge, Massachusetts 02139 for the purchase of the following described general obligation Bonds of the City dated June 15, 1997:

\$9,905,000 MUNICIPAL PURPOSE LOAN OF 1997, payable June 15, \$1,045,000 in 1998 through 2001, \$1,040,000 in 2002, \$940,000 in 2003 and 2004, and \$935,000 in 2005 through 2007.

The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Munifacts News Wire Service and by posting notice of such extension at the place for receipt of bids, such notice to be given and posted not later than 20 hours prior to the receipt of bids. Such notice shall be considered an amendment to the Official Notice of Sale. Any bid submitted prior to the notice of extending the date and/or time for the receipt of bids may be withdrawn and resubmitted without prejudice.

Form and Payment of Bonds

Principal of the Bonds will be payable on June 15 of the years in which the Bonds mature. Interest will be payable semiannually on June 15 and December 15, commencing December 15, 1997. Interest will be computed on the basis of a 360-day year of twelve 30-day months. **The Bonds are not subject to redemption prior to their stated maturities.**

The Bonds are issuable only as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 each and integral multiples thereof. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Only System" herein.)

So long as DTC or its nominee, Cede & Co., is the Bondowner, payments of principal and semiannual interest on the Bonds will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Legal Opinion

The approving opinion of Messrs. Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, with respect to this issue shall be furnished to the successful bidder at the expense of the City. The legal opinion will state that the Bonds constitute valid general obligations of the City. The original opinion of Bond Counsel and copies of the supporting documents incident to the Bonds will be available for inspection at the offices of the City Treasurer.

Bidding Rules

Each bid must be unconditional and must be for all of the Bonds herein described. All bids should be marked "Proposal for Bonds" and addressed to Mr. James P. Maloney, Jr., Treasurer, City of Cambridge, 795 Massachusetts Avenue, First Floor, Cambridge, Massachusetts 02139. **A good faith deposit is not required.**

Bidders may submit their bids at the time and place specified herein in person or by facsimile transmission. Bidders choosing to submit bids by facsimile transmission shall use the following telecopier numbers for such transmission: (617) 349-4307 or (617) 349-4213 (Attention: James Maloney). Facsimile transmission must be received by 11:00 a.m., Local Time, on the Date of Sale in order to be considered. Transmissions received after this time shall be rejected. It is the responsibility of the bidder to ensure that the bid is legible, that the bid is received prior to 11:00 a.m., Local Time, and that the bid is sent to one of the telecopier numbers set forth above. Illegible transmissions will not be accepted. The City's Financial Advisor will verify receipt of each bid submitted through facsimile transmission by contacting each bidder by telephone once the bid has been received. The City's Financial Advisor will in no instance correct, alter or in any way change bids submitted through facsimile transmission.

Neither the City nor its Financial Advisor will be responsible for bids submitted by facsimile transmission not received in accordance with the provisions of this Official Notice of Sale. Neither the City nor its Financial Advisor will be responsible for inaccurate, illegible, or delayed proposals submitted by facsimile transmission. Bidders electing to submit bids via facsimile transmission will bear full and complete responsibility for the transmission of such bid.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in multiples of $\frac{1}{8}$ or $\frac{1}{16}$ of 1 percent, but shall not state (a) more than one interest rate for any Bonds having like maturity, (b) any interest rate which is less than the interest rate stated for any other Bonds having an earlier maturity, or (c) any interest rate which exceeds the interest rate stated for any other Bonds by more than 4 percent. No bid of less than par or more than 103 percent of par and accrued interest to date of delivery will be considered.

Basis of Awarding Bonds

The City reserves the right to reject any and all bids and to reject any bid not complying with this Notice of Sale, and so far as permitted by law, to waive any irregularity with respect to any proposal. Unless all bids are rejected, the Bonds will be awarded to the bidder complying with this Notice of Sale and submitting a bid, which provides the lowest "true" or "Canadian" interest cost. True (Canadian) interest cost shall be determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payment to June 15, 1997, and to the price bid, excluding interest accrued to the delivery date. If more than one bid offers the same lowest true (Canadian) interest cost, the successful bid will be selected by lot. The award is subject to approval by the City Manager.

Interest Calculation

Each bid shall be accompanied by a statement of the true (Canadian) interest cost offered in its bid statement in accordance with the above method of calculation (computed at six decimal places), but such statement shall not be considered to be part of the bid.

Delivery of the Bonds: Closing Certificates

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that he shall be furnished, without cost, with: (a) the approving opinion of the firm of Palmer & Dodge LLP, substantially in the form presented in Appendix B to the Preliminary Official Statement dated June 9, 1997; (b) a certificate in form satisfactory to said firm, dated as of the date of delivery of the Bonds and receipt of payment thereof, to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting the validity of the Bonds or the power of the City to levy and collect taxes to pay them; (c) a certificate of the City Treasurer and City Auditor to the effect that, to the best of their knowledge and belief, both as of the date of sale and of the date of delivery of the Bonds, the Official Statement referred to below does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; and (d) a Continuing Disclosure Certificate in the form described in the Preliminary Official Statement.

The Bonds, in definitive form, will be delivered to The Depository Trust Company in New York, New York on or about June 30, 1997.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the City will undertake to provide annual reports and notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

Official Statement

The City will furnish the successful bidder, without cost, with up to 300 copies of the Final Official Statement within seven business days from the date of the award of sale, as specified in Rule 15c2-12 of the Securities and Exchange Commission. Additional copies will be made available at the successful bidder's request and expense. The City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement to anyone other than the successful bidder.

Additional Information

Additional information concerning the City of Cambridge and the Bonds is contained in the Preliminary Official Statement dated June 9, 1997 to which the prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. The Preliminary Official Statement has been deemed final by the City except for the omission of the reoffering prices, interest rates, and other terms of the Bonds depending on such matters, and the identity of the underwriters, but is subject to change without notice and to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement and a suggested bid form for the Bonds may be obtained from James P. Maloney, Jr., City Treasurer, City Hall, First Floor, Cambridge, Massachusetts 02139 (Telephone 617-349-4220) or from Michelle G. Cowan, Government Finance Group, Inc., 4350 North Fairfax Drive, Suite 410, Arlington, Virginia 22203. (Telephone: 703-528-5785) Within seven business days following the award of the Bonds and receipt of necessary information from the successful bidder, copies of the Final Official Statement will be made available to the successful bidder as noted above.

/s/ James P. Maloney, Jr.
City Treasurer

F-99

**\$9,905,000 City of Cambridge
Massachusetts General Obligation
Bonds Municipal Purpose Loan of
1997.**

In City Council June 9, 1997