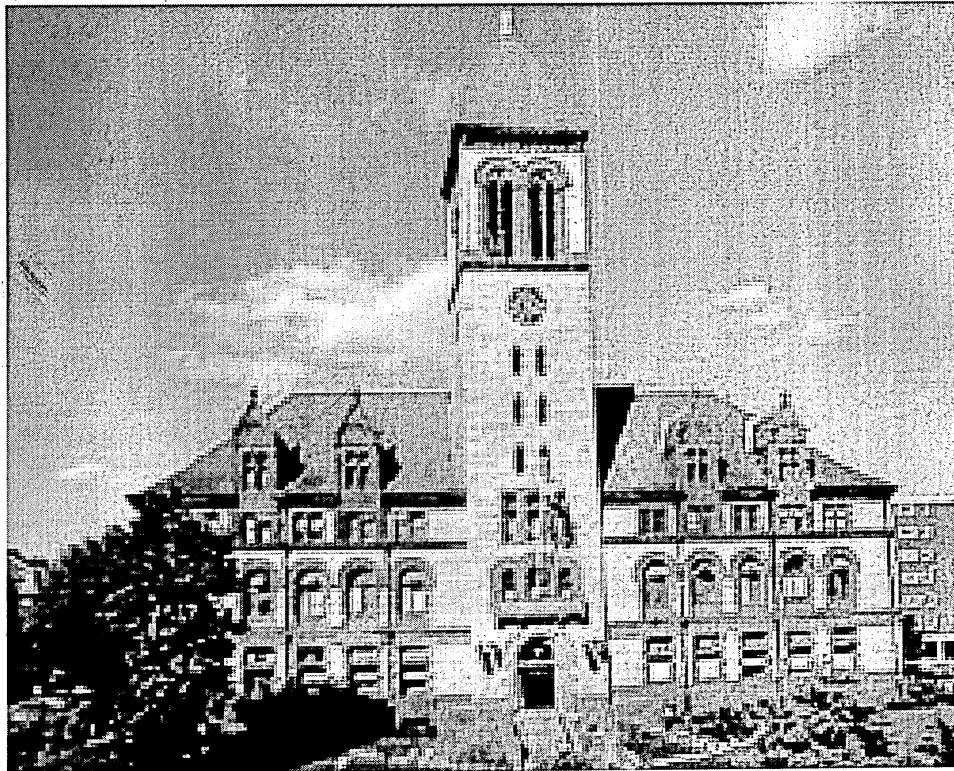


Preliminary

POST SALE ANALYSIS



City of Cambridge, Massachusetts

\$28,675,000

General Obligation Bonds

Municipal Loan of 2003

Prepared by:
ARD Government Finance Group
Arlington, Virginia

SECTION I: CREDIT RATINGS

The bond market's perception of credit quality is the most important element in price determination, excluding general market conditions. Credit reports continue to boast the City of Cambridge's superior financial and economic stability, even while other localities are being downgraded under fiscal stress, struggling to maintain their budgets.

Credit Ratings – City of Cambridge GO Bonds

<u>Rating Agency</u>	<u>From</u>	<u>To</u>
Fitch	AAA	AAA
Moody's	Aaa	Aaa
Standard & Poor's	AAA	AAA

Each of the three major credit rating agencies graded the City's long-term debt as triple-A – Fitch (AAA), Moody's (Aaa), and Standard & Poor's (AAA). In assessing the City's ability and willingness to pay its full faith and credit debt, the agencies were consistent in their analyses. Below are highlights from their reports:

Fitch Ratings

- ◇ “The superior credit rating reflects Cambridge's strong local economy, characterized by a sizable and stable employment base, a substantial and growing tax base, healthy fund balances, and a low debt burden.”
- ◇ “Financial planning and debt management are solid.”
- ◇ “Cambridge has a history of positive operating results, strong financial management, and the requisite financial flexibility to withstand economic downturns.”
- ◇ “Cambridge is an important economic component of the Boston metropolitan area and Massachusetts.”

Moody's

- ◇ “Moody's assignment of its highest quality long-term rating incorporates: a strong and forward-thinking fiscal management approach that has sustained a trend of favorable financial operations; a significant level of available operating flexibility which positions the City well to address potential fiscal challenges...”

- ◇ “Cambridge maintains a very comfortable level of General Fund reserves that positions the City to accommodate anticipated state aid reductions.”
- ◇ “Moody’s expects the City will continue to experience expansion in its diverse \$18.1 billion base, reflecting sustained development and appreciation.”

Standard & Poor’s

- ◇ “The ‘AAA’ rating ... reflects Cambridge’s wealthy local economy, which draws its considerable strength from education, research, biotechnology, and consulting services; an experienced and innovative management team; strong financial operations supported by consistently prudent fiscal practices, including budget stabilization reserves; and a low debt burden with a history of consistent implementation of a capital improvement plan (CIP).”
- ◇ The employment base is largely professional, which contributes to an above-average median household effective buying income that is 4% greater the commonwealth’s average and 24% greater than the nation’s average.”
- ◇ Financial operations remain strong, and applications of good financial policies has been consistent.”

The City’s rating is especially significant since less than a dozen cities in the U.S. maintain triple-A ratings from each of the three rating agencies. The letters and reports (provided in Appendix A) directly address the factors that substantiate the triple-A credit ratings on the City’s debt.

The agencies have maintained the City’s triple-A rating on the City for several years site-unseen. Each is now requesting a site visit, given most state and local governments face fiscal stress and budget crisis’s. Although Cambridge has out-performed the norm, it would be prudent to conduct a tour for the rating agencies prior to the next bond issuance.

SECTION II: THE BONDS

On Tuesday, January 21, 2003, the City of Cambridge, Massachusetts (the "City") received eleven competitive bids (a record number) for the purchase of its \$28,675,000 General Obligation Bonds, Municipal Purpose Loan of 2003 (the "Bonds.") Morgan Stanley & Co., Incorporated purchased the Bonds with the lowest true interest cost ("TIC") of 3.10%. The offering results of the competitive sale are shown below.

Amounts, Maturities, Interest Rates and Yields

Year	Principal Amount	Interest Rate	Initial Yield	Year	Principal Amount	Interest Rate	Initial Yield
2004	\$ 2,870,000	2.25%	1.13%	2009	\$ 2,865,000	3.25%	2.92%
2005	\$ 2,870,000	2.25%	1.27%	2010	\$ 2,865,000	3.50%	3.20%
2006	\$ 2,870,000	2.25%	1.68%	2011	\$ 2,865,000	4.00%	3.44%
2007	\$ 2,870,000	2.50%	2.11%	2012	\$ 2,865,000	4.00%	3.61%
2008	\$ 2,870,000	3.00%	2.54%	2013	\$ 2,865,000	4.00%	3.74%

Par Amount:	\$28,675,000
Dated Date:	January 15, 2003
Delivery Date:	February 4, 2003
True Interest Cost:	3.104529%
Winning Bidder:	Morgan Stanley & Co., Incorporated
Bid Amount:	\$29,147,213.96
Reoffering Premium:	\$589,616.95
Underwriter's Compensation:	\$117,402.99 (net) \$4.09/\$1,000 bond

The schedules on the following three pages set forth the sources and uses of funds, the City's debt service payments, and the pricing summary for the Bonds.

City of Cambridge, MA
\$28,675,000
General Obligation Bonds
Municipal Purpose Loan of 2003
SOURCES & USES

Dated 01/15/2003

Delivered 02/04/2003

SOURCES OF FUNDS

Par Amount of Bonds.....	\$28,675,000.00
Reoffering Premium.....	589,616.95
Accrued Interest from 01/15/2003 to 02/04/2003.....	46,906.92

TOTAL SOURCES.....	\$29,311,523.87
---------------------------	------------------------

USES OF FUNDS

Total Underwriter's Discount (0.409%).....	117,402.99
Deposit to Debt Service Fund.....	46,906.92
Deposit to Project Construction Fund.....	29,147,213.96

TOTAL USES.....	\$29,311,523.87
------------------------	------------------------

ARD Government Finance Group

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City of Cambridge, MA \$28,675,000 General Obligation Bonds Municipal Purpose Loan of 2003 DEBT SERVICE SCHEDULE					
Date	Principal	Coupon	Interest	Total P+I	FISCAL TOTAL
2/04/2003	-	-	-	-	-
7/01/2003	-	-	409,818.26	409,818.26	-
1/01/2004	2,870,000.00	2.250%	444,381.25	3,314,381.25	-
6/30/2004	-	-	-	-	3,724,199.51
7/01/2004	-	-	412,093.75	412,093.75	-
1/01/2005	2,870,000.00	2.250%	412,093.75	3,282,093.75	-
6/30/2005	-	-	-	-	3,694,187.50
7/01/2005	-	-	379,806.25	379,806.25	-
1/01/2006	2,870,000.00	2.250%	379,806.25	3,249,806.25	-
6/30/2006	-	-	-	-	3,629,612.50
7/01/2006	-	-	347,518.75	347,518.75	-
1/01/2007	2,870,000.00	2.500%	347,518.75	3,217,518.75	-
6/30/2007	-	-	-	-	3,565,037.50
7/01/2007	-	-	311,643.75	311,643.75	-
1/01/2008	2,870,000.00	3.000%	311,643.75	3,181,643.75	-
6/30/2008	-	-	-	-	3,493,287.50
7/01/2008	-	-	268,593.75	268,593.75	-
1/01/2009	2,865,000.00	3.250%	268,593.75	3,133,593.75	-
6/30/2009	-	-	-	-	3,402,187.50
7/01/2009	-	-	222,037.50	222,037.50	-
1/01/2010	2,865,000.00	3.500%	222,037.50	3,087,037.50	-
6/30/2010	-	-	-	-	3,309,075.00
7/01/2010	-	-	171,900.00	171,900.00	-
1/01/2011	2,865,000.00	4.000%	171,900.00	3,036,900.00	-
6/30/2011	-	-	-	-	3,208,800.00
7/01/2011	-	-	114,600.00	114,600.00	-
1/01/2012	2,865,000.00	4.000%	114,600.00	2,979,600.00	-
6/30/2012	-	-	-	-	3,094,200.00
7/01/2012	-	-	57,300.00	57,300.00	-
1/01/2013	2,865,000.00	4.000%	57,300.00	2,922,300.00	-
6/30/2013	-	-	-	-	2,979,600.00
Total	28,675,000.00	-	5,425,187.01	34,100,187.01	-

YIELD STATISTICS

Accrued Interest from 01/15/2003 to 02/04/2003.....	46,906.92
Bond Year Dollars.....	\$156,534.86
Average Life.....	5.459 Years
Average Coupon.....	3.4658011%
Net Interest Cost (NIC).....	3.1641342%
True Interest Cost (TIC).....	3.1065463%
Bond Yield for Arbitrage Purposes.....	3.0236610%
All Inclusive Cost (AIC).....	3.1065463%

IRS FORM 8038

Net Interest Cost.....	3.0186236%
Weighted Average Maturity.....	5.421 Years

City of Cambridge, MA
\$28,675,000
General Obligation Bonds
Municipal Purpose Loan of 2003
PRICING SUMMARY

Maturity	Type	of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
1/01/2004	Serial	Coupon	2.250%	1.130%	2,870,000.00	101.008%	2,898,929.60
1/01/2005	Serial	Coupon	2.250%	1.270%	2,870,000.00	101.841%	2,922,836.70
1/01/2006	Serial	Coupon	2.250%	1.680%	2,870,000.00	101.610%	2,916,207.00
1/01/2007	Serial	Coupon	2.500%	2.110%	2,870,000.00	101.454%	2,911,729.80
1/01/2008	Serial	Coupon	3.000%	2.540%	2,870,000.00	102.108%	2,930,499.60
1/01/2009	Serial	Coupon	3.250%	2.920%	2,865,000.00	101.777%	2,915,911.05
1/01/2010	Serial	Coupon	3.500%	3.200%	2,865,000.00	101.844%	2,917,830.60
1/01/2011	Serial	Coupon	4.000%	3.440%	2,865,000.00	103.846%	2,975,187.90
1/01/2012	Serial	Coupon	4.000%	3.610%	2,865,000.00	102.945%	2,949,374.25
1/01/2013	Serial	Coupon	4.000%	3.740%	2,865,000.00	102.133%	2,926,110.45
Total	-	-	-	-	28,675,000.00	-	29,264,616.95

BID INFORMATION

Par Amount of Bonds.....	\$28,675,000.00
Reoffering Premium or (Discount).....	589,616.95
Gross Production.....	\$29,264,616.95
Total Underwriter's Discount (0.409%).....	\$(117,402.99)
Bid (101.647%).....	29,147,213.96
Accrued Interest from 01/15/2003 to 02/04/2003.....	46,906.92
Total Purchase Price.....	\$29,194,120.88
Bond Year Dollars.....	\$156,534.86
Average Life.....	5.459 Years
Average Coupon.....	3.4658011%
Net Interest Cost (NIC).....	3.1641342%
True Interest Cost (TIC).....	3.1065463%

ARD Government Finance Group

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SECTION III: SUMMARY OF THE SALE

The securities markets re-opened following the Martin Luther King, Jr., holiday. The City's sale was registered with the I-Deal Parity, an electronic bidding system for tax-exempt credit issuers. All competitive bids were required to be submitted via *PARITY*, and the Preliminary Official Statement was provided electronically via I-Deal Prospectus, giving the sale efficiency and transparency.

Ten (10) investment underwriters and one (1) commercial bank submitted bids on the City's Bonds. ABN AMRO Financial Services submitted the first bid, well before the 11:00am deadline. At 2 ½ minutes to go on the countdown clock, six additional bidders made their presence known. Finally, with a minute to go, four more took a stand. The last bid, received 30 seconds before the closing bell, became the apparent winner of the Bonds – Morgan Stanley & Co. Incorporated.

<u>Bidders</u>	<u>Time Submitted (EST)</u>
Morgan Stanley, Dean Witter	10:59:29AM
Bank of America Securities, LLC	10:59:21AM
Legg Mason Wood Walker, Inc.	10:59:11AM
UBS PaineWebber Inc.	10:58:49AM
William R. Hough & Co.	10:57:42AM
US Bancorp Piper Jaffrey	10:57:27AM
Wachovia Bank, National Association	10:56:53AM
Corby Capital Markets, Inc.	10:56:38AM
Fidelity Capital Markets	10:55:56AM
Merrill Lynch & Co.	10:53:50AM
ABN AMRO Financial Services, Inc.	10:49:33AM

The City continues to enjoy positive market perception from its triple, triple-A credit ratings. Morgan Stanley submitted the winning bid for the City's Bonds with a true interest cost ("TIC") of 3.104529%, which, is 90 basis points less than the TIC for the City's bonds issued a year earlier. Fidelity Capital Markets submitted the cover bid, which was less than 1 basis point, or 0.007542 percentage points higher than the winning bid. The top to bottom spread was about 12 basis points (0.124633% points). Each of the investment banks was within 6 basis points of the winner – a very tight race. Wachovia, a commercial bank, submitted a bid 12 basis points higher than the winner. The TIC was calculated to the date of the bonds, January 15, 2003, excluding accrued interest pursuant to the terms of the Official Notice of Sale.

A summary of the bids is provided below.

<u>Underwriters & Lead Managers</u>	<u>True Interest Cost</u>	<u>Winning Margin (basis points)</u>
Morgan Stanley & Co., Incorporated	3.104529	
Fidelity Capital Markets	3.112071	0.7542
Corby Capital Markets, Inc.	3.117936	1.3407
UBS PaineWebber Inc.	3.131040	2.6511
William R. Hough, & Co.	3.131995	2.7466
US Bancorp Piper Jaffrey	3.133076	2.8547
Legg Mason Wood Walker, Inc.	3.147311	4.2782
ABN AMRO Financial Services, Inc.	3.157003	5.2474
Bank of America Securities, LLC	3.157015	5.2486
Merrill Lynch & Co.	3.171806	6.7277
Wachovia Bank, National Association	3.229162	12.4633

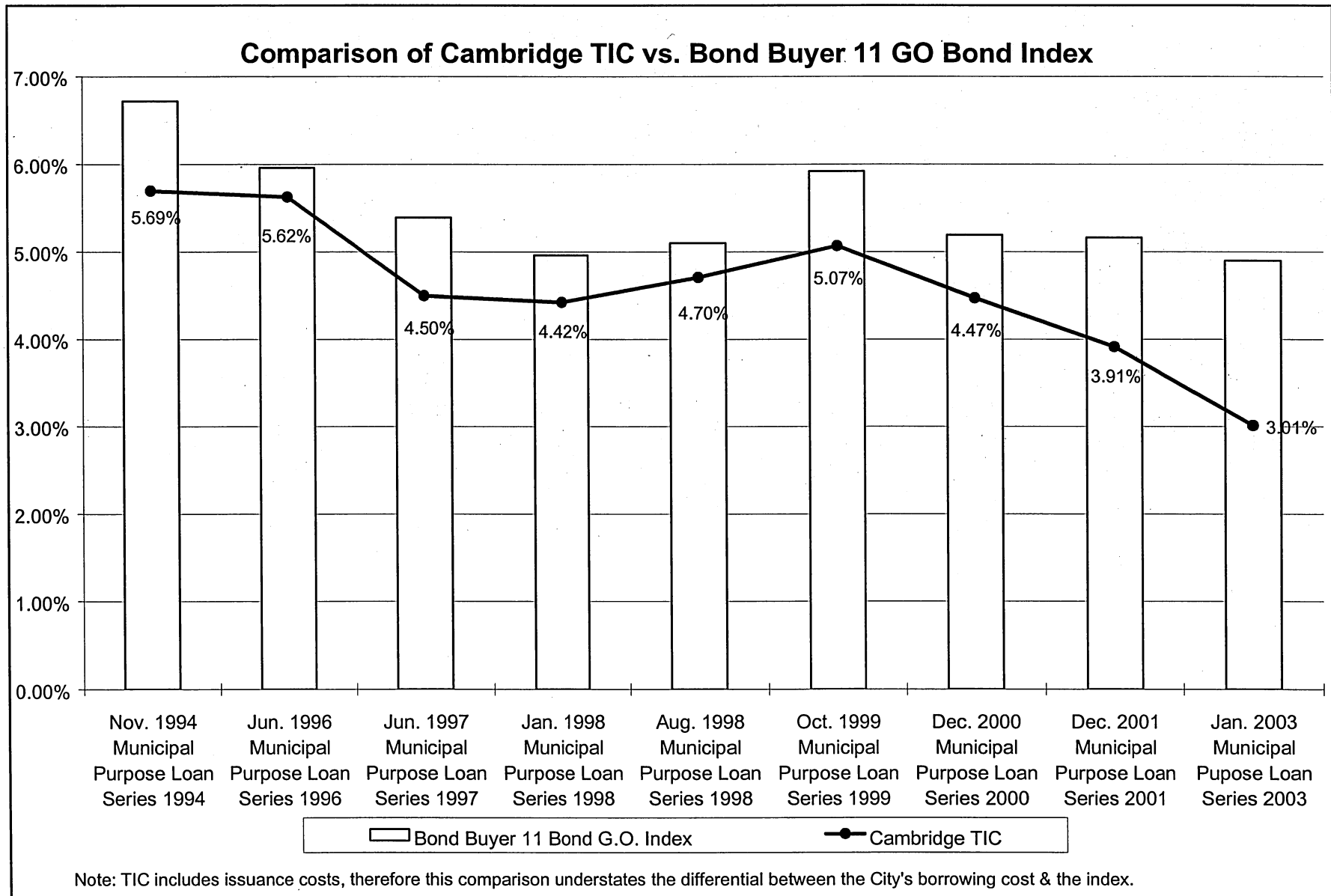
Morgan Stanley indicated that a majority of the Bonds would be selling in the retail market, which usually generates a higher demand for quality and offers lower interest rates than the institutional buyers. Dean Witter is assisting Morgan Stanley with the retail orders.

SECTION IV: MARKET CONDITIONS

The U.S. economy continues to slowly move forward, while few economists are forecasting a modest recovery any time soon. The Federal Reserve has cut rates several times to accommodate money supply, instilling economic growth. There's hope, but no sign of change. The National Bureau of Economic Research says the current recession started in March 2001, but with the terrorist attacks of September 11, 2001 and the nation's focus on homeland security and war in the middle-east, there is no news that we will replicate the '90's economic boom.

Investors continue to shift their portfolios from the declining values of stocks to the added soundness and cash flow of credit securities. Competition in the credit market has caused interest rates to go down, giving issuers an environment of low-rate financing opportunities. This is a good time for borrowing and capital restructuring.

The bond market's yields are at their lowest in decades, but the yield curve remains steep. The Municipal Market Data indicates there is a 250 basis point spread between the first and tenth years. Normally, there is a 180-200 basis point spread over twenty years. Low yields for early maturities ranging from 1.15-2.1 are driving supply in the market. Amortizing new principal debt over a short-term, such as the City's policy of ten years, provides low cost of capital. As indicated earlier, the all-in cost of capital for this bond issue is about 100 basis points less than a year earlier.



SECTION V: COMPARABLE SALES

In this section, the City's sale results are compared to the Municipal Market Data (MMD) General Obligation Yields for January 21, 2003

The MMD is an index of daily bond prices in both the primary and secondary municipal bond market. It provides a benchmark of general market conditions to compare a particular bond issue. The MMD publishes several daily scales corresponding to different credit rating categories. The "Aaa (pure)" scale corresponds to the highest quality unenhanced triple-A rating.

The City's yields fair better, an average of 10 basis points, to those of the "Aaa (pure)" scale of the MMD.

<u>Year</u>	<u>MMD</u>	<u>Cambridge</u>	<u>Difference</u>
2004	1.15%	1.13%	0.02%
2008	2.65%	2.54%	0.11%
2013	3.84%	3.74%	0.10%
2018	4.36%	n/a	-
2023	4.73%	n/a	-
2028	4.82%	n/a	-

NEW ISSUE
BOOK ENTRY ONLY

Fitch Ratings: AAA
Moody's Investors Service: Aaa
Standard & Poor's Rating Services: AAA
(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 not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "Tax Exemption" herein.

\$28,675,000

CITY OF CAMBRIDGE
MASSACHUSETTS
GENERAL OBLIGATION BONDS
MUNICIPAL PURPOSE LOAN OF 2003

Dated: January 15, 2003

Due: January 1, 2004–2013

AMOUNTS, MATURITIES, INTEREST RATES, AND PRICES OR YIELDS

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>
2004	\$2,870,000	2.25%	1.13%	2009	\$2,865,000	3.25%	2.92%
2005	2,870,000	2.25	1.27	2010	2,865,000	3.50	3.20
2006	2,870,000	2.25	1.68	2011	2,865,000	4.00	3.44
2007	2,870,000	2.50	2.11	2012	2,865,000	4.00	3.61
2008	2,870,000	3.00	2.54	2013	2,865,000	4.00	3.74

The Bonds will be dated January 15, 2003. Principal on the Bonds will be payable on January 1 of the years in which the Bonds mature. Interest will be payable semiannually on January 1 and July 1, commencing on July 1, 2003. The Bonds shall not be subject to redemption prior to maturity.

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

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

CERTAIN APPOINTED OFFICIALS

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

BOND COUNSEL

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

FINANCIAL ADVISOR

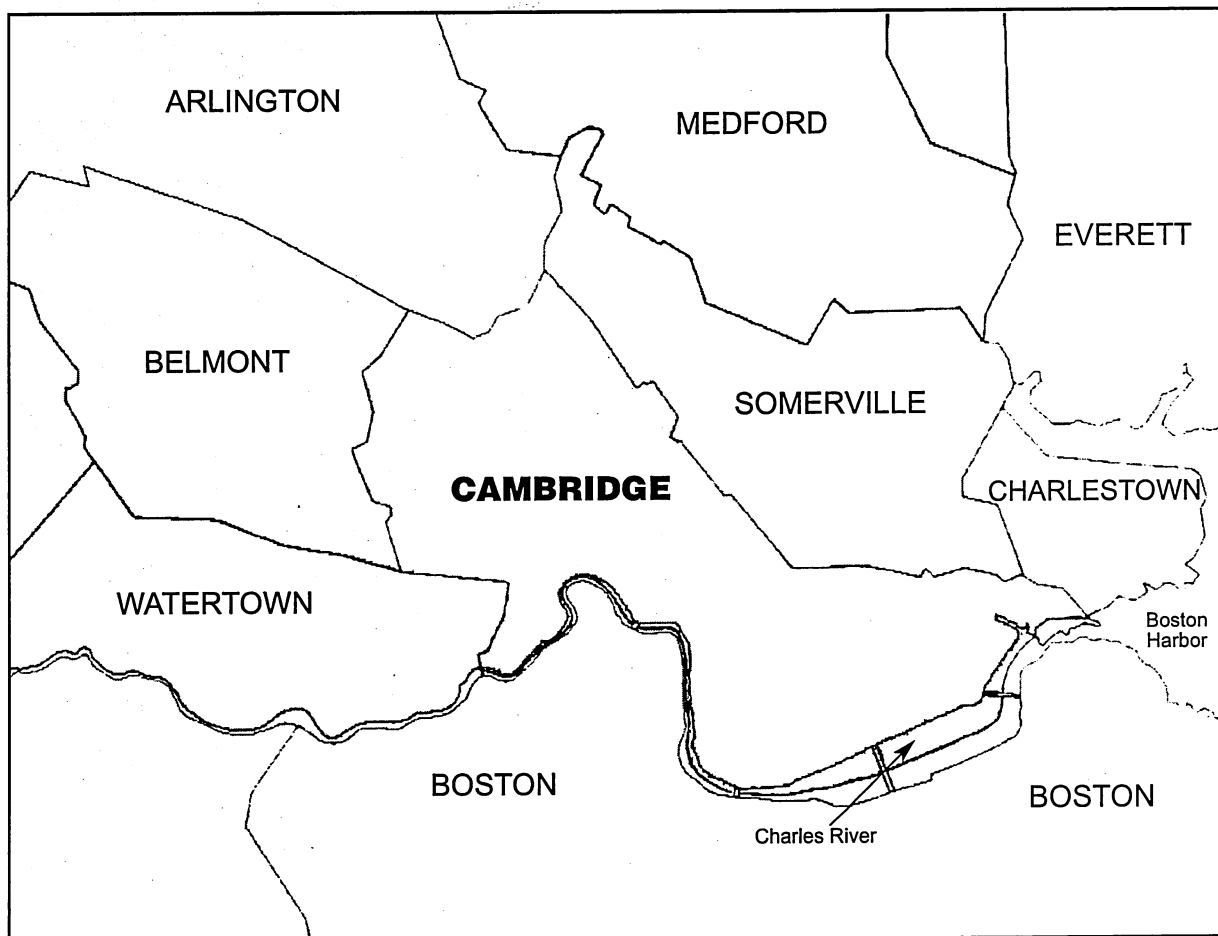
ARD Government Finance Group
1601 North Kent Street
Suite 800
Arlington, VA 22209

CERTIFIED PUBLIC ACCOUNTANTS

KPMG Peat Marwick
99 High Street
Boston, MA 02110

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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 a 2000 population of 101,355.

The Bonds

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 2003, in book-entry-only-form, dated January 15, 2003, are due January 1 in each year of the years 2004 through 2013 in the aggregate principal amount of \$28,675,000.

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

Proceeds of the Bonds will be used to finance remodeling of various City buildings including a fire station and City Hall Annex, sewer reconstruction, street reconstruction, golf course improvements, improvements to Harvard Square and playground improvements.

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. 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 February 4, 2003.

Financial Advisor

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

Bond Counsel

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 are assigned by Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, NY 10041-0003, and Fitch Ratings, One State Street Plaza, New York, New York 10004, as shown on the front cover. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgement of any or all, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

Auditors

A yearly independent audit of all accounts, books, records, and financial transactions of the City has been performed by KPMG Peat Marwick, Certified Public Accountants, of Boston, Massachusetts since fiscal year 1979. The opinion of the independent auditors for the period set forth in their report and the fiscal year 2002 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

Absence of Material Litigation

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

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

Miscellaneous

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

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

Disclosure

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

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: Louis A. Depasquale, Assistant City Manager for Fiscal Affairs, Treasurer, (617) 349-4220, or Roger P. Vacco, Palmer & Dodge LLP, (617) 239-0100.

Competitive Sale of Bonds

After competitive bidding on January 21, 2003 the Bonds were awarded to Morgan Stanley & Co., Incorporated, (the "Underwriter"). The Underwriter has supplied the information as to the public offering yields or prices of the bonds set forth on the cover hereof. The Underwriter has informed the City that, if all the Bonds are resold to the public at those yields or prices, they anticipate the gross Underwriters' compensation, after the deduction of the \$472,214 premium to the City, to be \$117,403. The Underwriter may change the public offering yields or prices from time to time.

PART II: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated January 15, 2003, and will bear interest from that date which will be payable beginning July 1, 2003 and semi-annually thereafter on January 1 and July 1 until maturity. The Bonds will mature on January 1 each year as specified below:

<u>Due January 1</u>	<u>Principal Amount</u>	<u>Due January 1</u>	<u>Principal Amount</u>
2004	\$2,870,000	2009	\$2,865,000
2005	2,870,000	2010	2,865,000
2006	2,870,000	2011	2,865,000
2007	2,870,000	2012	2,865,000
2008	2,870,000	2013	2,865,000

Book-Entry Only System

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

AUTHORIZATION AND USE OF PROCEEDS

The \$28,675,000 General Obligation Bonds consist of the following authorizations:

Fire Station Renovations

\$4,875,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 17, 1999, May 20, 2002, and September 23, 2002 provide funds for renovations to the Taylor Square Fire Station.

Street Reconstruction

\$6,040,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 17, 1999 and May 21, 2001 to provide funds for the reconstruction of Cambridge Street.

Building Renovations

\$950,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 17, 1999 to provide funds for renovations to several City buildings.

Golf Course Improvements

\$850,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 20, 2002 to provide funds for improvements to the municipal golf course.

Open Space Improvements

\$250,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 21, 2001 to provide funds for improvements to an elementary school playground.

City Hall Annex Renovations

\$1,950,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on October 7, 2002 to provide funds for extensive renovations to City Hall Annex.

Sewer Reconstruction

\$13,260,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on June 23, 1997, May 15, 2000, and May 21, 2001 to provide funds for various sewer reconstruction projects.

Harvard Square Enhancements

\$500,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 21, 2001 to provide funds for the first phases of improvements to Harvard Square.

SECURITY AND REMEDIES

Full Faith and Credit

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

Tax Levy

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

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

Court Proceedings

In the opinion of Bond Counsel, the City of Cambridge is subject to suit on its general obligation bonds and notes. Courts of competent jurisdiction have power in appropriate proceedings to order payment of a

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

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

State Distributions

State grants and distributions may in some circumstances be available to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and disbursements the amount of any debt service paid on "qualified bonds" (see *Serial Bonds and Notes* below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of the Massachusetts Bay Transportation Authority ("MBTA"), 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 or Drinking Water Revolving Loan Programs.

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

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

Bankruptcy

Enforcement for a claim for payment of principal 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 or, in the case of a financial institution, for that portion of the holder's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase taxable income of those companies as calculated under Subchapter L of the Code. 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 not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Bonds.

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 population is 101,355 in 2000.

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

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

CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT

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

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

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

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

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

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

CERTAIN ELECTED OFFICIALS AND ADMINISTRATIVE/FINANCIAL STAFF MEMBERS

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

The City Manager is the chief executive and administrative officer and carries out the policies of the City Council. With the assistance of the Deputy City Manager and three Assistant City Managers, he coordinates the functions of 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 2000, the City Council approved a contract for the present City Manager, which expires August 31, 2006.

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

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

Principal Elected Officials

The following are the nine members of the City Council elected for two-year terms ending December 31, 2003:

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

The following are the six members of the School Committee elected for two-year terms ending December 31, 2003 (the Mayor serves as Chairman of the School Committee):

Michael A. Sullivan, Chairman	
Alfred B. Fantini	Alan C. Price
Joseph G. Grassi	Alice L. Turkel
Richard Harding	Nancy Walser

Principal Executive Officers

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

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

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

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

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

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

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

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

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, and Masters of Public Administration from Harvard University.

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

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

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

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

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

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

Bobbie D'Alessandro, Superintendent of the Cambridge School System since August, 1997.

Appointed by the Cambridge School Committee. Previously served as Superintendent of Schools for the School District of Lee County in Fort Meyers, Florida for three years. Prior to that, she served as Co-Director of the West Central Management Development Network in Tampa, Assistant Director of the Southwest Florida Teacher Education Center in Fort Myers, Coordinator of Volunteers at the Calusa Nature Center, and instructor at Florida Atlantic University in West Palm Beach. In addition, she was a public school teacher in Florida for 11 years. She holds a Bachelor of Science in Biology from the University of Dubuque and a Master's degree in Biology from Central Michigan University and is pursuing a doctoral degree in Educational Leadership at the University of South Florida in Tampa, Florida.

GOVERNMENTAL SERVICES AND FACILITIES

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

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

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

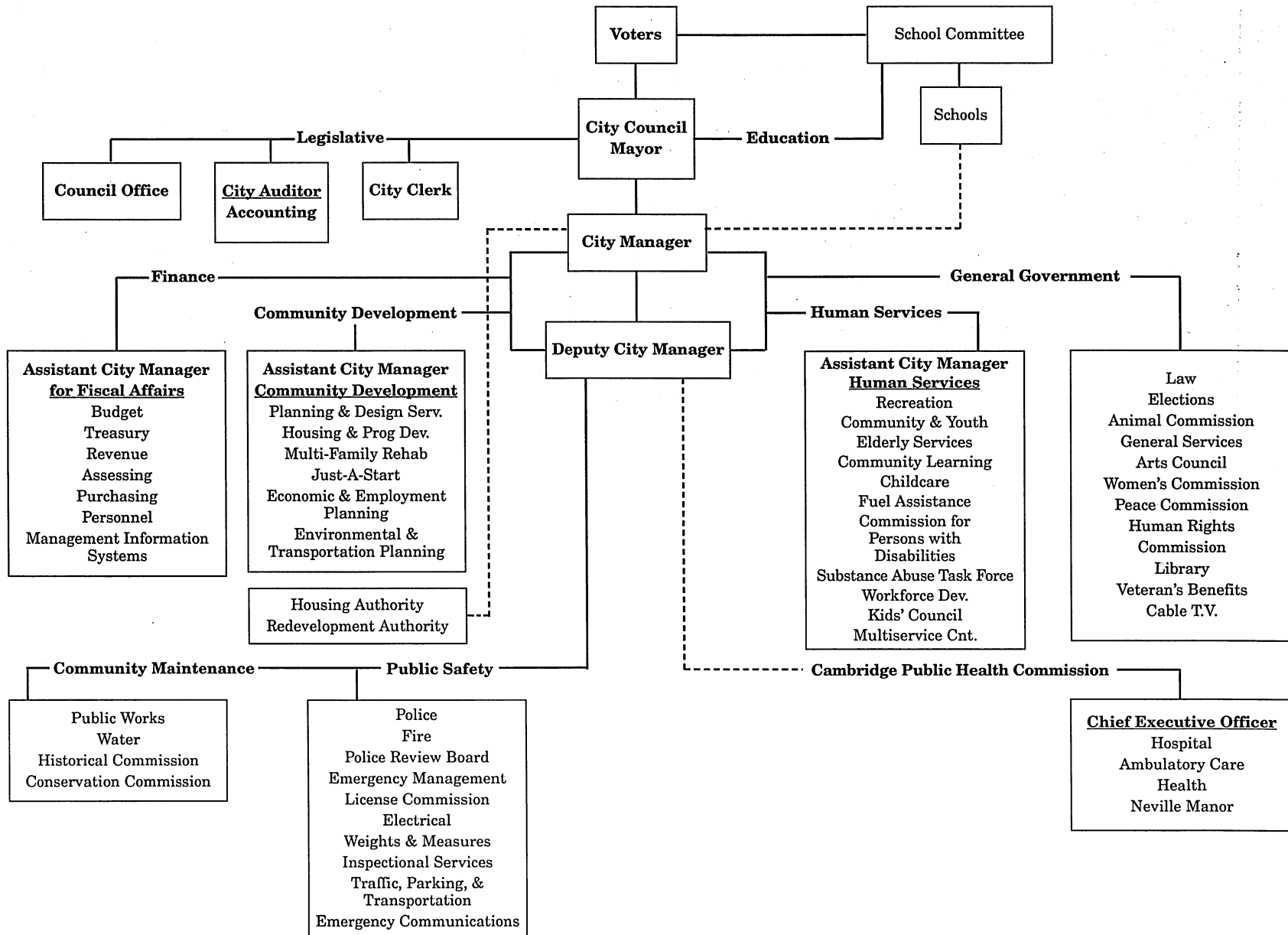
Federal buildings which are located in the City include offices for the Department of Transportation and the Social Security Administration. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

The major State 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

Despite the recession and slow recovery, Cambridge has experienced strong economic activity with little interruption. Vacancy rates for research and development space continue to be lower than either Boston or the surrounding suburbs, despite a sag in the commercial office market. Absorption is improving which is a good indicator that a recovery is taking hold. Cultural amenities, proximity to world class institutions, a highly educated workforce, innovative reuse of existing structures and the construction of state-of-the-art new facilities have only added to the City's unique strength as both a business and residential community.

Assessed Valuation. The fiscal year 2003 total assessed valuation, including both real and personal property is \$17.8 billion. Of the total, approximately \$6.9 billion consists of industrial, commercial and personal property. New growth in the last year added approximately \$631.6 million to the taxable valuation base of the City.

The City's total assessed valuation increased by \$913.6 million, or 5.4%, from fiscal year 2002. The total increase is substantially lower than the previous year's \$4.1 billion increase.

Employment. Keeping with a trend spanning the last two decades, the unemployment rate for Cambridge continues to be lower than the state and national levels. As of September 2002, Cambridge's unadjusted unemployment rate was 3.8%, the State's rate was listed at 5.2% and the national rate was 5.6%. While jobs in Cambridge underwent a small dip to 113,479, the City's broad job base remains near its all-time high recorded in 2000. Recently, Novartis, a giant Swiss pharmaceutical company, announced its intention to locate its research headquarters near Cambridge's Central Square after a global search. The company also announced that, at full capacity, its research and development staff would be approximately 1,000 scientists. Employment will certainly grow, as support staff for the scientists is hired.

Commercial Real Estate Market. Since the beginning of 2000, Cambridge has added approximately 2.4 million square feet (SF) to its inventory of commercial real estate, with another approximately 1.8 million SF under construction. There is also an additional 2.4 million SF currently in the permitting stage.

As with other cities, the recent economic slowdown has affected Cambridge resulting in a rise in the overall vacancy rate. However, demand from the life sciences industry remains strong, with most buildings suitable for biotech use leased prior to completion. Most notably, Novartis has leased approximately 760,000 SF as it prepares to open its global R&D headquarters here. Novartis will move into 100 Tech Square as its first base of operations in early 2003. The NECCO factory on Massachusetts Avenue will also be occupied by Novartis upon completion of adaptive rehabilitation in early 2004. Real estate brokers and market analysts are predicting a 3- to 5-year recovery period to reach what is a more traditional vacancy rate equilibrium of 8 to 10%. However, absorption of biotech space remains strong and the vacancy rate for this market segment continues to hover at less than 3%. Many commercial landlords are converting office space to research and development space.

Economic Development Districts

The City guides development through an orderly process, utilizing control over infrastructure, planned unit development, and zoning strategies. Presented below is a summary of the current economic activities and future potential of several major development areas, along with a short citywide summary. Growth is expected to continue in the City's former industrial districts, which have been rezoned as mixed-use districts in response to the demands of the new economy.

Alewife/Fresh Pond. Located in the western part of the City, near Fresh Pond Reservoir, the MDC 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, and is in close proximity to residential suburbs and the Route 128 corridor. The MBTA serves the Alewife area via both surface bus lines and the Alewife Station located at the north terminus of the Red Line rapid transit line. A 2,000-car parking garage is integral with the Station and provides direct access to Route 2. The Alewife area appeals to companies interested in a suburban setting within the City of Cambridge.

Alewife acts both as a center for companies in consulting and biotechnology and as a lively retail center. The area serves as headquarters for Wyeth Genetics Institute and Abt Associates. The shopping center houses a major grocery store, a movie theater, a hotel, and a number of smaller retailers. Since 1982, over 2.3 million SF of prime office/R&D space has been built in Alewife. Most recently, a 285,000 SF R&D facility and a 76,000 SF office building were completed. A 311-unit housing development on Cambridge Park Drive is nearing completion as well.

Construction of a \$12 million project to improve Fresh Pond Parkway, which provides access from the Alewife area to other parts of the City and to Boston, is virtually complete. The improvements consist of a complete reconstruction of the roadway, associated utilities and landscaping. The redesign increases safety for all transportation modes, including bicycle and pedestrian travel. The project has immeasurably improved both the roadway and the adjacent Fresh Pond Reservation. In addition, the City also recently replaced its water treatment facility located on Fresh Pond Parkway.

Harvard Square. While densely developed and limited in further potential, the Harvard Square area continues to attract development interest. The past year has seen the completion of a new 50,000 SF office building housing the Harvard Square Post Office on the ground floor, as well as a rehabilitated and expanded 35,000 SF office and retail building at Quincy Square.

Central Square. In Central Square, the City's traditional main shopping district, the completion of the Holmes Building and the adjacent Carl Barron Plaza has added a new landmark to the area. The building is a 128,000 SF mixed-use project, including 72 units of housing and 40,000 SF of new retail space.

University Park/Cambridgeport. This area includes a mix of uses along the Charles River frontage, an established residential neighborhood, and a former industrial area redeveloped as a mixed-use center with office/R&D, residential uses, retail and light manufacturing. The eastern edge of Cambridgeport borders the MIT campus, and is a 20 minute drive from Logan Airport. An MBTA rapid transit station, as well as private shuttle bus system and surface bus routes serve the area. Substantial planned roadway improvements within or directly adjacent to Cambridgeport will provide significant transportation benefits to the area.

The years 1997 through 2002 saw the completion of 13.7 million SF of office/R&D space. In addition, major renovations in the area include headquarters for Millennium Pharmaceuticals, Cambridge's largest biotechnology employer (4 buildings with 700,000 SF in University Park), Modern Continental (72,000 SF) and Vertex (60,000 SF) as well as the historic Ford assembly plant (200,000 SF) and the old Polaroid building on Memorial Drive (55,000 SF). Associated with the Polaroid building are two new office buildings, providing 94,000 SF of space with 235 parking spaces, and 120 units of new housing. Nearby, a new supermarket and drugstore provide 55,000 SF of retail space.

Forest City Development, in conjunction with MIT, is nearing the end of construction of a long-term, \$600 million development. The complex includes 2.3 million SF located in 21 buildings, including over 1.4 million SF office/R&D space, 2 parking garages with 2,650 parking spaces and nearly 600 units of housing. A major 221 room hotel, retail and shopping facility is complete and occupied.

East Cambridge/Riverfront. This 60-acre area lies directly across the Charles River from Boston at the Museum of Science and the Charles River Dam area, between Kendall Square and North Point. The Riverfront project area lies approximately 15 minutes by car and public transit from Logan International Airport. The MBTA's Kendall Red Line and Lechmere Green Line rapid transit stations offer public transit access, with connections to the metropolitan Boston area. A free shuttle operated by the Galleria Mall connects the two MBTA rapid transit stations, providing access to the mall, businesses and residents in the area for 1,000,000 riders annually. The area is also well served by MBTA surface bus routes.

Starting in the early 1980s, \$50 million in public improvements stimulated the redevelopment of the East Cambridge riverfront, leading to the creation of Lechmere Canal Park, Centanni Way, Front Park, and Charles Park. In addition, the City constructed a 1,000-car public parking garage and implemented roadway improvements throughout the area. The total private development completed in East Cambridge over the last twenty years includes 4.1 million SF of new and renovated private office/R&D and retail space, 400 hotel rooms, and over 525 housing units. A 200-room hotel adjacent to the Galleria Mall on the last development parcel remaining in the Riverfront area is scheduled for completion in early 2003.

Following on the successes in the Riverfront area, other portions of eastern Cambridge are developing as a center for the software, internet and biotechnology industries. Biopure, Merrimack Pharmaceuticals and Transgenomics, in addition to several other biotech companies have established research facilities in the area. Several development proposals, totaling 1.4 million SF are under construction in East Cambridge. A major project under construction at a site formerly owned by Commonwealth Energy will include 850,000 SF of office/R&D, 76,000 SF of retail space, a 300-room hotel, 200 housing units, and 1,800 parking spaces. Development at 300 Bent Street is adding 92,000 SF for telecom uses. Work at 301 Binney Street and 320 Bent Street is adding a total of 395,000 SF of mixed-use space, including 40 residential units. Other recent development activity includes construction of both 128,000 SF of office space at 286 Third Street.

Kendall Square/Cambridge Center. This 50-acre tract lies across the Charles River from Boston at the base of the Longfellow Bridge, between the MIT campus and East Cambridge Riverfront areas. The MBTA's Kendall Station on the Red Line, surface bus routes, and the Galleria Mall bus shuttle all service this area. A new E-Z ride shuttle system has been instituted to bring commuters from as far away as North Station on the Green line to the Kendall Square area. Public enhancements around Kendall Square include an active commercial center at Cambridge Center Marriott, a public plaza adjacent to the MBTA station, and a year round fountain/steam sculpture.

The Kendall Square area includes over 5.4 million SF of first class office/R&D space. Buildings completed in the 1980s contributed over 3.0 million SF to this total. The 1990s saw the addition of another 1.7 million SF. Development completed during the late 1990s includes a new 148,000 SF building at 12 Cambridge Center for Biogen, a 63,000 SF expansion of the Whitehead Institute for Biomedical Research, a 221 room extended-stay inn, a 177,000 SF corporate headquarters for Cambridge Technology Partners and 249,000 SF of office space at 205-310 Broadway. The area also houses the headquarters of Akamai Technologies, Biogen, Forrester Research, Genzyme and Camp, Dresser & McKee.

The current decade has seen the completion of a 210,000 SF building for Biogen at 15 Cambridge Center. A new building for Amgen of 285,000 SF at 1 Kendall Square is also complete. Construction at Tech Square is adding approximately 600,000 SF of office/R&D. Office leasing at all of these locations is heavily influenced by the close proximity to the biotechnology industry cluster found around MIT and the Whitehead Institute.

North Point. Situated in a prominent location adjacent to the Charles River and across from the North Station commuter rail terminal in Boston, North Point comprises an underutilized industrial and railroad service area of 60 acres located 15 minutes from Logan Airport. Boston's Central Artery project passes through North Point, and the project ramps and bridges are now nearing completion. The state has committed to funding infrastructure improvements to provide access through the North Point district and to create a new park along the Charles River. Detailed design of the park and the surface roadway are both complete and the state has commenced construction.

Given its proximity to major research centers at Massachusetts General Hospital, East Cambridge/Kendall Square, and the Massachusetts Institute of Technology, as well as to local and regional transit through the Lechmere MBTA station and North Station, North Point has strong future development potential. Both a 159,000 SF headquarters for EF International, an educational services company, and a 435-unit housing development were occupied in 1999. The Cambridge Planning Board recently approved a proposal for a 767-unit housing community expected to come to fruition over the next 5 years. A mixed-use development proposal for 5.5 million SF, including 1.8 million SF commercial, 92,000 SF retail, and 2,300 housing units, is now under consideration by the Planning Board. When complete, North Point will be the largest mixed-use development project in the City's history.

Housing Preservation and Development

Citywide, there is a clear, continued interest in the construction of new market-rate housing. Recent rezoning initiatives have helped create the economic framework for this activity. Approximately 2,200 units have been constructed from 1996 to present. Over 3,200 additional units are in various stages of permitting.

Since the end of rent control, the City, in collaboration with local non-profit agencies, has developed affordable units with Affordable Housing Trust, CDBG and HOME funds. These funds, in turn, help leverage other public and private funds. Over 16% of the housing stock in the City of Cambridge now qualifies as affordable, including public housing. The City's efforts have had a significant impact on preserving and improving an aging inventory of privately owned structures, while providing additional units of decent, affordable housing in existing buildings and, in some cases, new structures.

City Funding. Since the end of rent control the City has allocated \$34 million to the City-sponsored Affordable Housing Trust from local tax funds and the Community Preservation Act and developed or preserved over 1,700 units. City affordable housing programs include the following:

- **Non-Profit Acquisition and Development of Multifamily Properties** Through this program, non-profit organizations in Cambridge and the Cambridge Housing Authority acquire and rehabilitate existing buildings and/or develop new housing. The buildings become permanently affordable through the City's Affordable Housing Covenant, a long-term deed restriction. Since the termination of rent control in 1996, over 1,700 units have been produced.

- **First-time Homebuyer Program** City housing staff provide first-time homebuyer education ten times annually and offer one-on-one counseling. Over 500 residents participate annually.

- **Preservation of Expiring Use Restriction Properties** In order to preserve federally-assisted rental housing, this program provides technical and financial assistance to tenants and landlords of properties in danger of conversion to market rate housing. To date, over 1,200 units have been preserved.

- **Home Improvement Programs** In collaboration with the Cambridge Neighborhood Apartment Housing Services, Inc. (CNAHS), this program provides low-interest rehabilitation financing to private owners of multifamily properties in return for a set-aside of units for low and moderate-income tenants. In collaboration with Homeowners Rehab., Inc. and Just-A-Start, the Home Improvement Program (HIP) is a low-interest rehabilitation loan program for low and moderate-income owner-occupants of one to four-unit buildings. Owners can use the funds to improve their buildings to meet HUD and City building code requirements and are required to keep rents affordable.

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

Inclusionary Zoning: The Inclusionary Zoning Ordinance requires developers of any new or converted residential development with 10 or more units to provide 15% of the total number of units as affordable housing.

Incentive Zoning: The Incentive Zoning Ordinance requires that non-residential developers seeking a Special Permit that authorizes an increase in the permissible density or intensity of a particular use, mitigate the impact of their development through a contribution to the Affordable Housing Trust.

Federal Funding. Cambridge has been designated a participating jurisdiction under the federal HOME program and receives an annual allocation of approximately \$800,000 from HUD for the provision of new and rehabilitated affordable housing units. The City receives \$4.0 million annually through the CDBG program, 47% of which is allocated to housing related activities. In addition, in 1999 the City received a \$2.8 million federal grant from HUD to assist property owners with deleading their units, supplementing \$2.4 million received in 1997 and \$3.3 million received in 1994.

Public Housing. The Cambridge Housing Authority recently completed a fifteen-year comprehensive effort to redevelop and modernize all of the City's major federally assisted family developments and to federalize two former state-assisted developments, for a total of over 1,030 units of vastly improved conventional public housing. With the completion of these upgrades and additions to its federally assisted family stock, the Housing Authority's focus has shifted to federally assisted elderly housing.

The Housing Authority's Planning and Development staff currently manages active federal design and construction projects totaling \$19,696,601. These contracts use resources from HUD's Capital Fund Program and HOPE VI Program and commit the bulk of available funds to capital improvements. The Authority also manages \$969,664 in active contracts in connection with state-funded modernization activity.

Employment

Due of extensive development and proximity to both the Massachusetts Institute of Technology and Harvard University, Cambridge has experienced unemployment rates significantly lower than the national and

Massachusetts averages over the last fifteen 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 areas of education, medicine, and government, which promotes the City's overall economic diversity.

The following table presents the number of employees for the calendar year 2001, as compiled by the Massachusetts Division of Employment and Training. The annual payroll for the more than 4,000 businesses and government agencies conducting business in Cambridge during 2001 totaled approximately \$6.5 billion.

CITY OF CAMBRIDGE EMPLOYMENT BY SECTOR - CALENDAR YEAR 2001

	2001 Average Employees	Percent of Total Employment
Private Sector:		
Agriculture, Mining, & Other	290	0.3%
Construction.....	4,001	3.5
Manufacturing	5,644	5.0
Transportation, Communication, Utilities.....	2,171	1.9
Wholesale & Retail Trade.....	17,355	15.3
Financial, Insurance, Real Estate	3,384	3.0
Service Industries.....	72,384	63.8
Total Private	105,229	92.8
Public Sector:.....	8,217	7.2
TOTAL	113,446	100.0%

Source: Massachusetts Division of Employment and Training.

CITY OF CAMBRIDGE TOP TWENTY-FIVE EMPLOYERS - OCTOBER 2002

Rank	Name of Employer	Nature of Business	2002 Employees(1)	2001 Rank(4)
1	Harvard University.....	Higher Education	8,722	1
2	MIT	Higher Education	7,741	2
3	City of Cambridge(3)	Government	2,934	3
4	Millennium Pharmaceuticals.....	Biotechnology	1,882	8
5	Cambridge Public Health Commission.....	Medical	1,671	4
6	Federal Government.....	Government	1,632	6
7	Mt. Auburn Hospital	Medical	1,528	7
8	Biogen Inc.	Biotechnology	1,400	11
9	Genzyme Corporation	Biotechnology	1,161	13
10	Draper Laboratory Inc.....	Research & Development	953	10
11	Wyeth Genetics Institute.....	Biotechnology	803	20
12	Commonwealth of Massachusetts.....	Government	879	12
13	Camp, Dresser & McKee	Engineering Consultants	693	13
14	Whole Foods/Bread & Circus(2).....	Retail Supermarket	625	35
15	Quest Diagnostics.....	Clinical Testing Services	620	14
16	Whitehead Institute	Research & Development	614	21
17	Lesley University	Higher Education	573	22
18	Akamai Technologies Inc.....	Internet Network Services	511	20
19	Vertex Pharmaceuticals Inc.....	Pharmaceutical Products	510	23
20	Grace Construction(2).....	Construction Products	500	27
21	EF International	Travel & Exchange Programs	488	19
22	Monitor Group.....	Management Consulting	479	24
23	ABT Associates(2).....	Management Consulting	469	28
24	Shaws Supermarkets/Star Market	Retail Supermarket	450	25
25	Transkaryotic Therapies(2).....	Biotechnology	423	34
TOTAL			38,261	

(1) All figures collected between 7/02 and 10/02. All figures reflect employment within the City of Cambridge only. Whenever possible, totals are based on Full Time Equivalents (FTEs). Part time workers were counted as 0.5 FTEs, unless otherwise indicated by employer response.

(2) Not on 2001 list. Each of these four companies belonged to the Top 25 Employers at various times in the past.

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

(4) Employers dropped from list since 2001 include Arthur D. Little, Lotus Development Corporation/IBM, Modern Continental Companies, and Necco/Haviland.

Source: Cambridge Community Development Department and cited employers, 2002.

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 1991 TO 2002(1)**

	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
2002 (September)	3.8%	4.9%	5.2%	5.6%
2001	2.5	3.2	3.7	4.9
2000	1.6	2.1	2.4	4.1
1999	1.9	2.7	3.2	4.2
1998	1.9	2.8	3.3	4.5
1997	2.4	3.4	4.0	4.9
1996	2.5	3.7	4.3	5.4
1995	3.3	4.7	5.6	5.6
1994	4.0	5.2	6.0	6.1
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

(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 1997 calendar year, the most recent data available.

**CITY OF CAMBRIDGE
RETAIL ESTABLISHMENTS AND SALES
CALENDAR YEAR 1997 (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>
Motor Vehicle & Parts Dealers	12	\$ 69,616	6.6%	1,027	\$ 8,031,960	23.9%
Furniture and Home Furnishings Stores	35	49,286	4.7	809	1,082,517	3.2
Electronics and Appliances Stores	36	128,745	12.2	559	1,121,507	3.3
Buildings Materials & Garden Equipment & Supplies Dealers	16	52,633	5.0	912	2,772,417	8.2
Food & Beverages Stores ..	76	206,943	19.6	2,320	6,197,881	18.4
Health & Personal Care Stores	43	74,896	7.1	1,025	2,060,316	6.1
Gasoline Stations	29	38,722	3.7	1,263	1,825,062	5.4
Clothing & Clothing Accessories Stores	121	156,607	14.7	2,271	2,884,458	8.6
Sporting Goods, Hobby, Book & Music Stores ...	64	136,762	12.9	1,019	1,279,262	3.8
General Merchandise Stores (1)	10	39,895	3.8	331	3,282,299	9.8
Miscellaneous Stores (1) ..	70	47,525	4.5	1,581	1,076,938	3.2
Nonstore Retailers	18	55,628	5.3	795	2,043,912	6.1
Total	530	\$1,056,237	100.0%	13,912	\$33,638,629	100.0%

(1) Most recent data available.

Source: Massachusetts 1997 Economic Census, Retail Trade, Geographic Series.

**CITY OF CAMBRIDGE
SERVICE ESTABLISHMENTS AND SALES
CALENDAR YEAR 1997(1)**

	Cambridge			Boston PMSA		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Information Related	175	\$1,547,814	28.9%	1,856	\$12,203,349	21.3%
Professional, Scientific & Technical	738	2,751,929	51.3	12,711	19,390,881	33.8
Administrative, Support & Waste Management & Remediation.....	174	237,107	4.4	4,481	6,360,479	11.1
Educational Services	38	66,209	1.2	661	463,765	3.8
Health Care & Social Assistance (1) ...	201	219,343	4.1	6,980	6,712,725	11.7
Arts, Entertainment & Recreation.....	40	46,229	0.9	981	1,096,700	1.9
Accommodation & Food Services	413	404,274	7.5	12,766	8,294,645	14.5
Other Services.....	148	91,002	1.7	6,068	2,767,975	4.8
Total.....	1,927	\$5,363,907	100.0%	46,504	\$57,290,519	100.0%

(1) Sales figures reflect taxable establishments only.

Source: Massachusetts 1997 Economic Census, Geographic Series.

Housing and Construction Activity

The data in the tables on the following page are presented to illustrate various housing characteristics for the City of Cambridge. The figures for the number of buildings shown are for taxable property only and do not include units under the Cambridge Housing Authority or other subsidized units and university dormitories. The number of buildings by type are as of January 1, 2002.

**CITY OF CAMBRIDGE
PARCEL COUNT BY TYPE
As of January, 2002**

<u>Type of Housing</u>	<u>Number of Parcels</u>
One-Family	3,726
Two-Family	3,120
Three-Family	1,655
Four to Eight Family	723
Nine or More Units	240
Condominiums	9,022 (1)
Mixed Res./Comm. Bldgs.	346
Rooming Houses	30
Total	18,862

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

**CITY OF CAMBRIDGE
VALUE OF NEW CONSTRUCTION (1) AND DISTRIBUTION BY TYPE
FISCAL YEARS 1996 TO 2002**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
2002	\$462,909,241	31%	69%
2001	825,695,634	28	72
2000	720,646,992	29	71
1999	321,834,613	31	69
1998	457,469,219	34	66
1997	388,057,114	25	75
1996	185,204,825	33	67

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

Population and Income Characteristics

According to figures provided by the U.S. Department of Commerce, Bureau of the Census, as of 2000, the City of Cambridge had a population of 101,355. This figure represents a 5.8 percent increase from the 1990 population. The following table represents population figures for selected years.

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

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

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

The 2000 U.S. Census reported the City's median age to be approximately 30 years with a much greater representation of residents in the 25-34 year old age group than the national average. In addition, the City has a very high percentage of individuals who have graduated from high school and who have attended four or more years of college in comparison to the Massachusetts averages.

SELECTED POPULATION CHARACTERISTICS

Characteristic	Cambridge	Boston PMSA	Massachusetts	United States
Population (2000)	101,355	3,398,051	6,349,097	281,421,906
Median Age				
2000.....	30.4	36.2	36.5	35.3
1990.....	31.1	33.4	33.6	32.9
1980.....	28.6	31.3	31.2	30.0
1970.....	26.8	29.1	28.0	28.0
1960.....	29.6	32.0	32.1	29.5
Age Group (2000 data)				
0-4.....	4.1%	6.2%	6.3%	6.8%
5-17	9.2	16.3	17.4	18.9
25-44.....	38.6	32.9	31.3	30.2
45-64.....	39.0	31.6	31.5	31.7
65 and over.....	9.2	13.1	13.5	12.4
Four or more years of college education				
25 years or older.....	65.1%	39.5%	33.2%	24.4
High school graduates				
25 years or older.....	89.4%	87.1%	84.8%	80.4

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

Income

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

MEDIAN FAMILY INCOME

Year	Cambridge	Boston PMSA	Massachusetts	United States
1999	\$59,423	\$64,427	\$61,664	\$50,046
1989	39,990	49,266	44,367	37,919
1979	17,845	22,848	21,166	19,917

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

PER CAPITA INCOME

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

Source: U.S. Census Bureau.

EDUCATION

Elementary and Secondary Schools

The City of Cambridge public school enrollment totalled 7,115 for the school year. It is projected that the figures will show a slight decrease over the next four years. In addition to the public school system, there are approximately eleven private and parochial schools in the City. In 2002-03, 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 2002-2003 SCHOOL YEAR

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

Source: Cambridge School Department.

SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS SCHOOL YEARS 2003-2007 (1)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Elementary	4,888	4,831	4,762	4,718	4,704
Secondary	1,889	1,885	1,848	1,855	1,763
Ungraded	338	326	294	238	238
Total	7,115	7,042	6,904	6,811	6,705

(1) Enrollments are as of October 1 for the school years shown. The figures shown for 2003 are actual with the following years as projections.

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

<u>Fiscal Year</u>	<u>K-8</u>	<u>9-12</u>	<u>Special</u>	<u>Total</u>	<u>Percentage Change</u>
2002	5,073	1,904	319	7,296	-0.16%
2001	5,109	1,951	248	7,308	-2.44
2000	5,119	1,930	442	7,491	-1.92
1999	5,271	1,910	457	7,638	-2.90
1998	5,497	1,910	459	7,866	-2.32
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

(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 has completed 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 (issued in February, 1998), and a \$30 million equity contribution by the Commission. Construction commenced in February, 1997 and has been completed. While the bonds issued for the project were issued by the City and will remain on the City's financial statements, in practice debt service 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 fiscal year 1996 support had been carried forward for seven years at a constant level. In fiscal year 1996, the City provided \$10.896 million in property tax support to the Hospital, Neville Manor, and the Department of Public Health. In fiscal year 1997, 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 fiscal year 1998, fiscal year 1999, and fiscal year 2000 the City provided tax support of \$8.597 million to the Commission, and the Commission remitted \$1 million to the City in payments-in-lieu-of taxes, resulting in net tax support of \$7.597 million. In fiscal year 2001, the City budgeted tax support of \$7.597 million. The Commission no longer remitted payments-in-lieu-of taxes so that the net tax support remained the same as in the past three fiscal years at \$7.597 million. In fiscal year 2002 and 2003, City tax support has decreased to \$6.597 million with no payments-in-lieu-of taxes so that net tax support decreases to \$6.597 million.

The Commission selected Neville Communities, Inc., a consortium headed by the Cambridge Housing Authority to redevelop the existing nursing home building for affordable assisted living and to build a new nursing home alongside. The building which formerly housed Neville Manor has been thoroughly renovated and opened in the spring of 2002 as Neville Place, a mixed income assisted living facility. Construction of a new 112 bed nursing home on the site is expected to begin in early 2003.

PART IV: CITY INDEBTEDNESS AND CAPITAL PLAN

AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES

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

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

DEBT LIMITS

General Debt Limit

Under Massachusetts statutes, the General Debt Limit of the City of Cambridge consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit of the City is 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, gas, community antenna television systems and telecommunications systems (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 and drinking water 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 Finance 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 (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes

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

Grant Anticipation Notes

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

Revenue Bonds

Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth's water pollution abatement or drinking water revolving loan programs. In addition, cities and towns having electric departments may issue revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. The City of Cambridge does not have an electric department. The legislation creating the Cambridge Public Health Commission authorizes the Commission to issue revenue bonds. No such bonds have been authorized. (see *The Cambridge Public Health Commission*).

**CITY OF CAMBRIDGE
STATEMENT OF INDEBTEDNESS
LONG-TERM BONDS AND TEMPORARY LOANS (1)
AS OF JUNE 30, 2002**

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)	\$109,734,249	\$122,302,948	\$138,409,249	\$93,627,948
Outside General				
Debt Limit:				
School (3)	31,119,000	—	31,119,000	—
Water	72,701,609	—	72,701,609	—
Sub Total	103,820,609	—	103,820,609	—
Total Bonds	<u>\$213,554,858</u>	<u>\$122,302,948</u>	<u>\$242,229,858</u>	<u>\$93,627,948</u>

Temporary Loans:

	<u>Outstanding Notes</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) Based upon the proposed 2002 equalized valuation of the City, the Normal General Debt Limit is \$451,273,795 and the Double General Debt Limit (see "Debt Limit" above) is \$902,547,590.
- (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 \$20,906,510 on June 30, 2002. 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 \$497,000.

**CITY OF CAMBRIDGE
GROSS AND NET DIRECT DEBT
as of June 30, 2002 (1)**

General Obligation Bonds (before current issue)	\$169,120,000
MWPAT and MWRA Loans	44,434,858
Gross Direct Debt.....	213,554,858
Current Issue	28,675,000
TOTAL GROSS DIRECT DEBT	242,229,858
Less:	
Self-Supporting GO Water Bonds.....	51,346,000
Self-Supporting GO Sewer Bonds	25,515,000
Self-Supporting MWPAT and MWRA Loans	20,692,533
Self-Supporting Hospital Bonds	24,000,000
Self-Supporting Current Issue for Sewer	13,260,000
SUBTOTAL SELF-SUPPORTING	134,813,533
Less:	
Commonwealth Subsidy of MWPAT Loans (2).....	23,742,325
Commonwealth Subsidy of School Debt Service (3)	12,262,728
TOTAL NET DIRECT DEBT	\$71,411,272

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

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

(3) This figure represents the amount outstanding in principal reimbursements from the state for school construction projects as of June 30, 2002. 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 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 \$5.4 billion. The cost of the MWRA's capital program is such that 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") was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act as recently amended, debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the cities and towns in the MBTA as provided in the enabling act. The aggregate amount of such assessments is not permitted to increase by more than 2.5 percent per year.

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

CITY OF CAMBRIDGE OVERLAPPING DEBT				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Massachusetts Water Resources Authority (2)				
Sewer.....	\$3,383,687,000	(see above)	5.08%	\$171,891,290
Total.....				<u>\$171,891,290</u>

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

(2) Source: MWRA. Debt as of June 30, 2002.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
KEY DEBT RATIOS
as of June 30, 2002**

	Amount (1)	Per Capita (2)	Ratio to Assessed Valuation (3)
Gross Direct Debt	\$242,229,858	\$2,390	1.4%
Net Direct Debt (4)	71,411,272	705	0.4
Gross Direct and Gross Overlapping Debt	414,121,148	4,085	2.3
Net Direct and Net Overlapping Debt	243,302,562	2,400	1.4

(1) Includes current bond issue.

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

(3) Based on January 1, 2002 value of \$17,750,735,596.

(4) Excludes general obligation bonds that are in practice repaid from user fees and thus are self-supporting. This includes GO bonds issued for water, sewer, and hospital purposes. Also excludes portion of principal of school bonds expected to be paid with state grants.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
FIVE-YEAR DEBT SUMMARY
OUTSTANDING GENERAL OBLIGATION DEBT
FISCAL YEARS 1998 TO 2002 (1)
(\$ in 000s)**

	1998	1999	2000	2001	2002(2)
Inside	\$ 73,748	\$ 61,638	\$ 56,913	\$ 93,712	\$109,734
Outside:					
School	24,110	25,452	37,007	36,992	31,119
Water	9,313	46,413	63,913	71,485	72,702
Sub Total	33,423	71,865	100,920	108,477	103,821
Total	\$107,171	\$133,503	\$157,833	\$202,189	\$213,555

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

(2) Does not include current issue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
GENERAL OBLIGATION BONDS
SCHEDULE OF PRINCIPAL AND INTEREST
PAYMENTS BY FISCAL YEAR
As of June 30, 2002 (1)**

Fiscal Year	Principal	Interest	Principal This Issue	Interest This Issue	Total
2003	\$ 25,825,664	\$ 9,559,325	\$ —	\$ —	\$ 35,384,989
2004	25,183,285	8,406,683	2,870,000	854,200	37,314,168
2005	23,421,176	7,271,207	2,870,000	824,188	34,386,571
2006	20,266,305	6,265,853	2,870,000	759,613	30,161,771
2007	19,344,148	5,360,868	2,870,000	695,038	28,270,054
2008	17,760,978	4,458,219	2,870,000	623,288	25,712,485
2009	16,679,157	3,631,063	2,865,000	537,188	23,712,408
2010	16,724,907	2,822,265	2,865,000	444,075	22,856,247
2011	13,824,238	2,607,448	2,865,000	343,800	19,100,486
2012	7,290,000	1,548,136	2,865,000	229,200	11,932,336
2013	4,030,000	1,275,210	2,865,000	114,600	8,284,810
2014	4,035,000	1,093,549	—	—	5,128,549
2015	4,170,000	880,052	—	—	5,050,052
2016	4,000,000	678,563	—	—	4,678,563
2017	4,000,000	483,438	—	—	4,483,438
2018	4,000,000	287,813	—	—	4,287,813
2019	2,500,000	92,188	—	—	2,592,188
2020	500,000	14,063	—	—	514,063
	<u>\$213,554,858</u>	<u>\$56,195,943</u>	<u>\$28,675,000</u>	<u>\$ 5,425,190</u>	<u>\$303,850,991</u>

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

Source: City Department of Finance.

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

The following table shows the rate at which the City's principal amount of debt will be retired based on the amount outstanding on June 30, 2002 including these Bonds.

Maturing Within	Amount to be Retired	Cumulative % Principal Retired
5 years	\$125,520,578	51.82%
10 years	212,129,213	87.57
20 years	242,229,858	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 1998 TO 2002**

Fiscal Year	Population (1)	Assessed Value (2)	Gross Direct Debt (3)	Ratio of Gross Direct Debt to Assessed Value	Gross Direct Debt Per Capita
1998	99,394	\$ 7,503,702,581	\$147,871,111	2.0%	\$1,577
1999	99,394	9,542,836,815	133,502,560	1.7	1,721
2000	101,355	11,037,942,030	190,642,807	1.7	1,865
2001	101,355	12,703,137,530	234,819,166	1.8	2,317
2002	101,355	16,837,087,126	242,229,858 (4)	1.4	2,390

(1) Population estimates are from the Massachusetts Institute for Social and Economic Research (MISER) for 1998 and 1999 and from the U.S. Department of Commerce, Bureau of the Census for 2000 through 2002.

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

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

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

Source: City Department of Finance.

**CITY OF CAMBRIDGE
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT
TO TOTAL EXPENDITURES
FISCAL YEARS 1998 TO 2002**

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service to Total Expenditures
1998	\$13,963,884	\$3,932,297	\$17,896,181	\$252,353,360	7.6%
1999	15,165,156	6,099,273	21,264,429	262,601,496	8.1
2000	16,064,380	7,100,178	23,164,558	281,538,817	8.2
2001	17,829,926	8,399,329	26,229,255	289,962,340	9.0
2002	22,510,723	9,281,559	31,792,282	312,014,726	10.2

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

PUBLIC INVESTMENT PROGRAM

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

Since fiscal year 1985 the City has formally funded a portion of its Public Investment Program on a "pay-as-we-go" basis out of current general fund revenues. This financing source shows a substantial decrease from \$12,264,000 in fiscal year 2002 to \$6,085,000 in fiscal year 2003. However, the largest portion of this decrease, \$5,500,000, represents the replacement of property taxes and free cash as a financing source for the Affordable Housing Trust Fund with revenues from the Community Preservation Act. These revenues are appropriated separately and are not included in the Capital Improvement Plan. The five year plan calls for a total of \$29,625,000 in general fund revenues or free cash to be allocated to the Public Investment Fund.

The present plan, which was approved by the City Council on May 20, 2002, is a program of capital spending for the five-year period beginning July 1, 2002 and ending June 30, 2007. 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 \$229,648,085. 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 2003 TO 2007**

<u>Expenditure Category</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
General						
Government ...	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000	\$ 3,125,000
Public Safety	1,756,000	3,700,000	26,000,000	3,000,000	1,200,000	35,656,000
Community						
Maintenance & Development...	24,033,695	38,396,720	29,223,740	20,020,740	46,820,740	158,495,635
Human Resource						
Development	2,355,090	13,150,090	9,800,090	1,300,090	1,100,090	27,705,450
Education	666,000	1,000,000	1,000,000	1,000,000	1,000,000	4,666,000
Total	<u>\$29,435,785</u>	<u>\$56,871,810</u>	<u>\$66,648,830</u>	<u>\$25,945,830</u>	<u>\$50,745,830</u>	<u>\$229,648,085</u>

Source: "Public Investment Plan, Fiscal Year 2003 to Fiscal Year 2007."
Annual Budget Fiscal Year 2003, as adopted.

**PUBLIC INVESTMENT PROGRAM
USES AND SOURCES OF FUNDS
FISCAL YEARS 2003 TO 2007**

<u>Uses</u>	<u>Total Amount</u>	<u>Percent of Total</u>
General Government	\$ 3,125,000	1.36%
Public Safety	35,656,000	15.53
Community Maintenance and Development		
Housing Development	8,321,650	3.62
Economic Development	2,800,000	1.22
Streets & Highways & Transportation ..	8,183,005	7.92
Water & Sewer	90,628,980	39.47
Other	38,562,000	16.79
Human Resource Development	27,705,450	12.06
Education	4,666,000	2.03
Total	<u>\$229,648,085</u>	<u>100.00%</u>

<u>Sources</u>	<u>Total Amount</u>	<u>Percent of Total</u>
Free Cash	\$ 15,500,000	6.75%
Property Taxes	14,125,000	6.15
Block Grant	10,447,100	4.55
Parking Fund	1,140,000	0.50
Retained Earnings/Water Fund	3,000,000	1.31
Utility Fees	9,800,000	4.27
Bond Proceeds	166,091,517	72.31
Chapter 90 Grant	3,307,050	1.44
Golf Course Fees	280,000	0.12
Street Preservation Offset Fund	2,524,955	1.10
MWCA Grant	2,432,463	1.06
Federal Grant	1,000,000	0.44
Total	<u>\$229,648,085</u>	<u>100.00%</u>

Source: "Public Investment Plan, Fiscal Year 2003 to Fiscal Year 2007."
Annual Budget Fiscal Year 2003, as adopted.

**PUBLIC INVESTMENT PROGRAM
SOURCES OF FINANCING
FISCAL YEARS 2003 TO 2007**

Financing Category	2003	2004	2005	2006	2007	Total
General Government:						
Property Taxes	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000	\$ 625,000	\$ 3,125,000
Subtotal	\$ 625,000	\$ 625,000	625,000	625,000	625,000	\$ 3,125,000
Public Safety:						
Property Taxes	\$ 981,000	\$ 700,000	\$ 1,000,000	\$ 1,000,000	\$ 1,200,000	\$ 4,881,000
Bond Proceeds	775,000	3,000,000	25,000,000	2,000,000	—	30,775,000
Subtotal	\$ 1,756,000	\$ 3,700,000	\$26,000,000	\$ 3,000,000	\$ 1,200,000	\$ 35,656,000
Community Maintenance & Development:						
Property Taxes	\$ 1,179,000	\$ 1,460,000	\$ 1,160,000	\$ 1,160,000	\$ 960,000	\$ 5,919,000
Free Cash	1,264,000	805,000	955,000	955,000	1,155,000	5,134,000
Parking Fund	340,000	200,000	200,000	200,000	200,000	1,140,000
Sewer Service Charge	1,000,000	1,500,000	1,500,000	1,500,000	1,500,000	7,000,000
Water Service Charge	—	700,000	700,000	700,000	700,000	2,800,000
Retained Earnings/ Water Fund	1,000,000	500,000	500,000	500,000	500,000	3,000,000
Street Preservation Offset Fund	1,724,955	200,000	200,000	200,000	200,000	2,524,955
Block Grant	1,994,330	1,994,330	1,994,330	1,994,330	1,994,330	9,971,650
Chapter 90	661,410	661,410	661,410	661,410	661,410	3,307,050
MWRA	2,432,463	—	—	—	—	2,432,463
Federal Grant	—	1,000,000	—	—	—	1,000,000
Bond Proceeds	12,437,537	29,375,980	21,353,000	12,150,000	38,950,000	114,266,517
Subtotal	\$24,033,695	\$38,396,720	\$29,223,740	\$20,020,740	\$46,820,740	\$158,495,635
Human Resource Development:						
Property Taxes	\$ 200,000	\$ —	\$ —	\$ —	\$ —	\$ 200,000
Free Cash	1,170,000	1,295,000	1,145,000	1,145,000	945,000	5,700,000
Block Grant	95,090	95,090	95,090	95,090	95,090	475,450
Bond Proceeds	850,000	11,700,000	8,500,000	—	—	21,050,000
Golf Course Fees	40,000	60,000	60,000	60,000	60,000	280,000
Subtotal	\$ 2,355,090	\$13,150,090	\$ 9,800,090	\$ 1,300,090	\$ 1,100,090	\$ 27,705,450
Education:						
Free Cash	\$ 666,000	1,000,000	1,000,000	1,000,000	1,000,000	\$ 4,666,000
Subtotal	\$ 666,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 4,666,000
Grand Total	\$29,435,785	\$56,871,810	\$66,648,830	\$25,945,830	\$50,745,830	\$229,648,085

Source: "Public Investment Plan, Fiscal Year 2003 to Fiscal Year 2007."
Annual Budget Fiscal Year 2003, 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, 2001, 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 1999 through 2003. Health insurance, retirement and certain other employee benefit costs are included in departmental budgets. Debt service on school projects is included in the School budget. Debt service on the Cambridge Hospital project is included in the Debt Service budget.

The fiscal year 2003 budget of \$339,156,192 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2003 tax rate. This figure includes overlay deficits from the prior year as well as the overlay reserve for the current fiscal year. The fiscal year 2003 operating budget represents an increase of \$12,692,800, or 3.9%, over the fiscal year 2002 budget. Increases in the fiscal year 2003 budget include salary adjustments for employees which are spread over most City departments, health and retirement costs, and additional school expenditures of \$3,610,000.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2002 level of \$187,444,551 (including an allocation of \$3,014,000 to the Public Investment Fund) to a fiscal year 2003 level of \$197,720,546 including \$2,985,000 allocated to the Public Investment Fund. An additional \$12,388,248 from other current revenue sources has been combined with bond authorizations of \$14,062,537 for a total capital budget of \$29,435,785.

CITY OF CAMBRIDGE
BUDGETED REVENUES AND EXPENDITURES
FISCAL YEARS 1999 THROUGH 2003
(\$ in 000s)

	1999	2000	2001	2002	2003
Revenues:					
Real & Personal Property Taxes(1)	\$159,000.0	\$164,020.9	\$178,485.0	\$187,444.6	\$197,720.5
Local Estimated Receipts:					
Motor Vehicle Excise	4,000.0	4,581.9	4,673.3	4,900.0	5,619.6
Water	9,228.0	12,060.3	13,683.9	14,014.0	14,586.7
Sewer	16,929.9	16,706.6	17,699.8	21,723.1	24,058.9
Interest Income	1,645.0	1,600.0	2,200.0	2,550.0	2,000.0
Other Local Receipts	36,011.6	40,524.2	41,788.4	38,812.1	42,390.0
Subtotal	67,814.5	75,473.0	80,045.4	81,999.2	88,655.2
State Aid	40,395.6	42,174.0	44,061.0	47,376.2	43,225.0
Other Available Funds	10,642.9	13,541.2	892.0	5,488.0	9,555.5
Total Revenues	\$277,853.0	\$295,188.2	\$303,483.4	\$326,463.4	\$339,156.2
Expenditures:					
Deficits to be Raised:					
Overlay	\$ 1,000.0	\$ 178.3	\$ 20.6	\$ 30.9	\$ 3.2
Other	2,478.3	2,753.7	2,649.6	3,754.7	2,820.8
Subtotal Deficits	3,478.3	2,932.0	2,670.2	3,785.6	2,823.3
Overlay Reserve	4,250.0	4,250.0	4,290.5	4,250.0	4,145.3
Fixed Expenses:					
State & County					
Assessments	831.5	826.7	606.3	584.4	583.2
Mass. Water Resources					
Authority	14,092.8	14,093.7	14,353.9	14,248.5	15,718.8
Debt Service(2)	13,254.0	11,493.1	11,504.1	17,447.5	19,484.3
Retirement System(3)	10,753.9	11,728.6	11,461.2	11,299.8	10,845.4
MBTA	7,075.4	7,056.9	6,788.4	6,954.1	7,081.4
Cambridge Public Health					
Commission	8,598.0	8,598.0	7,598.0	6,598.0	6,598.0
Other Fixed Costs(4)	1,885.1	1,430.0	1,473.0	1,579.2	1,634.4
Subtotal Fixed	\$ 56,490.7	\$ 55,227.0	\$ 53,784.9	\$ 58,711.5	\$61,945.5
Variable Expense (Budget):					
Schools	94,616.0	102,226.0	106,021.5	112,952.3	116,562.3
Police	24,524.4	24,884.2	26,872.4	27,558.1	29,768.4
Fire	23,521.9	24,566.3	24,634.2	26,298.5	27,188.1
Public Works:					
Water	8,862.6	11,691.4	14,744.6	16,339.1	17,114.2
Sewer	1,073.9	1,230.4	1,392.6	1,591.9	1,743.7
Highway	2,148.5	2,317.2	2,486.3	2,579.0	2,795.6
Other	13,990.6	13,961.8	14,295.3	16,314.3	17,079.8
General Government	14,161.6	17,924.6	16,636.6	16,336.5	16,766.0
Other Variable	30,734.5	33,977.3	35,654.3	39,746.6	41,224.0
Subtotal Variable	\$213,439.0	\$232,779.2	\$242,737.8	\$259,716.3	\$270,242.1
Total Expenditures	\$277,853.0	\$295,188.2	\$303,483.4	\$326,463.4	\$339,156.2

(1) Before tax abatements.

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

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

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

Source: City Department of Finance.

PROPERTY TAXATION

Tax Rate and Valuation-General

Property is classified for the purpose of taxation according to its use. The State Legislature has in substance created three classes of taxable property: (1) residential real property; (2) open space land; and (3) all other (commercial, industrial, and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. 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 a proposed amount as of January 1, 2002.

The following tables show assessed and equalized valuations for the current and past four fiscal years and total assessed valuation by property classification for the fiscal years 2001, 2002, and 2003.

**CITY OF CAMBRIDGE
ASSESSED AND EQUALIZED VALUATIONS
FISCAL YEARS 1999 TO 2003**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
2003	\$17,382,808,566	\$367,927,030	\$17,750,785,596	\$18,050,951,800	98.3%
2002	16,531,950,616	305,136,510	16,837,087,126	12,564,293,200	134.0
2001	12,410,137,200	293,000,330	12,703,137,530	12,564,293,200	101.1
2000	10,763,157,000	274,785,030	11,037,942,030	8,569,361,200	128.8
1999	9,286,634,355	256,202,460	9,542,836,815	8,569,361,200	111.4

(1) As of January 1, 2002, 2001, 2000, 1999, and 1998, respectively.

(2) As of January 1, 2002, 2000, and 1998, respectively. Equalized valuations are determined biennially by the Commissioner of Revenue. January 1, 2002 valuation is proposed.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
TOTAL ASSESSED VALUATION BY CLASSIFICATION
FISCAL YEARS 2001, 2002, AND 2003**

Class	2001 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$ 7,708,859,899	60.68%	34.56%
Commercial	3,772,176,785	29.70	49.43
Industrial.....	929,100,516	7.31	12.17
Personal Property	293,000,330	2.31	3.84
	<u>\$12,703,137,530</u>	<u>100.0%</u>	<u>100.0%</u>

Class	2002 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$10,316,878,911	61.28%	34.56%
Commercial	4,994,072,105	29.66	50.13
Industrial.....	1,220,999,600	7.25	12.25
Personal Property	305,136,510	1.81	3.06
	<u>\$16,837,087,126</u>	<u>100.0%</u>	<u>100.0%</u>

Class	2003 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$10,819,610,842	60.96%	34.56%
Commercial	5,098,026,024	28.72	48.13
Industrial.....	1,465,171,700	8.25	13.83
Personal Property	367,927,030	2.07	3.48
	<u>\$17,750,735,596</u>	<u>100.0%</u>	<u>100.0%</u>

Source: City Department of Finance.

The following table shows the actual tax rates per \$1,000 of assessed valuation for fiscal years 1999-2003 and the estimated full value rate based on the equalized valuations for the latest fiscal years:

**CITY OF CAMBRIDGE
PROPERTY TAX RATE
FISCAL YEARS 1999 to 2003**

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Category</u>	<u>Estimated Full Value Tax Rate(1)</u>	<u>Average Rate(2)</u>
2003	\$ 7.26	Residential	\$10.95	\$11.14
	18.67	Commercial/Industrial		
2002	\$ 8.97	Residential	\$15.25	\$13.04
	20.30	Commercial/Industrial		
2001	\$ 9.21	Residential	\$14.21	\$14.05
	23.39	Commercial/Industrial		
2000	\$ 9.64	Residential	\$19.14	\$14.86
	25.16	Commercial/Industrial		
1999	\$11.04	Residential	\$18.55	\$16.66
	27.25	Commercial/Industrial		

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

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

Source: City Department of Finance.

The following table sets forth the City's 10 largest taxpayers of real estate and personal property taxes and the assessed value of property owned by each such taxpayer. The aggregate assessed value of the 10 largest taxpayers represents 16.4 percent of the City's total assessable base for fiscal year 2003.

**CITY OF CAMBRIDGE
10 LARGEST TAXPAYERS
Fiscal Year 2003 (1)**

Owner	Nature of Business	Assessed Valuation	Amount of Taxes	% of Total Tax Levy
Mass. Institute of Technology	Educational	\$ 985,624,100	\$17,248,669(1)	8.7%
Boston Properties	Commercial	419,721,100	7,836,193	4.0
Equity Partners	Commercial	245,640,500	4,586,108	2.3
Riverfront LLC	Commercial	212,597,100	3,969,188	2.0
Lyme Properties	Commercial	184,654,500	3,379,893	1.7
The Bulfinch Company	Commercial	172,529,300	3,168,084	1.6
Cambridge Gas & Electric Co./NSTAR	Utility	167,276,610	3,123,054	1.6
Presidents & Fellows of Harvard College	Educational	245,604,700	2,784,023(2)	1.4
New England Development	Commercial	145,518,700	2,716,834	1.4
G.E. Capital Investment Advisors	Commercial	123,954,000	2,331,582	1.2
Totals		<u>\$2,903,120,610</u>	<u>\$51,143,628</u>	<u>25.9%</u>

(1) As of January 1, 2002.

(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 an economic recession hit the Northeast. The loss of new growth caused the City's levy limit growth to decline, forcing a significant reduction in the gap between the levy limit and the City's actual tax levy. In fiscal year 1995, the margin between the actual tax levy and the levy limit was \$489,000, the lowest point in many years. However, by stabilizing the tax levy at \$144.4 million in fiscal year 1996, the City was able to increase the gap between the actual levy and the levy limit to \$6.2 million by taking advantage of moderate growth in the tax base as well as new growth of \$74.3 million. In the following years, the gap between the levy limit and the actual levy grew from \$6.2 million in FY96 to \$36.2 million in FY03.

Motor Vehicle Excise Tax

Other revenue sources available to the City were also significantly impacted due to the passage of Proposition 2 1/2. The motor vehicle excise tax rate was reduced from \$66 per \$1000 to \$25 per \$1000 in 1980, causing a substantial reduction in receipts. However, in recent years, the City has been able to record substantial increases from this revenue source due mainly to the significant improvement in the local economy, implementation of an in-house tracking and collector system, and an agreement with the State not to renew drivers' licenses and automobile registrations if there are delinquent excise taxes.

State Aid

In order to partially offset the reduction in local tax revenues caused by Proposition 2 1/2, the Massachusetts Legislature appropriated increasing amounts of local aid throughout the 1980's. However, after reaching a peak of \$44,426,564 in fiscal year 1988, state aid declined to \$32,135,332 in fiscal year 1992. In the ensuing years, this trend had been reversed and aid to the City from the Commonwealth has moved steadily upward to its fiscal year 2002 level of \$43,956,481. The City's fiscal year 2002 budget is based on the City receiving state aid in the amount of \$43,225,000.

Tax Limitations: Five-Year Projections

Fiscal year 2003 valuations have been updated based on a sales ratio analysis for all sales during 2001 and \$17,750,735,596 in real and personal property valuations were certified by the Massachusetts Department of Revenue. This figure represents a \$913,648,470, or 5.4%, increase over fiscal year 2002 valuations. As can be seen from the chart on the following page, it is anticipated that total assessed values will increase by an average of 6.8% annually over the fiscal year 2003 to fiscal year 2007 period due to a substantial increase in the value of existing properties and new construction. The chart on the following page illustrates the impact the anticipated increase in property values will have on the City's levy and levy limits through fiscal year 2007.

**CITY OF CAMBRIDGE
PROJECTED GROWTH IN PROPERTY VALUATION
FISCAL YEARS 2003 TO 2007**

Fiscal Year	Projected Assessments(1)	Projected Levy	Primary Levy Limit(2)	Secondary Levy Limit(3)
2003	\$17,750,735,596	\$197,720,546	\$443,768,390	\$233,913,997
2004	18,644,483,984	205,901,434	466,162,100	246,452,275
2005	20,748,539,679	222,872,396	518,713,492	258,515,347
2006	21,453,367,781	239,964,878	536,334,195	269,726,660
2007	22,560,274,250	255,854,099	564,006,856	281,308,227

- (1) The figures for fiscal year 2003 are those which have been certified by the Massachusetts Department of Revenue and the figures for 2004-2007 are estimates.
- (2) The primary levy limit is calculated at 2.5 percent of the projected assessment.
- (3) The secondary levy limit is the previous fiscal year's maximum allowable limit times 102.5 percent plus qualified new construction.

Source: City Department of Finance.

The Revaluation Process: A Review and Update

Massachusetts state law requires that real and personal property assessments be maintained at 100 percent of full market value. Every three years, values must be certified by the Massachusetts Department of Revenue (DOR) as meeting this standard. In the intervening years, values are updated based on 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 full revaluation was performed in fiscal year 2002 and yielded \$16.84 billion in real and personal property values. Fiscal year 2003 values have been updated based on a sales ratio analysis for all sales during 2001 and real and personal property values have increased to \$17.75 billion.

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 professionals as well as permanent, full time staff members dedicated to data collection and maintenance. Also, the Department has full service data management, analysis and valuation software systems on its computers. All residential and commercial real estate valuations, with the exception of some hotels, hospitals and nursing homes, are currently handled by the Assessing Department permanent staff.

The City 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 1999 to 2003.

CITY OF CAMBRIDGE
CALCULATION OF PROPERTY TAX LEVIES
FISCAL YEARS 1999 TO 2003
(\$ in 000s)

	1999	2000	2001	2002	2003
Gross Amount to be Raised:					
Total Appropriations.....	\$303,782	\$313,941	\$336,616	\$343,917	\$356,135
Overlay Deficits from Prior Years	903	178	20	31	3
Other Local Expenditures.....	2,454	2,753	2,649	3,755	2,820
State and County Assessments.....	7,712	7,581	7,395	7,491	7,700
Overlay for Current Year.....	4,250	4,271	4,291	4,250	4,145
Total to be Raised	<u>\$319,101</u>	<u>\$328,724</u>	<u>\$350,971</u>	<u>\$359,444</u>	<u>\$372,803</u>
Offsets:					
Estimated Receipts from State	42,311	43,779	45,566	47,376	43,222
Prior Year's Overestimates					
of State & County Assessments	0	282	56	0	3
Local Estimated Receipts	72,997	79,876	80,045	83,887	88,655
Other Available Funds	44,793	40,766	46,819	40,736	41,202
Total Offsets	<u>\$160,101</u>	<u>\$164,703</u>	<u>\$172,486</u>	<u>\$171,999</u>	<u>\$173,082</u>
Tax Levy.....	<u>\$159,000</u>	<u>\$164,021</u>	<u>\$178,485</u>	<u>\$187,445</u>	<u>\$197,721</u>

Source: City Department of Finance.

TAX COLLECTIONS AND ABATEMENTS

Payment Dates

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

Lien

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

Personal Liability

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

Abatements and Overlay

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

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

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

CITY OF CAMBRIDGE TOTAL TAX LEVY, OVERLAY RESERVE, AND TAX COLLECTIONS FISCAL YEARS 1998 TO 2002

Fiscal Year	Tax Levy	Overlay Reserve for Abatements	Net Tax Levy(1)	Collections During Fiscal Year Payable (2)		Collections as of 6/30/02(3)	
				Amount	% of Net Levy	Amount	% of Net Levy
2002	\$187,444,551	\$4,261,178	\$183,183,373	\$184,139,461	100.5%	\$184,139,461	100.5%
2001	178,484,966	4,290,541	174,194,425	171,347,849	98.4	173,862,739	99.8
2000	164,020,845	4,270,815	159,750,000	161,467,010	101.1	162,894,426	102.0
1999	159,000,005	4,250,006	154,749,999	155,723,489	100.6	156,542,214	101.1
1998	154,303,550	4,250,000	150,053,550	150,900,173	100.6	152,158,470	101.4

(1) Tax levy less overlay reserve for abatements.

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

(3) Audited for fiscal years 1998 through 2001; unaudited for fiscal year 2002.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
OVERLAY RESERVES AND ABATEMENTS
FISCAL YEARS 1998 TO 2002**

Fiscal Year	Overlay Reserve		Abatements	
	Amount	% of Total Levy	During Fiscal Year of Each Tax Levy	Since Fiscal Year Ended (through 6/30/02)
2002	\$4,261,178	2.3%	\$ 807,011	\$ 807,011
2001	4,290,541	2.4	921,978	1,136,780
2000	4,270,845	2.6	1,133,600	1,556,804
1999	4,250,006	2.7	1,542,188	1,907,167
1998	4,250,000	2.8	947,980	1,191,621

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 1998 TO 2002**

Fiscal Year	Aggregate(1)	For Current Year(1)	Tax Title and Tax Possessions
2002	\$ 6,099,610	\$ 4,624,223	\$ 2,744,647
2001	6,944,430	4,025,164	2,642,319
2000	4,270,002	2,122,884	3,880,654
1999	3,724,872	721,989	4,957,203
1998	4,473,581	3,066,445	6,879,737

(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 1998 TO 2002**

<u>Fiscal Year</u>	<u>Community Development Block Grant</u>	<u>Other</u>	<u>Total From Federal Government</u>
2002	\$3,863,126	\$7,854,648	\$11,717,774
2001	3,420,303	7,454,084	10,874,387
2000	4,322,809	6,914,383	11,237,192
1999	3,702,019	6,568,582	10,270,601
1998	3,783,475	6,506,304	10,289,779

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

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

Chapter 645 of the Acts of 1948 as amended ("Chapter 645") created a statewide school building assistance program. Pursuant to this program, cities and towns issued bonds for eligible school building projects and were reimbursed over a period of years by the Commonwealth according to a statutory percentage for such city or town. Legislation enacted as part of the Commonwealth's Fiscal Year 2001 budget repealed Chapter 645 and created a new school building assistance program codified as Chapter 70B of the General Laws. Among other changes, the new program includes grants for alternatives to construction and calculates grants for each project based on a number of factors. The new legislation does not affect the reimbursement percentages for bonds previously issued under Chapter 645, and the grants for certain "grandfathered" projects will be based on the statutory percentages provided for in Chapter 645.

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 1998 TO 2002**

<u>Fiscal Year</u>	<u>School Construction</u>	<u>School Operations</u>	<u>Other</u>	<u>Total From State</u>
2002	\$2,700,338	\$7,860,440	\$33,395,703	\$43,956,481
2001	2,700,338	4,578,867	31,766,158	39,157,633
2000	4,913,624	3,948,887	28,043,084	36,905,595
1999	4,975,133	4,028,944	30,602,878	39,606,955
1998	2,316,281	4,148,468	30,742,415	37,207,164

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

MOTOR VEHICLE EXCISE TAX

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

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

Between fiscal year 1985 and fiscal year 2002, motor vehicle excise tax revenue increased from \$2.0 million to approximately \$5.8 million, an increase of approximately 190 percent. This increase has been due to several factors, including the economic recovery that occurred during the 1990's, increased automobile sales, and the City's implementation of an in-house tracking and collection system.

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

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

**RECEIPTS FROM MOTOR VEHICLE EXCISE TAX
FISCAL YEARS 1998 TO 2002**

<u>Fiscal Year</u>	<u>Receipts(1)</u>
2002	\$5,838,407
2001	5,908,331
2000	5,857,749
1999	4,824,980
1998	4,716,502

(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 1998 to 2002

<u>Fiscal Year</u>	<u>Receipts</u>
2002	\$4,907,352
2001	5,651,401
2000	5,696,567
1999	4,955,494
1998	4,449,984

Source: City Department of Finance.

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

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 1998 through 2002, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 1998 through 2002.

CITY OF CAMBRIDGE
GENERAL FUND BALANCE SHEETS
FISCAL YEARS 1998 TO 2002(1)
(as of June 30)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
ASSETS					
Cash	\$ 60,512,140	\$ 71,132,435	\$ 63,837,512	\$ 78,235,106	\$105,531,056
Receivables(2)					
Taxes	4,473,581	3,799,562	4,424,002	5,403,720	1,921,718
Tax Title and Possessions	6,879,737	4,957,203	3,880,654	4,322,324	3,353,382
Motor Vehicle Excise	2,270,163	2,548,845	2,719,721	2,787,847	2,659,463
Departmental	3,173,314	756,105	1,273,708	1,694,381	1,080,349
Due From Other Funds	4,373,530	721,598	7,083,532	—	—
Due From Component					
Unit	32,770,000	29,785,000	27,300,000	25,650,000	24,000,000
Other Assets	—	659,925	101,286	—	—
Total Assets	<u>\$114,452,465</u>	<u>\$114,360,673</u>	<u>\$110,620,415</u>	<u>\$118,093,378</u>	<u>\$138,545,968</u>
LIABILITIES AND FUND EQUITY					
Warrants Payable	\$ 60,682	\$ —	\$ 64,492	\$ —	\$ 967,542
Accrued Liabilities:					
Guarantee Deposits and					
Amounts Due to Other					
Taxing Authorities	1,921,939	1,921,939	—	—	—
Tax Abatement Refunds	2,242,000	11,479,105	13,879,127	16,578,406	5,154,476
Other	16,503,086	16,337,308	14,254,771	16,550,243	17,566,062
Deferred Revenue	47,337,168	41,506,040	38,917,605	38,413,070	33,529,803
Total Liabilities	<u>\$ 66,142,936</u>	<u>\$ 71,244,392</u>	<u>\$ 67,115,995</u>	<u>\$ 71,541,719</u>	<u>\$ 57,218,483</u>
Fund Equity:					
Fund Balances					
Reserved for Encumbrances ..	5,551,073	8,306,925	11,440,747	9,121,873	7,997,671
Reserved for Specific Purposes ..	7,800,000	11,585,700	6,909,597	5,550,000	5,393,075
Undesignated	34,958,456	23,223,656	25,154,076	31,879,786	67,936,739
Total Fund Equity	<u>48,309,529</u>	<u>43,116,281</u>	<u>43,504,420</u>	<u>46,551,659</u>	<u>81,327,485</u>
Total Liabilities & Fund Equity ...	<u>\$114,452,465</u>	<u>\$114,360,673</u>	<u>\$110,620,415</u>	<u>\$118,093,378</u>	<u>\$138,545,968</u>

(1) See Appendix A for complete financial report for 2002. Copies of the financial reports for 1998, 1999, 2000, and 2001 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, 1998, 1999, 2000, 2001, and 2002.

CITY OF CAMBRIDGE
GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL FOR FISCAL YEARS 1998 TO 2002 (1)

	1998	1999	2000	2001	2002
Revenues:					
Property Taxes	\$153,007,084	\$151,056,435	\$162,189,559	\$174,681,244	\$198,805,589
In Lieu of Tax Receipts	2,282,897	4,544,599	3,692,279	4,807,067	5,316,254
Hotel/Motel Tax	4,449,984	4,955,494	5,696,567	5,651,401	4,907,532
Intergovernmental Revenue	37,207,164	42,923,901	39,820,586	47,022,550	46,822,454
Sewer Use	19,206,157	19,460,697	20,716,194	20,563,466	23,836,866
Motor Vehicle Excise	4,716,502	4,824,980	5,848,595	5,921,137	5,838,407
Interest	2,101,567	1,623,836	2,484,517	3,208,418	2,344,360
Other	17,289,924	19,605,412	24,402,917	23,498,390	18,623,302
Total Revenues	240,261,279	248,995,354	264,851,214	285,353,673	306,494,734
Expenditures:					
General Government	17,475,179	21,751,991	18,032,236	22,544,458	26,804,656
Public Safety	62,069,959	61,995,385	66,443,117	66,775,542	70,386,768
Community Maintenance and Development	19,328,187	19,379,487	21,581,775	24,591,714	24,171,500
Human Resource Development	12,343,182	12,602,091	14,698,981	15,970,240	17,581,399
Education	90,480,918	93,371,120	100,200,273	105,323,655	112,961,033
Judgements and Claims	537,451	1,000,000	2,479,013	708,847	205,418
State Assessments	20,825,930	21,222,529	21,407,431	21,106,942	28,018,935
Debt Service:					
Principal	7,768,884	9,222,443	8,231,201	7,089,430	11,579,352
Interest	2,511,293	3,461,047	3,261,272	3,679,415	5,008,120
Total Expenditures	233,340,983	244,006,093	256,335,299	268,390,243	296,467,181
Transfers from (to) Other Funds: (Net).	(4,453,730)	(10,182,509)	(8,127,776)	(13,916,191)	1,820,125
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses					
Fund Equity at beginning of year	45,842,963	48,309,529	43,116,281	43,504,420	69,479,807(2)
Fund Equity at end of year	\$ 48,309,529	\$ 43,116,281	\$ 43,504,420	\$ 46,551,659	\$ 81,327,485

(1) Does not include water revenues and expenditures.

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

Several trust funds were reclassified to the General Fund.

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1998, 1999, 2000, 2001, and 2002.

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 1998 TO 2002

July 1	Surplus Revenue or (Deficit)(1)(2)	Free Cash
2002	\$62,058,818	\$28,706,934
2001	48,996,299	24,995,755
2000	43,041,453	26,166,059
1999	42,863,383	30,320,541
1998	39,744,170	29,172,594

- (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 A-7 of Appendix A.

Source: City Department of Finance.

INVESTMENTS

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

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

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 originally 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.

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.

Under recent legislation cost-of-living increases for the City retirement system would be granted and funded by the retirement system. Those statutory provisions are subject to acceptance by the Retirement Board with the approval of the City Council, which acceptance may not be revoked. The City Council approved this legislation on June 1, 1998 and it took effect on July 1, 1998.

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 1999 to 2003 fiscal years are set forth below:

**CITY OF CAMBRIDGE
CONTRIBUTIONS TO CITY PENSION FUNDS
FISCAL YEARS 1999 TO 2003**

<u>Fiscal Year</u>	<u>Contributory (1)</u>	<u>Non-contributory</u>	<u>Total</u>
2003	\$21,398,751	\$1,400,000	\$22,798,751
2002	22,030,450	1,450,000	23,480,450
2001	21,561,108	1,500,000	23,061,108
2000	20,200,840	1,600,000	21,800,840
1999	18,780,660	1,697,045	20,477,705

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

Source: City Department of Finance.

An actuarial study conducted by an independent audit firm determined that the unfunded pension liability of the Cambridge Retirement System was \$61,102,609 as of December 31, 2001. In January, 1991, the City established a state-approved funding schedule that will eliminate the City's unfunded actuarial liabilities by June 30, 2028.

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

EMPLOYEE RELATIONS AND COLLECTIVE BARGAINING

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

The City has approximately 3,614 employees, of whom approximately 67.9 percent belong to unions or other collective bargaining groups.

CITY OF CAMBRIDGE CITY UNIONS AND COLLECTIVE BARGAINING GROUPS

<u>Groups</u>	<u>Department</u>	<u>Number of Employees Represented</u>	<u>Contract Expires</u>
Teamsters Local 25	City-Wide	321	6/30/02
Teachers and Administrators (Mass. Teachers Assoc.)	School	820	8/31/03
Clerical	School	86	6/30/03
Custodians (Local 1611 AFL-CIO)	School	86	6/30/03
Food Service	School	59	6/30/03
Safety Specialist	School	14	6/30/03
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	212	8/31/04
Substitute Teachers	School	96	8/31/04
Family Resource Liaison (AFSNE)	School	21	6/31/03
International Assoc. of Firefighters	Fire	266	6/30/06
Patrol Officers	Police	217	6/30/03
Superior Officers	Police	47	6/30/03
Traffic Supervisors	Police	47	6/30/03
Independent Water Workers Association	Water	27	6/30/03
Professional Librarians	Library	70	6/30/03
Inspectional Services (Building, Trades)	Inspectional	18	New Unit
Childcare Workers	Human Services	36	6/30/03
Supervisors	Public Works	10	6/30/06
		<u>2,453</u>	

The City is currently in negotiations with the newly formed unit. These negotiations are progressing in a satisfactory manner. Although the City did reach an agreement with Teamsters Local 25 for a new contract through 6/30/05, that agreement had not been implemented because of a dispute between Teamsters Local 25 and another organization seeking to represent these employees. The representation question should be settled within a few months and it is anticipated that negotiations will then proceed in a satisfactory manner.

Source: City Personnel Department.

/s/ Louis A. Depasquale
City Treasurer

January 21, 2003



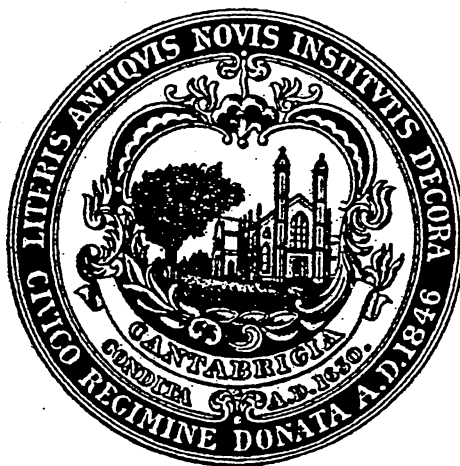
APPENDIX A

CITY OF CAMBRIDGE, MASSACHUSETTS

Basic Financial Statements, Required Supplementary Information and Supplemental Schedules

June 30, 2002

(With Independent Auditors' Report Thereon)



CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Year Ended June 30, 2002

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Cambridge's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 3, the City of Cambridge, in fiscal 2002, implemented Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The management's discussion and analysis on pages A – 5 through A – 13, the schedules of funding progress and employers' contributions on page A – 45, and the schedule of revenues and expenditures – budgetary basis on pages A – 46 and A – 47 are not a required part of the basic financial statement, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of





management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 16, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 16, 2002

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

Management of the City of Cambridge (City) provides this Management's Discussion and Analysis as part of the City's Comprehensive Annual Financial Report (CAFR) to assist readers of the basic financial statements in understanding the financial activities of the City for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the transmittal letters at the front of this report and the City's basic financial statements, which begin on page A – 14.

Because the City implemented new reporting standards for the current fiscal year, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful to the City's financial position and results of operations.

Overview of the Financial Statements

For the past 20 years, local government financial statements have been presented on a fund-type basis reporting only current financial information. This approach has been modified and for the first time, the City's financial statements present two types of statements each with a different view of the City's finances. The new approach focuses on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Statements

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

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

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

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

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

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

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

Fund Financial Statements

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

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

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

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

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

Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The full accrual basis of accounting is used for fiduciary funds and is much like that used for proprietary funds.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the City's general fund – the only fund for which an annual budget is legally adopted. The budgetary comparison also includes a reconciliation of revenues and expenditures reported on the City's budgetary basis of accounting and the revenues and expenditures reported on a GAAP basis. Also included are the retirement system on historical trend information for the Cambridge Retirement System which includes the schedule of funding progress, schedule of employee contributions and related notes.

Government-Wide Financial Analysis

In accordance with GASB Statement No. 34, the City is not required to restate prior periods for the purposes of providing comparative information. However, in future years, when prior year information is available, a comparative analysis of government-wide information will be presented.

Statement of Net Assets

The following table reflects the condensed schedule of net assets based on the statement of net assets found on page A – 14 of the basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

The City's combined net assets (government and business-type activities) exceeded its liabilities at fiscal year ending June 30, 2002 by \$431.5 million (presented as "net assets"). Of this amount, \$105.5 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

The components of net assets include investment in capital assets such as land, buildings, equipment, and infrastructures (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding - the amount is \$322.9 million indicating the amount of capital debt does not exceed the net book value of the City's capital assets. Since most of the City's debt has a ten-year life, a considerable amount of our capital asset lives extend beyond the life of the debt. The City uses these capital assets to service the community; therefore, they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

City of Cambridge Summary Schedule of Net Assets As of June 30, 2002 (In millions)

	Governmental activities	Business-type activities	Total primary government
Current and other assets	\$ 198.4	11.3	209.7
Capital assets	356.1	140.3	496.4
Total assets	554.5	151.6	706.1
Long-term liabilities	144.2	67.1	211.3
Other liabilities	56.4	6.9	63.3
Total liabilities	200.6	74.0	274.6
Net assets:			
Invested in capital assets, net of related debt	255.2	67.7	322.9
Restricted	3.1	—	3.1
Unrestricted	95.6	9.9	105.5
Total net assets	\$ 353.9	77.6	431.5

Statement of Changes in Net Assets

The City's total net assets increased by \$40.8 million in fiscal year 2002, of which the governmental activities net assets increased \$40.7 million and the business-type activities increased \$0.1 million.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

This summary schedule of activities is based upon the statement found on page A – 15 of the basic financial statements.

City of Cambridge Summary Schedule of Activities For the Year Ended June 30, 2002 (In millions)

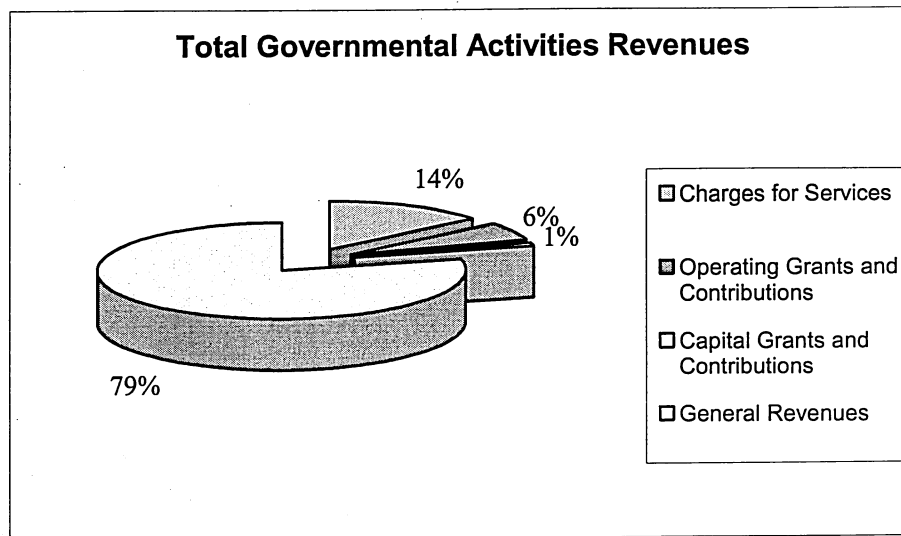
	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total primary government</u>
Revenues:			
Program revenues:			
Charges for services	\$ 50.5	15.5	66.0
Operating grants and contributions	22.7	—	22.7
Capital grants and contributions	3.5	—	3.5
General revenues:			
Taxes:			
Property taxes levied	200.0	—	200.0
Excises	10.8	—	10.8
Payment in lieu of taxes	5.3	—	5.3
Grants and contributions not restricted	46.8	—	46.8
Investment income	3.3	0.1	3.4
Miscellaneous	15.5	—	15.5
Transfers	0.4	(0.4)	—
Total revenues	<u>358.8</u>	<u>15.2</u>	<u>374.0</u>
Expenses:			
General government	28.1	—	28.1
Public safety	73.2	—	73.2
Community maintenance and development	37.4	—	37.4
Human resource development	23.5	—	23.5
Education	122.7	—	122.7
Judgment and claims	0.2	—	0.2
State and district assessments	28.0	—	28.0
Water Department	—	15.1	15.1
Interest	5.0	—	5.0
Total expenses	<u>318.1</u>	<u>15.1</u>	<u>333.2</u>
Change in net assets	40.7	0.1	40.8
Net assets - beginning	<u>313.2</u>	<u>77.5</u>	<u>390.7</u>
Net assets - ending	<u>\$ 353.9</u>	<u>77.6</u>	<u>431.5</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

Total Revenues

Total governmental activities revenues for the City are comprised of general revenue of \$282.1 million, charges for services of \$50.5 million, operating grants and contributions of \$22.7 million, and capital grants and contributions of \$3.5 million.



General

Real estate tax revenues are the City's largest revenue source at \$200.0 million, representing 70.9% of general revenues. The assessed tax valuation base is \$16.8 billion, up from \$12.7 billion assessed in the prior year, showing a 32.3% increase due to a City wide revaluation and new construction.

Grants and contributions not restricted to specific programs are \$46.8 million representing 16.6% of general revenues and includes state cherry sheet revenues of \$41.1 million, state police career incentive of \$0.9 million, and other unrestricted contributions.

Program

Charges for services are \$50.5 million representing a variety of department revenues. The public safety portion of \$22.6 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. The community maintenance and development portion of \$25.3 million includes sewer service revenues, community cable revenues, as well as other public works-type fees.

Operating grants and contributions of \$22.7 million represent several federal and state grants restricted to specific grant conditions. This accounts for approximately 6.3% of the total City governmental activities revenues.

Capital grants and contributions of \$3.5 million include community development capital grants, state revolving grants, and other capital-restricted revenues.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

Expenses

For fiscal year ended June 30, 2002, expenses for governmental activities totaled \$318.2 million, which cover a range of services.

Education continues to be one of the City's highest priorities with expenditures representing \$122.7 million or 38.6% of the total governmental expenses. This includes both grant and general operating expenses.

Business-Type Activities

Business-type activities increased net assets by \$0.1 million, accounting for less than 1.0% of the total growth in the City's net assets.

Financial Analysis of the Government's Fund Financial Statements

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

Governmental Funds

As of the end of the current fiscal year, the City of Cambridge's governmental funds reported a combined ending fund balance of \$134.2 million. Of this amount, \$5.4 million is reserved for future capital projects and \$26.4 million is reserved for encumbrances and \$32.0 million is reserved for other purposes. This leaves an unreserved/undesignated fund balance of \$70.4 million.

The general fund is the chief operating fund of the City of Cambridge. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$69.6 million, while the total fund balance was \$83.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. The unreserved fund balance represents 23.5% of total general fund expenditures.

Proprietary Funds

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

Unrestricted net assets of the water fund at the end of the year were \$9.9 million with an investment in capital assets, net of related debt of \$67.6 million. The major capital investment representing this restricted fund balance is the new water treatment plant.

General Fund Budgetary Highlights

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

1. Due to a drop in our economy, the Hotel Motel excise estimates were lowered approximately \$0.7 million and absorbed through property taxes.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

2. All cherry sheet offset items do not appear in the City's original budget that represent a decrease in intergovernmental of approximately \$3.2 million and absorbed through property taxes.
3. Cherry sheet revenues and expenditures are estimated in the original budget based upon previous year's cherry sheet revenues and adjusted, if needed, for the final budget.
4. Other revenues are also adjusted based upon the previous year's actuals that accounted for approximately \$1.2 million.
5. Also, a small amount of supplemental appropriations were pushed through to various miscellaneous items such as outside legal costs, increase in solid waste costs, and increase in energy costs for traffic lights.

Capital Asset and Debt Administration

Capital Assets

The table below represents a summary of the City's gross capital assets by category (in millions):

	Governmental activities		Business-type activities		Totals	
	2002	2001	2002	2001	2002	2001
Land	\$ 162.3	162.3	39.3	39.3	201.6	201.6
Buildings and improvements	144.6	122.6	77.4	2.7	222.0	125.3
Improvements-nonbuilding	19.6	10.8	—	—	19.6	10.8
Furniture and equipment	22.2	21.6	0.9	0.9	23.1	22.5
Infrastructure	127.9	122.0	30.0	28.0	157.9	150.0
Construction in progress	32.7	29.4	2.8	73.6	35.5	103.0
Totals	\$ 509.3	468.7	150.4	144.5	659.7	613.2

As of June 30, 2002, the City of Cambridge's capital assets for its governmental and business-type activities amounted to \$496.4 million (net of depreciation). Capital assets include land, buildings, improvements, machinery and equipment, open space, roads and highways. The total gross increase in the City's capital assets for the current fiscal year was \$40.6 million in the governmental activities and \$5.9 million in the business-type activities.

Major capital projects that took place during the current fiscal year include the following:

- Several ongoing sewer separation projects scattered throughout the City, which are funded through bonds and state grants.
- Completion of the roof replacement to the Cambridge Rindge and Latin School.
- Significant renovations have been completed to the Fitzgerald School.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

Debt

At year-end, the City had \$221.9 million in outstanding bonds and notes compared to \$206.8 million last year. That is an increase of \$15.1 million or 7.3%.

	Governmental activities		Business-type activities		Totals	
	2002	2001	2002	2001	2002	2001
(In millions)						
General obligation bonds and notes payable	\$ 149.2	135.3	72.7	71.5	221.9	206.8
Totals	\$ 149.2	135.3	72.7	71.5	221.9	206.8

During the year, the City borrowed \$32.6 million in general obligation bonds in General Obligation bonds to finance a wide range of projects including improvements to City Hall, City Hall Annex, War Memorial, and Cambridge Rindge and Latin School Field House as well as sewer reconstruction, street reconstruction, water system improvements, and the final phase of the construction of a new water treatment plant at a net interest cost of 3.91%.

The City of Cambridge maintains bond ratings with Fitch IBCA of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA. The interest rate for the current year's bond sale was 3.91%.

Additional information on the City of Cambridge's debt can be found in note 8 on page A – 37.

Economic Factors and Next Year's Budgets and Rates

With an anticipated drop in state aid of approximately 10%, the City has increased the property tax levy by 5.48% to \$197.7 million. Despite this increase, the City's excess tax levy capacity, an extremely important indication of the City's financial health, is approximately \$36 million for FY03. Cambridge currently has the largest excess levy capacity in the Commonwealth.

The operating budget increased 4% over the FY02 budget. The increase is attributable to a 3% salary increase for all employees; a 12% increase in employee health insurance; a 3.2% increase in school spending; and a debt service increase of 11.7%. The capital budget of \$29.4 million is a decrease of approximately \$26.3 million from the prior year.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions on this report or need additional financial information, your inquiries should be addressed to: City of Cambridge, Attn: City Auditor, 795 Massachusetts Avenue, Cambridge, MA 02139-3219.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Assets

June 30, 2002

Assets	Primary government			Component unit
	Governmental activities	Business-type activities	Total	
Cash and investments	\$ 148,115,460	7,382,899	155,498,359	48,859,940
Cash and investments held by trustees	600,000	—	600,000	47,214,816
Receivables, net:				
Property taxes	1,407,964	—	1,407,964	—
Motor vehicle excise	3,353,382	—	3,353,382	—
Intergovernmental	7,591,052	—	7,591,052	—
Other	12,362,306	4,712,911	17,075,217	43,049,613
Other assets	165,399	—	165,399	16,684,291
Internal balances	861,502	(861,502)	—	—
Due from component unit	24,000,000	—	24,000,000	—
Capital assets:				
Nondepreciable	194,940,987	42,106,534	237,047,521	31,742,336
Depreciable, net	161,151,619	98,241,104	259,392,723	183,358,104
Total assets	554,549,671	151,581,946	706,131,617	370,909,100
Liabilities				
Warrants and accounts payable	1,000,004	—	1,000,004	31,273,138
Accrued liabilities:				
Tax abatement refunds	5,154,476	—	5,154,476	—
Accrued payroll	10,290,642	62,094	10,352,736	—
Other	8,413,171	—	8,413,171	—
Deferred revenue	1,141,692	—	1,141,692	33,567,038
Due to primary government	—	—	—	24,000,000
Long-Term liabilities:				
Due within one year:				
Bonds and notes payable	20,227,486	5,912,314	26,139,800	—
Capital leases	—	—	—	3,085,641
Due to third parties	—	—	—	4,456,120
Compensated absences	4,441,415	155,512	4,596,927	17,668,801
Landfill	25,000	—	25,000	—
Claims	4,394,236	54,441	4,448,677	—
Accrued interest	1,402,398	735,991	2,138,389	—
Due in more than one year:				
Bonds and notes payable	128,940,415	66,789,295	195,729,710	—
Capital leases	—	—	—	21,475,849
Due to third parties	—	—	—	60,454,904
Compensated absences	13,743,595	203,060	13,946,655	—
Landfill	450,000	—	450,000	—
Claims	1,026,336	108,881	1,135,217	—
Total liabilities	200,650,866	74,021,588	274,672,454	195,981,491
Net Assets				
Investment in capital assets, net of related debt	255,226,705	67,646,029	322,872,734	166,538,950
Restricted for:				
Other purposes	3,128,414	—	3,128,414	4,155,450
Unrestricted	95,543,686	9,914,329	105,458,015	4,233,209
Commitments and contingencies				
Total net assets	\$ 353,898,805	77,560,358	431,459,163	174,927,609

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2002

Functions/Programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component unit
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government		Total	
					Governmental activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 28,159,583	\$ 228,388	\$ —	\$ —	\$ (27,931,195)		\$ (27,931,195)	
Public safety	73,177,887	22,627,366	—	—	(50,550,521)		(50,550,521)	
Community maintenance and development	37,355,588	25,251,184	4,207,828	3,537,887	(4,358,689)		(4,358,689)	
Human resource development	23,465,616	2,443,060	8,085,503	—	(12,937,053)		(12,937,053)	
Education	122,717,493	—	10,442,429	—	(112,275,064)		(112,275,064)	
Judgments and claims	205,418	—	—	—	(205,418)		(205,418)	
Intergovernmental	28,018,935	—	—	—	(28,018,935)		(28,018,935)	
Interest on long term debt	5,065,745	—	—	—	(5,065,745)		(5,065,745)	
Total governmental activities	318,166,265	50,549,998	22,735,760	3,537,887	(241,342,620)		(241,342,620)	
Business-type activities:								
Water	15,079,842	15,523,309	—	—	—	\$ 443,467	443,467	
Total business-type activities	15,079,842	15,523,309	—	—	—	443,467	443,467	
Total primary government	\$ 333,246,107	\$ 66,073,307	\$ 22,735,760	\$ 3,537,887	(241,342,620)	443,467	(240,899,153)	
Component unit:								
Cambridge Public Health Commission	\$ 393,631,440	\$ 159,246,756	\$ 231,620,782	\$ 16,752,436				\$ 13,988,534
Total component units	\$ 393,631,440	\$ 159,246,756	\$ 231,620,782	\$ 16,752,436				13,988,534
General revenues:								
Taxes:								
Property taxes, levied for general purposes					199,963,787	—	199,963,787	—
Excises					10,745,939	—	10,745,939	—
Payments in lieu of taxes					5,316,254	—	5,316,254	—
Grants and contributions not restricted					46,822,454	—	46,822,454	—
Investment income					3,331,545	56,962	3,388,507	3,068,416
Miscellaneous					15,515,230	—	15,515,230	—
Transfers					376,870	(376,870)	—	—
Total general revenues and transfers					282,072,079	(319,908)	281,752,171	3,068,416
Change in net assets					40,729,459	123,559	40,853,018	17,056,950
Net assets - beginning					313,169,346	77,436,799	390,606,145	157,870,659
Net assets - ending					\$ 353,898,805	\$ 77,560,358	\$ 431,459,163	\$ 174,927,609

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2002

	<u>General</u>	<u>Capital fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Assets				
Cash and investments	\$ 105,531,056	9,740,355	32,844,049	148,115,460
Cash and investments held by trustees	—	—	600,000	600,000
Receivables, net:				
Property taxes	6,095,610	—	—	6,095,610
Motor vehicle excise	3,353,382	—	—	3,353,382
Tax title and possessions	2,659,463	—	—	2,659,463
Intergovernmental	—	6,933,108	657,944	7,591,052
Departmental and other	6,217,887	—	3,484,956	9,702,843
Total receivables	18,326,342	6,933,108	4,142,900	29,402,350
Due from other funds	—	2,872,797	—	2,872,797
Due from component unit	24,000,000	—	—	24,000,000
Total assets	<u>\$ 147,857,398</u>	<u>19,546,260</u>	<u>37,586,949</u>	<u>204,990,607</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants and accounts payable	\$ 967,542	—	32,462	1,000,004
Accrued liabilities:				
Tax abatements	5,154,476	—	—	5,154,476
Claims	4,394,236	—	—	4,394,236
Accrued payroll	10,238,793	—	51,849	10,290,642
Other	2,933,633	2,720,848	978,690	6,633,171
Deferred revenue	41,191,233	—	110,194	41,301,427
Due to other funds	—	—	2,011,295	2,011,295
Total liabilities	<u>64,879,913</u>	<u>2,720,848</u>	<u>3,184,490</u>	<u>70,785,251</u>
Fund balances:				
Reserved for:				
Encumbrances	7,997,671	16,049,298	2,297,746	26,344,715
Future capital projects	5,393,075	—	—	5,393,075
Reserved for specific purposes	—	—	32,104,713	32,104,713
Unreserved:				
Undesignated	69,586,739	776,114	—	70,362,853
Total fund balance	<u>82,977,485</u>	<u>16,825,412</u>	<u>34,402,459</u>	<u>134,205,356</u>
Total liabilities and fund balances	<u>\$ 147,857,398</u>	<u>19,546,260</u>	<u>37,586,949</u>	<u>204,990,607</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2002

Total fund balance - Governmental Funds \$ 134,205,356

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	162,314,121
Buildings and improvements	144,622,433
Improvements non-building	19,637,181
Furniture and equipment	22,193,382
Infrastructure	127,936,227
Construction in progress	32,626,866
Less: accumulated depreciation	<u>(153,237,604)</u>
	<u>356,092,606</u>

Adjust deferred revenues to record tax revenues on an accrual basis	<u>33,692,089</u>
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Bond issuance costs are capitalized in the government wide statements	<u>165,399</u>
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General obligation bonds and notes	(149,167,901)
Accrued interest on bonds	(1,402,398)
Compensated absences	(18,185,010)
Landfill	(475,000)
Claims	<u>(1,026,336)</u>
	<u>(170,256,645)</u>

Net assets of governmental activities	<u><u>\$ 353,898,805</u></u>
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See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds

Year ended June 30, 2002

	General	Capital fund	Other governmental funds	Total governmental funds
Revenues:				
Real and personal property taxes	\$ 198,805,559	—	—	198,805,559
Excises:				
Hotel/Motel	4,907,532	—	—	4,907,532
Motor vehicles	5,838,407	—	—	5,838,407
Payments in lieu of taxes	5,316,254	—	—	5,316,254
Intergovernmental	46,822,454	3,537,887	22,735,760	73,096,101
Investment income	2,344,360	110,927	876,258	3,331,545
Sewer use charges	23,836,866	—	—	23,836,866
Departmental and other	20,273,302	849,820	21,366,022	42,489,144
Total revenues	<u>308,144,734</u>	<u>4,498,634</u>	<u>44,978,040</u>	<u>357,621,408</u>
Expenditures:				
Current:				
General government	26,804,656	—	195,163	26,999,819
Public safety	70,386,768	—	649,845	71,036,613
Community maintenance and development	24,171,500	—	4,114,992	28,286,492
Human resource development	17,531,399	—	5,611,460	23,142,859
Education	112,961,033	—	12,101,179	125,062,212
Judgments and claims	205,418	—	—	205,418
State and district assessments	28,018,935	—	—	28,018,935
Capital outlays	—	40,585,634	—	40,585,634
Debt service	16,387,472	—	—	16,387,472
Total expenditures	<u>296,467,181</u>	<u>40,585,634</u>	<u>22,672,639</u>	<u>359,725,454</u>
Excess (deficiency) of revenues over expenditures	11,677,553	(36,087,000)	22,305,401	(2,104,046)
Other financing sources (uses):				
Long-term debt issued	—	27,401,415	4,000,000	31,401,415
Transfers in	12,495,297	13,303,761	4,335,091	30,134,149
Transfers out	(10,675,172)	—	(19,082,107)	(29,757,279)
Total other financing (uses) sources	<u>1,820,125</u>	<u>40,705,176</u>	<u>(10,747,016)</u>	<u>31,778,285</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	13,497,678	4,618,176	11,558,385	29,674,239
Fund balance - beginning (as restated)	69,479,807	12,207,236	22,844,074	104,531,117
Fund balance - ending	<u>\$ 82,977,485</u>	<u>16,825,412</u>	<u>34,402,459</u>	<u>134,205,356</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

Year ended June 30, 2002

Net change in fund balances - total governmental funds	\$ 29,674,239
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays (\$40,585,634) exceeded depreciation expense (\$14,055,209).	26,530,425
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.	3,862,753
Proceeds of long-term debt (\$31,401,415) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$17,546,087) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	(13,855,328)
Bond issuance costs (\$163,399) are expenditures in the governmental funds, but are deferred assets in the statement of net assets.	163,399
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the decrease in landfill liabilities (\$25,000) offset by the increase in compensated absences (\$1,478,363), interest expense (\$1,386,330) and judgment and claims (\$2,806,336).	(5,646,029)
Change in net assets of governmental activities	\$ 40,729,459

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Assets – Proprietary Fund

June 30, 2002

Assets		Enterprise fund Water fund
Current assets:		
Cash and investments		\$ 7,382,899
Receivables, net		<u>4,712,911</u>
Total current assets		12,095,810
Noncurrent assets:		
Capital assets:		
Nondepreciable		42,106,534
Depreciable (net)		<u>98,241,104</u>
Total noncurrent assets		<u>140,347,638</u>
Total assets		<u>152,443,448</u>
Liabilities		
Current liabilities:		
Accrued liabilities:		
Claims		54,441
Compensated absences		155,512
Accrued payroll		62,094
Interest		735,991
Current portion of long-term debt		5,912,314
Due to other funds		<u>861,502</u>
Total current liabilities		<u>7,781,854</u>
Noncurrent liabilities:		
Bonds payable		66,789,295
Accrued liabilities:		
Compensated absences		203,060
Other		<u>108,881</u>
Total noncurrent liabilities		<u>67,101,236</u>
Total liabilities		<u>74,883,090</u>
Net Assets		
Investment in capital assets, net of related debt		67,646,029
Unrestricted		<u>9,914,329</u>
Total net assets		<u>\$ 77,560,358</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

Year ended June 30, 2002

	<u>Enterprise fund</u> <u>Water</u> <u>fund</u>
Operating revenues:	
Charges for services	\$ 14,060,200
Other	<u>1,463,109</u>
Total operating revenues	<u>15,523,309</u>
Operating expenses:	
Administration	1,908,383
Service and support programs	6,749,008
Other general services	42,000
Depreciation	<u>2,181,542</u>
Total operating expenses	<u>10,880,933</u>
Operating income	<u>4,642,376</u>
Nonoperating revenue (expense):	
Investment earnings - other	56,962
Interest expense	<u>(4,198,909)</u>
Nonoperating expense	<u>(4,141,947)</u>
Income before transfers	500,429
Transfers to other funds	<u>(376,870)</u>
Change in net assets	123,559
Total net assets - beginning	<u>77,436,799</u>
Total net assets - ending	<u>\$ 77,560,358</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Cash Flows - Proprietary Fund

Year ended June 30, 2002

	<u>Enterprise fund</u> <u>Water</u> <u>fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 15,710,589
Cash paid to vendors	(5,146,050)
Cash paid to employees	(3,093,005)
Net cash provided in operating activities	<u>7,471,534</u>
Cash flows from noncapital financing activities:	
Operating transfers	<u>(376,870)</u>
Net cash used by noncapital financing activities	<u>(376,870)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,872,530)
Proceeds from issuance of debt	6,475,000
Interest paid on debt	(4,198,909)
Repayment of long-term debt	(5,258,371)
Net cash used by capital and related financing activities	<u>(8,854,810)</u>
Cash flows from investing activities:	
Investment income	<u>56,962</u>
Net cash provided by investing activities	<u>56,962</u>
Decrease in cash and cash equivalents	(1,703,184)
Cash and investments, beginning of year	<u>9,086,083</u>
Total cash and investments, end of year	<u>\$ 7,382,899</u>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 4,642,376
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation and amortization	2,181,542
Changes in operating assets and liabilities:	
Accounts receivable	(187,280)
Due from other funds	(130,463)
Other accrued liabilities	965,359
Net cash provided by operating activities	<u>\$ 7,471,534</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Fiduciary Net Assets

June 30, 2002

Assets	Employee retirement plan	Agency funds
Cash and cash equivalents	\$ 21,383,593	4,897,747
Accounts receivable	8,329,435	—
Investments, at fair value:		
Fixed income securities	174,093,837	—
Equities	142,211,291	—
Pooled investments:		
Fixed income	4,357,771	—
Real estate	13,922,695	—
Domestic equities	70,658,178	—
International equities	41,076,184	—
Other	8,227,006	—
Total investments	454,546,962	—
Other assets	2,899,392	—
Cash collateral on security lending	24,316,882	—
Total assets	\$ 511,476,264	4,897,747
Liabilities		
Accounts payable	\$ —	179,904
Accrued liabilities	8,402,010	—
Guarantee deposits	—	4,717,843
Cash collateral on security lending	24,316,882	—
Total liabilities	32,718,892	4,897,747
Net Assets		
Held in trust for pension benefits	\$ 478,757,372	

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets

June 30, 2002

	Employee retirement plan
Additions:	
Contributions:	
Employers	\$ 22,030,446
Employees	13,898,533
Total contributions	<u>35,928,979</u>
Investment earnings:	
Net depreciation in the fair value of investments	(31,409,317)
Interest and dividends	<u>16,513,003</u>
Total losses earnings	(14,896,314)
Less: investment expenses	<u>(2,441,054)</u>
Net losses earnings	(17,337,368)
Intergovernmental	<u>1,921,800</u>
Total additions	<u>20,513,411</u>
Deductions:	
Benefits	30,511,036
Refunds of contributions	2,544,126
Administrative expenses	<u>581,003</u>
Total deductions	<u>33,636,165</u>
Change in net assets	(13,122,754)
Net assets, beginning of year	<u>491,880,126</u>
Net assets, end of year	<u>\$ 478,757,372</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

(1) The Financial Reporting Entity

(a) *Primary Government*

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

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

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

(b) *Blended Component Unit*

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

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

The System is on a calendar fiscal year. As a result, the financial information of the system is as of and for the year ending December 31, 2001. The System does not issue stand-alone financial statements.

(c) *Discretely Presented Component Unit*

This component unit is reported in a separate column to emphasize that it is legally separate from the City but is included because the City is financially accountable for and is able to impose its will on the organization. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component unit are not significant relative to the primary government. A description of the component unit, criteria for inclusion and its relationship with the City are as follows:

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

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

Complete financial statements for the CPHC for its fiscal year ended June 30, 2002 are available from its offices on 10 Presidents Way, 5th Floor, Medford, Massachusetts 02155.

(d) Related Organizations

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

(2) Summary of Significant Accounting Policies

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

(a) Government-Wide and Fund Financial Statements

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

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

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental Fund Financial Statements

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

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor 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.

Expenditures generally are recorded when a liability is incurred, as under full accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is due.

Proprietary Fund Financial Statements

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for water service. Operating expenses for the enterprise fund include the cost of preparing and delivering the water, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

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

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

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

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

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

Fiduciary funds – Additionally, the City reports the following fiduciary fund type:

The *pension trust fund* accounts principally for the activities of the Cambridge Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

(c) Cash Equivalents

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

(d) Basis of Investment Valuation

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

(e) Interfund Receivables and Payables

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

(f) *Uncollectible Tax and Other Receivables*

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

(g) *Capital Assets*

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

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

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

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

(h) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2002 is recorded in the governmental fund financial statements. The total amount to be paid in future years is presented in the government-wide statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method).

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

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

(j) Fund Equity

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

(k) Tax Abatement Refunds

All estimated tax abatement refunds have been recorded as a liability in the general fund.

(l) Landfill Postclosure Care Costs

State and federal regulations required the City to place a final cover on its Danehy Park landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2002, 100% of the landfill site had been used and has not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

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

(m) Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Implementation of New Accounting Standards

The accounting policies of the City of Cambridge, Massachusetts, conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements for state and local governments throughout the United States. The statement requires new information and restructures much of the information that the City has presented in the past. Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the City has implemented the following additional GASB Statements in the current fiscal year: Statement 37 – *Basic Financial Statements – and*

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

Management's Discussion and Analysis – for State and Local Governments: Omnibus, Statement 38 – Certain Financial Statement Note Disclosures and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

As a result of implementing GASB Interpretation No. 6, certain fund liabilities that existed at June 30, 2001 were reduced to reflect only the portion of the liability that was “due”. The impact of these changes was to reduce liabilities and increase fund equity at July 1, 2001, by \$1.8 million and \$2.0 million for the general fund and other governmental funds, respectively.

As a result of implementing GASB Statement No. 34, the City reclassified certain previously reported trust funds and its internal service fund to governmental type funds. The impact of these reclassifications was to increase fund equity at July 1, 2001 of the general fund and other governmental funds by \$21.1 million and \$7.9 million, respectively.

(4) 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, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers’ acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns and other state and local agencies within the Commonwealth. The City’s fair value of its investment in the MMDT represents their value of the pool’s shares.

The City’s pension and certain other trust funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

(a) Deposits

The City categorized deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity’s name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name. Category 3 includes those deposits that are not collateralized. The City’s deposits at June 30, 2002 are as follows:

Primary Government	Category			Total bank balance	Carrying amount
	1	2	3		
Total cash deposits	\$ 500,000	—	56,622,499	57,122,499	51,946,251

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

Discretely Presented Component Unit (CPHC)	Category			Total bank balance	Carrying amount
	1	2	3		
Total cash deposits	\$ 500,000	—	56,033,648	56,533,648	47,893,739

(b) Investments

The City and Cambridge Retirement System categorize investments according to the level of risk assumed. Category 1 includes investments that are insured, registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent but not in the entity's name. MMDT, other mutual funds, pooled funds, venture capital funds and real estate investments are not categorized. The City's investments are as follows:

Primary government June 30, 2002	Category			Fair value
	1	2	3	
Categorized:				
Fixed income securities	\$ 151,752,040	—	—	151,752,040
Equity securities	140,630,791	—	—	140,630,791
	<u>\$ 292,382,831</u>	<u>—</u>	<u>—</u>	<u>292,382,831</u>
Not categorized:				
Securities loaned:				
Fixed income securities				22,341,797
Equity securities				1,580,500
MMDT				104,237,775
Cash collateral pool				24,316,882
Other pooled funds				<u>164,437,507</u>
				<u>\$ 609,297,292</u>

Of the investments reflected in the preceding table, investments of the Cambridge Retirement System constitute 82% of the amount of the Primary Government.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

CPHC June 30, 2002	Category			Fair value
	1	2	3	
Categorized:				
U.S. Government obligations	\$ 20,340,818	—	—	20,340,818
Debt securities	3,070,815	—	—	3,070,815
	<u>\$ 23,411,633</u>	<u>—</u>	<u>—</u>	<u>23,411,633</u>
Not categorized:				
MMDT				<u>24,769,384</u>
				<u>\$ 48,181,017</u>

The composition of the City's bank 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.

(5) Property Taxes

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

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

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

(6) Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 162,314,121	—	—	162,314,121
Construction in progress	29,315,344	33,422,480	(30,110,958)	32,626,866
Total capital assets not being depreciated	<u>191,629,465</u>	<u>33,422,480</u>	<u>(30,110,958)</u>	<u>194,940,987</u>
Capital assets being depreciated:				
Buildings and improvements	122,602,245	22,020,188	—	144,622,433
Improvements –non-building	10,874,781	8,762,400	—	19,637,181
Furniture and equipment	21,608,790	584,592	—	22,193,382
Infrastructure	122,029,297	5,906,930	—	127,936,227
Total capital assets being depreciated	<u>277,115,113</u>	<u>37,274,110</u>	<u>—</u>	<u>314,389,223</u>
Less accumulated depreciation for:				
Buildings and improvements	(49,951,250)	(3,606,111)	—	(53,557,361)
Improvements –non-building	(2,926,467)	(362,885)	—	(3,289,352)
Furniture and equipment	(9,612,016)	(2,853,813)	—	(12,465,829)
Infrastructure	(76,692,662)	(7,232,400)	—	(83,925,062)
Total accumulated depreciation	<u>(139,182,395)</u>	<u>(14,055,209)</u>	<u>—</u>	<u>(153,237,604)</u>
Total capital assets being depreciated, net	<u>137,932,718</u>	<u>23,218,901</u>	<u>—</u>	<u>161,151,619</u>
Governmental activities capital assets, net	\$ <u>329,562,183</u>	<u>56,641,381</u>	<u>(30,110,958)</u>	<u>356,092,606</u>

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

Governmental activities:	
General government	\$ 969,773
Public safety	1,436,675
Human resource development	220,205
Education	2,712,169
Highways and streets, including depreciation of general infrastructure assets	<u>8,716,387</u>
Total depreciation expense – governmental activities	\$ <u>14,055,209</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

Water Enterprise Fund

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activity:				
Capital assets not being depreciated:				
Land	\$ 39,264,325	—	—	39,264,325
Construction in progress	73,610,392	2,842,209	(73,610,392)	2,842,209
Total capital assets not being depreciated	112,874,717	2,842,209	(73,610,392)	42,106,534
Capital assets being depreciated:				
Buildings and improvements	2,691,221	74,753,585	—	77,444,806
Furniture and equipment	921,741	—	—	921,741
Infrastructure	28,064,453	1,887,128	—	29,951,581
Total capital assets being depreciated	31,677,415	76,640,713	—	108,318,128
Less accumulated depreciation for:				
Buildings and improvements	(515,207)	(1,388,428)	—	(1,903,635)
Furniture and equipment	(329,754)	(128,083)	—	(457,837)
Infrastructure	(7,050,521)	(665,031)	—	(7,715,552)
Total accumulated depreciation	(7,895,482)	(2,181,542)	—	(10,077,024)
Total capital assets being depreciated, net	23,781,933	74,459,171	—	98,241,104
Business-type activity capital assets, net	\$ 136,656,650	77,301,380	(73,610,392)	140,347,638

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

Individual fund receivable and payable balances at June 30, 2002, are as follows:

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
Capital fund – Community Development Block Grant receivable from other governmental fund	\$ 2,872,797	—
Enterprise fund – Reimbursement to Capital Fund related to construction	—	861,502
Other governmental fund – Community Development Block Grant payable to Capital fund	—	2,011,295
Balance at June 30, 2002	2,872,797	2,872,797
Balances in accompanying basic financial statements	\$ 2,872,797	2,872,797

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

Receivable and payable balances between the primary government and CPHC at June 30, 2002 are as follows:

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government		
General	\$ 24,000,000	—
Discretely presented component unit		
CPHC	—	24,000,000
Balance at June 30, 2002	<u>24,000,000</u>	<u>24,000,000</u>
Balances in accompanying basic financial statements	\$ <u>24,000,000</u>	<u>24,000,000</u>

In 1998, the City issued \$30 million of general obligation hospital bonds. The proceeds were provided to the CPHC for the construction of an ambulatory care center. CPHC has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes. These general obligation bonds amounted to \$24,000,000 at June 30, 2002.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

(8) Long-Term Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2002:

	<u>Date of Issue</u>	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Bonds and notes payable:							
General purpose, serial maturities through December 15, 2011	6/15/92 to 12/1/01	4.00-6.0%	\$ 15,520,000	14,230,000	2,655,000	27,095,000	4,030,000
Urban redevelopment, serial maturities through December 1, 2011	6/15/92 to 12/1/00	3.75-5.9%	9,540,000	1,250,000	1,570,000	9,220,000	1,325,000
Schools, serial maturities through December 1, 2010	2/1/94 to 12/1/00	3.75-5.9%	36,992,000	—	5,873,000	31,119,000	5,868,000
Sewer, serial maturities through December 15, 2011	2/1/94 to 12/1/00	2.35-6.13%	42,067,186	11,921,415	5,394,352	48,594,249	6,770,350
Hospital, serial maturities through February 1, 2018	2/1/98	4.50-5.0%	25,500,000	—	1,500,000	24,000,000	1,500,000
Neville Manor, serial maturities through June 15, 2002	6/15/92	4.3-5.3%	150,000	—	150,000	—	—
Section 108 HUD notes payable, serial maturities through August 15, 2014	2/1/95	7.71-9.03%	935,000	—	110,000	825,000	420,000
School equipment notes, serial maturities through June 15, 2008	6/15/98	6.85%	2,608,387	—	293,735	2,314,652	314,136
Note payable serial maturities April 2010 through April 2021	4/15/00	2%	2,000,000	4,000,000	—	6,000,000	—
Total governmental obligation bonds and notes payable			135,312,573	31,401,415	17,546,087	149,167,901	20,227,486
Other long-term obligations:							
Claims			3,157,895	3,342,547	1,079,870	5,420,572	4,394,236
Compensated absences, net			16,706,647	1,478,363	—	18,185,010	4,441,415
Landfill postclosure care costs			500,000	—	25,000	475,000	25,000
Total other governmental long-term obligations			20,364,542	4,820,910	1,104,870	24,080,582	8,860,651
Total governmental long-term obligations			\$ 155,677,115	36,222,325	18,650,957	173,248,483	29,088,137

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

Following is a summary of the business-type long-term obligations of the City as of June 30, 2002:

	<u>Date of Issue</u>	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
General purpose, serial maturities through December 15, 2011	2/1/94 to 12/15/01	3.5-6.0%	\$ 71,484,980	6,475,000	5,258,371	72,701,609	5,912,314
Total business-type bond and notes payable			<u>\$ 71,484,980</u>	<u>6,475,000</u>	<u>5,258,371</u>	<u>72,701,609</u>	<u>5,912,314</u>
Other long-term obligations:							
Claims			97,714	141,541	75,933	163,322	54,441
Compensated absences, net			304,804	53,768	—	358,572	155,512
Total other long-term obligations			<u>402,518</u>	<u>195,309</u>	<u>75,933</u>	<u>521,894</u>	<u>209,953</u>
Total business-type long-term obligations			<u>\$ 71,887,498</u>	<u>6,670,309</u>	<u>5,334,304</u>	<u>73,223,503</u>	<u>6,122,267</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

The annual debt service requirements of the City's general obligation governmental bonds and notes payable outstanding as of June 30, 2002, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 20,227,486	6,380,357	26,607,843
2004	19,549,459	5,467,996	25,017,455
2005	17,806,653	4,576,110	22,382,763
2006	14,803,221	3,811,972	18,615,193
2007	14,141,083	3,149,481	17,290,564
2008-2012	48,404,999	7,425,950	55,830,949
2013-2017	10,735,000	1,996,433	12,731,433
2018	3,500,000	467,500	3,967,500
	<u>\$ 149,167,901</u>	<u>33,275,799</u>	<u>182,443,700</u>

The City has entered into loan agreements with the President and Fellows of Harvard College. The loans provide funding to further the development of affordable housing within the City. The notes carry interest at 2% per year for a period of twenty years with principal payments beginning in 2010. Interest costs will be \$120,000 annually. At June 30, 2002, the principal amount outstanding is \$6,000,000.

General obligation bonds are backed by the full faith and credit of the City. The Commonwealth has approved school construction assistance, subject to annual appropriation by the state legislature and reports filed with the Commonwealth by the City, to partially provide resources for future principal and interest requirements on general obligation school bonds of the City. As of June 30, 2002, such resources expected to be provided to the City total approximately \$102,000,000 from the Commonwealth.

Principal retirement of governmental funds has been reflected in the basic financial statements as debt service expenditures of \$11,379,352 and education expenditures of \$6,166,735 totaling \$17,546,087 of principal costs.

In December 2001, the City issued in \$32.6 million in general obligation bonds to fund \$6,475,000 in water enterprise fund improvements and \$26,155,000 to fund various capital purchases and improvements throughout the City. Interest is due semiannually on each June 15 and December 15, with principal payments due each December 15 until maturity in fiscal 2011.

In October 2001, the City borrowed \$1,246,415 from the Massachusetts Water Resources Authority to fund various sewer improvements. Principal is due in annual installments of \$249,283 through August 15, 2006.

The City enters into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT) to provide funding for sewer separation and drinking water projects. According to the loan agreements, the City will be subsidized on a periodic basis for debt and interest costs. The City received \$2,584,408 in subsidies during 2002. Loan payments commenced on February 1, 1994 and end on August 1, 2010, with interest rates ranging from 2.35% to 6.125%

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

The City is subject to a dual 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 State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the 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.

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, 2002, the City may issue approximately \$228,807,197 additional general obligation debt under the normal debt limit. The City has approximately \$103,820,609 of debt exempt from the debt limit.

The annual debt service requirements of the City's water enterprise fund as of June 30, 2002 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 5,912,314	3,325,171	9,237,485
2004	5,969,782	3,063,071	9,032,853
2005	5,973,814	2,796,146	8,769,960
2006	5,847,332	2,529,973	8,377,305
2007	5,614,004	2,260,788	7,874,792
2008-2012	25,384,363	7,323,009	32,707,372
2013-2017	12,500,000	3,014,379	15,514,379
2018-2020	5,500,000	326,564	5,826,564
	<u>\$ 72,701,609</u>	<u>24,639,101</u>	<u>97,340,710</u>

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

(9) Retirement Plan

(a) Plan Description

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

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

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

(b) *Basis of Accounting*

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

Investments of the System are stated as follows:

- (a) Bonds are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (d) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (f) Cash is stated at carrying amount, which is reconciled book balance.

(c) *Membership*

Membership in the System consisted of the following at January 1, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,662
Terminated plan members entitled to but not receiving benefits	675
Active plan members	3,870
Total membership	<u>6,207</u>
Total number of participating employers	<u>4</u>

(d) *Contributions*

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5%-9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

on active covered payroll. Effective July 1, 1998 Chapter 32 of the Massachusetts General Laws assigns to the local retirement boards authority to establish and amend benefit provisions of the Plan and grant cost-of-living increases. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and CPHC's required and actual contributions to the System for the years ended June 30, 2002, 2001 and 2000 were \$14,372,278, \$14,443,522, and \$14,528,796, and \$7,658,168, \$7,117,982, and \$6,755,213, respectively.

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2001 are as follows:

Description	Amount	Purpose
Annuity savings fund	\$ 121,838,836	Active members' contribution balance
Annuity reserve fund	30,490,188	Retired members' contribution account
Military service credit	4,247	Members' contribution account while on military leave
Pension reserve fund	259,277,014	Amounts appropriated to fund future retirement benefits
Pension fund	67,147,087	Remaining net assets
	<u>\$ 478,757,372</u>	

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

(f) Investment Concentration

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

(g) Securities Lending

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

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2001. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2001, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian for the year ended December 31, 2001 was \$1,035,885.

At December 31, 2001, the fair value of securities loaned by the System amounted to \$23,922,297, against which was held collateral of \$24,316,882, as follows:

Short-term collateral investment pool	\$ 23,551,802
Non-cash collateral	<u>765,080</u>
Total	<u>\$ 24,316,882</u>

(10) Other Postemployment Benefit Disclosures

In addition to the pension benefits described in note 9, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 1,650 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 90% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree.

Expenditures of approximately \$9,206,381 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2002.

(11) Operating Transfers

Operating transfers and their purposes during the year ended June 30, 2002 were as follows:

	Governmental funds			Enterprise Water
	General	Capital	Other	
Capital – to fund capital expenditures	\$ (10,378,235)	10,175,172	203,063	—
Parking – reimbursement of administrative costs and other eligible City expenditures	12,276,490	—	(12,276,490)	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	45,000	200,000	(245,000)	—
CDBG – transfer of revenues to reimburse eligible capital costs	—	2,648,589	(2,648,589)	—
Water – reimbursement of administrative costs	376,870	—	—	(376,870)
CPA – to cover historic preservation cost	—	180,000	(180,000)	—
Parking – to replace obsolete traffic signals	—	100,000	(100,000)	—
Affordable housing trust – to supplement CPA	(500,000)	—	500,000	—
Total	<u>\$ 1,820,125</u>	<u>13,303,761</u>	<u>(14,747,016)</u>	<u>(376,870)</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2002

(12) Risk Management

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health insurance claims. The City is self-insured for other general liability; however, Chapter 258 of the MGL limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract. The City is also self-insured for workers' compensation and unemployment claims.

The City has medical plans with Tufts, Harvard-Pilgrim and Blue Cross/Blue Shield under which it makes actual claims payments. The medical plan providers act as claim processors and a transfer of risk does not occur. Approximately 90% of the City's employees participate in the self-insured plan with the remainder electing preferred provider plans that are premium based.

Employees contribute approximately 12% of the cost of healthcare with the remainder paid by the City. These costs are accounted for in the general fund. The contribution rate for retirees is 1% for those who enroll in indemnity plans and 10% for those who enroll in HMO-type plans. While the City does not carry stop-loss insurance.

Changes in the self-insurance liability for the years ended June 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Accrued claims, beginning of year	\$ 3,255,609	6,083,355
Incurred claims	3,484,088	2,631,003
Less: Payments of claims attributable to events of both current and prior fiscal years	<u>(1,155,803)</u>	<u>(5,458,749)</u>
Accrued claims, end of year	<u>\$ 5,583,894</u>	<u>3,255,609</u>

There are numerous cases pending in courts throughout the Commonwealth where the City of Cambridge is a defendant. 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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
(Unaudited)

(Dollar amounts in thousands)

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/02	\$ 516,947	578,050	61,103	89.4%	\$ 167,303	36.5%
01/01/00	424,606	510,973	86,367	83.1%	140,489	61.5%
01/01/98	342,788	436,216 ⁽¹⁾	93,428	78.6%	132,440	70.5%
01/01/96	233,883	361,885	128,002	64.6%	114,485	111.8%
01/01/94	182,632	323,644	141,012	56.4%	109,775	128.5%
01/01/93	158,595	279,715	121,120	56.7%	99,063	122.3%

⁽¹⁾ Future cost of living increases assumed by the City.Schedule of Employers' Contributions

	Annual required contribution	Percentage contributed
Year ended December 31:		
2001	\$ 22,030	100%
2000	21,669	100
1999	21,284	100
1998	20,696	100
1997	21,288	100
1996	21,216	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2002
Actuarial cost method	Entry age normal cost method
Amortization method	Level payments
Remaining amortization period	Six years from July 1, 2002 for Early Retirement Incentive and seven years from July 1, 2002 for the remaining unfunded liability.
Asset valuation method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

(Unaudited)

Schedule of Revenues and Expenditures - Budgetary Basis
General Fund - Budget and ActualYear ended June 30, 2002
(with comparative actual amounts for 2001)

	Original budget	Final budget	Actual	Variance positive (negative)	2001 Actual
Revenues and other available funds:					
Property taxes	\$ 180,940,045	187,444,551	187,444,551	—	178,484,966
Provision for abatements and adjustments	(4,250,000)	(4,261,178)	(4,261,178)	—	(4,290,541)
Payment in lieu of tax receipts	3,600,000	3,600,000	5,316,254	1,716,254	4,807,067
Hotel/motel excise tax	5,466,790	4,766,790	4,907,532	140,742	5,651,401
Intergovernmental	44,515,079	41,340,517	46,822,454	5,481,937	47,022,550
Sewer use	21,073,130	22,723,130	23,836,866	1,113,736	20,563,466
Motor vehicle excise	4,900,000	4,892,962	5,838,407	945,445	5,921,137
Investment income	2,100,000	2,100,000	1,678,983	(421,017)	3,203,449
Other	24,375,706	25,347,742	17,362,618	(7,985,124)	23,540,323
Total revenues	282,720,750	287,954,514	288,946,487	991,973	284,903,818
Expenditures:					
Current					
General government	30,073,645	28,966,530	27,520,861	1,445,669	22,740,626
Public safety	69,317,370	70,590,445	70,409,269	181,176	66,713,078
Community maintenance and development	25,840,160	26,450,805	26,039,634	411,171	23,832,988
Human resource development	17,822,515	18,556,582	18,257,711	298,871	16,655,361
Education	112,952,345	112,952,345	112,573,192	379,153	105,521,654
Judgments and claims	250,000	250,000	205,418	44,582	708,847
Intergovernmental	28,385,120	28,385,120	28,019,200	365,920	28,945,484
Debt service					
Principal	11,769,355	11,769,355	11,379,352	390,003	7,689,430
Interest	5,460,970	5,678,170	5,009,281	668,889	3,677,257
Other	217,200	—	—	—	—
Total expenditures	302,088,680	303,599,352	299,413,918	4,185,434	276,484,725
Excess (deficiency) of revenues over expenditures	(19,367,930)	(15,644,838)	(10,467,431)	5,177,407	8,419,093
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	14,514,305	14,611,805	12,276,490	2,335,315	11,973,310
Capital projects funds	—	(10,175,172)	(10,175,172)	—	(23,533,771)
Permanent funds	4,476,755	5,273,692	5,273,692	—	4,864,400
Enterprise fund	376,870	376,870	376,870	—	376,870
Total other financing sources (uses)	19,367,930	10,087,195	7,751,880	2,335,315	(6,319,191)
Excess (deficiency) of revenues and other financing source over expenditures and other financing uses	\$ —	(5,557,643)	(2,715,551)	2,842,092	2,099,902
Other budget items:					
Free cash appropriations		5,588,512			
Prior year deficits raised		(30,869)			
Total other budget items		5,557,643			
Net budget and actual		—			

See accompanying notes to required supplementary information.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Required Supplementary Information

(Unaudited)

Schedule of Revenues and Expenditures – Budgetary Basis

General Fund – Budget and Actual

Year ended June 30, 2002

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

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

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

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2002:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis	\$ 288,946,487	299,413,918	7,751,880
Adjustments:			
Revenues to modified accrual basis			
Tax abatements	14,549,816	—	—
Sixty day accrual	1,010,049	—	—
Miscellaneous accruals	3,638,382	—	—
Expenditures, encumbrances and accruals, net	—	(2,946,737)	—
Reclassifications:			
Trust fund revenue	—	—	(5,931,755)
As reported on a GAAP basis	<u>\$ 308,144,734</u>	<u>296,467,181</u>	<u>1,820,125</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2002

SUPPLEMENTAL STATEMENTS AND SCHEDULES

The following section provides detailed information on the General Fund, Other Governmental Funds and Agency funds included in the basic financial statements. Information on real, personal, and excise tax collections, and schedule of the bonds and notes payable of the City is also provided in this section.

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General Government:			
Mayor:			
Salaries and wages	\$ 266,995	264,137	2,858
Other ordinary maintenance	111,440	109,755	1,685
Travel and training	20,500	17,983	2,517
Total Mayor	<u>398,935</u>	<u>391,875</u>	<u>7,060</u>
City Manager:			
Salaries and wages	1,010,561	933,213	77,348
Other ordinary maintenance	413,410	338,791	74,619
Travel and training	32,465	25,035	7,430
Extraordinary Expense	292,250	292,250	—
Total City Manager	<u>1,748,686</u>	<u>1,589,289</u>	<u>159,397</u>
City Council:			
Salaries and wages	860,205	793,329	66,876
Other ordinary maintenance	61,400	59,024	2,376
Travel and training	32,000	29,645	2,355
Total City Council	<u>953,605</u>	<u>881,998</u>	<u>71,607</u>
City Clerk:			
Salaries and wages	588,670	566,395	22,275
Other ordinary maintenance	60,730	56,183	4,547
Travel and training	750	410	340
Total City Clerk	<u>650,150</u>	<u>622,988</u>	<u>27,162</u>
Law:			
Salaries and wages	963,065	952,990	10,075
Other ordinary maintenance	444,225	488,811	(44,586)
Travel and training	259,675	214,940	44,735
Total Law	<u>1,666,965</u>	<u>1,656,741</u>	<u>10,224</u>
Finance:			
Salaries and wages	5,295,980	5,154,333	141,647
Other ordinary maintenance	2,145,240	2,141,640	3,600
Travel and training	198,830	196,793	2,037
Extraordinary expenditures	77,800	77,800	—
Total Finance	<u>7,717,850</u>	<u>7,570,566</u>	<u>147,284</u>
Employment Benefits:			
Salaries and wages	12,651,172	11,801,468	849,704
Other ordinary maintenance	617,620	616,878	742
Total Employment Benefits	<u>13,268,792</u>	<u>12,418,346</u>	<u>850,446</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2002

	Budget	Actual	Variance positive (negative)
General Services:			
Salaries and wages	\$ 360,220	360,198	22
Other ordinary maintenance	594,930	501,653	93,277
Total General Services	955,150	861,851	93,299
Election Commission:			
Salaries and wages	458,080	458,078	2
Other ordinary maintenance	233,103	231,109	1,994
Travel and training	2,270	1,402	868
Total Election Commission	693,453	690,589	2,864
Public Celebrations:			
Salaries and wages	339,725	302,294	37,431
Other ordinary maintenance	317,370	341,103	(23,733)
Travel and training	1,125	1,094	31
Total Public Celebrations	658,220	644,491	13,729
Reserve:			
Other ordinary maintenance	60,504	—	60,504
Total Reserve	60,504	—	60,504
Animal Commission:			
Salaries and wages	181,265	180,763	502
Other ordinary maintenance	12,865	11,274	1,591
Travel and training	90	90	—
Total Animal Commission	194,220	192,127	2,093
Total General Government	28,966,530	27,520,861	1,445,669
Public Safety:			
Fire:			
Salaries and wages	25,215,250	25,209,703	5,547
Other ordinary maintenance	656,490	655,113	1,377
Travel and training	331,750	331,750	—
Extraordinary expenditures	95,000	94,934	66
Total Fire	26,298,490	26,291,500	6,990
Police:			
Salaries and wages	27,350,860	27,350,596	264
Other ordinary maintenance	780,200	777,012	3,188
Travel and training	217,690	217,142	548
Extraordinary expenditures	268,525	232,026	36,499
Total Police	28,617,275	28,576,776	40,499

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Traffic and Parking:			
Salaries and wages	\$ 4,407,010	4,371,208	35,802
Other ordinary maintenance	2,812,640	2,808,217	4,423
Travel and training	19,400	17,429	1,971
Extraordinary expenditures	90,000	84,572	5,428
Total Traffic and Parking	<u>7,329,050</u>	<u>7,281,426</u>	<u>47,624</u>
Police Review and Advisory Board:			
Salaries and wages	60,815	60,812	3
Other ordinary maintenance	9,220	9,220	—
Travel and training	3,000	2,990	10
Total Police Review and Advisory Board	<u>73,035</u>	<u>73,022</u>	<u>13</u>
Inspectional Services:			
Salaries and wages	1,912,755	1,912,753	2
Other ordinary maintenance	101,100	97,297	3,803
Travel and training	47,825	44,410	3,415
Total Inspectional Services	<u>2,061,680</u>	<u>2,054,460</u>	<u>7,220</u>
License:			
Salaries and wages	583,465	583,458	7
Other ordinary maintenance	61,290	59,829	1,461
Travel and training	8,800	8,688	112
Total License	<u>653,555</u>	<u>651,975</u>	<u>1,580</u>
Weights and Measures:			
Salaries and wages	79,175	79,174	1
Other ordinary maintenance	14,280	13,793	487
Travel and training	1,745	1,650	95
Total Weights and Measures	<u>95,200</u>	<u>94,617</u>	<u>583</u>
Electrical:			
Salaries and wages	913,080	849,266	63,814
Other ordinary maintenance	1,440,580	1,429,567	11,013
Travel and training	1,670	1,670	—
Extraordinary expenditures	75,000	75,000	—
Total Electrical	<u>2,430,330</u>	<u>2,355,503</u>	<u>74,827</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Emergency Management:			
Salaries and wages	\$ 103,950	103,949	1
Other ordinary maintenance	13,635	13,635	—
Travel and training	100	—	100
Total Emergency Management	<u>117,685</u>	<u>117,584</u>	<u>101</u>
Emergency Communications:			
Salaries and wages	2,728,285	2,728,243	42
Other ordinary maintenance	166,010	164,953	1,057
Travel and training	15,850	15,510	340
Extraordinary expenditures	4,000	3,700	300
Total Emergency Communications	<u>2,914,145</u>	<u>2,912,406</u>	<u>1,739</u>
Total Public Safety	<u>70,590,445</u>	<u>70,409,269</u>	<u>181,176</u>
Community Maintenance and Development:			
Public Works:			
Salaries and wages	12,598,510	12,298,575	299,935
Other ordinary maintenance	7,431,065	7,417,523	13,542
Travel and training	120,625	120,600	25
Extraordinary expenditures	635,000	634,844	156
Total Public Works	<u>20,785,200</u>	<u>20,471,542</u>	<u>313,658</u>
Community Development:			
Salaries and wages	3,463,920	3,411,472	52,448
Other ordinary maintenance	708,160	707,532	628
Travel and training	35,200	34,985	215
Extraordinary expenditures	132,870	132,870	—
Total Community Development	<u>4,340,150</u>	<u>4,286,859</u>	<u>53,291</u>
Historical Commission:			
Salaries and wages	331,140	331,127	13
Other ordinary maintenance	99,380	99,219	161
Travel and training	800	800	—
Extraordinary expenditures	8,500	8,385	115
Total Historical Commission	<u>439,820</u>	<u>439,531</u>	<u>289</u>
Conservation Commission:			
Salaries and wages	68,375	43,881	24,494
Other ordinary maintenance	1,865	1,841	24
Travel and training	525	430	95
Total Conservation Commission	<u>70,765</u>	<u>46,152</u>	<u>24,613</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Peace Commission:			
Salaries and wages	\$ 58,075	58,071	4
Other ordinary maintenance	15,285	15,278	7
Travel and training	1,350	1,251	99
Total Peace Commission	<u>74,710</u>	<u>74,600</u>	<u>110</u>
Cable Television:			
Salaries and wages	365,960	352,618	13,342
Other ordinary maintenance	370,750	365,126	5,624
Travel and training	3,450	3,206	244
Total Cable Television	<u>740,160</u>	<u>720,950</u>	<u>19,210</u>
Total Community Maintenance and Development	<u>26,450,805</u>	<u>26,039,634</u>	<u>411,171</u>
Human Resource Development:			
Library:			
Salaries and wages	3,882,390	3,882,388	2
Other ordinary maintenance	793,005	771,248	21,757
Travel and training	34,995	33,196	1,799
Extraordinary expenditures	46,500	45,414	1,086
Total Library	<u>4,756,890</u>	<u>4,732,246</u>	<u>24,644</u>
Human Services:			
Salaries and wages	10,408,715	10,251,859	156,856
Other ordinary maintenance	2,580,849	2,498,489	82,360
Travel and training	69,399	47,442	21,957
Extraordinary expenditures	25,000	21,588	3,412
Total Human Services	<u>13,083,963</u>	<u>12,819,378</u>	<u>264,585</u>
Women's Commission:			
Salaries and wages	131,825	131,821	4
Other ordinary maintenance	9,860	9,860	—
Travel and training	1,000	996	4
Total Women's Commission	<u>142,685</u>	<u>142,677</u>	<u>8</u>
Human Rights Commission:			
Salaries and wages	135,385	129,517	5,868
Other ordinary maintenance	3,805	3,441	364
Travel and training	950	400	550
Total Human Rights Commission	<u>140,140</u>	<u>133,358</u>	<u>6,782</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Veterans Benefits:			
Salaries and wages	\$ 202,804	202,802	2
Other ordinary maintenance	49,300	49,077	223
Travel and training	180,800	178,173	2,627
Total Veterans Benefits	432,904	430,052	2,852
Total Human Resource Development	18,556,582	18,257,711	298,871
Education:			
Salaries and wages	80,850,717	80,773,450	77,267
Other ordinary maintenance	22,566,871	22,429,228	137,643
Travel and training	437,489	371,490	65,999
Extraordinary expenditures	1,636,641	1,427,757	208,884
Debt:			
Principal payments	5,757,416	5,868,000	(110,584)
Interest payments	1,703,211	1,703,267	(56)
Total Education	112,952,345	112,573,192	379,153
Judgements and Claims	250,000	205,418	44,582
Debt Retirement:			
Principal payments	11,769,355	11,379,352	390,003
Interest payments	5,678,170	5,009,281	668,889
Total Debt Retirement	17,447,525	16,388,633	1,058,892
State assessments:			
MBTA assessment	6,954,140	6,908,655	45,485
MWRA assessment	14,248,545	14,139,115	109,430
Other State assessments	584,435	374,430	210,005
Cambridge Public Health Commission	6,598,000	6,597,000	1,000
Total Intergovernmental	28,385,120	28,019,200	365,920
Total General Fund	\$ 303,599,352	299,413,918	4,185,434

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2002

OTHER GOVERNMENTAL FUNDS

Community Development Block Grant

Revenues from the Community Development Block Grant Program are recorded in this fund. A transfer of revenues is made at the end of the fiscal year to the Capital Projects Funds to cover Block Grant-related expenditures in these funds during the fiscal year. All operating expenditures are recorded within this Fund.

School Grants

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

Fuel Assistance

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

Parking Fund

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

Community Preservation Act

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

Other Grants

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

Permanent Funds

This fund accumulates all the City of Cambridge Trust Funds that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Other Governmental Funds

June 30, 2002

Special revenue								
Assets	Community development block grant	School grants	Fuel assistance	Parking fund	Community preservation act	Other grants	Permanent funds	Total
Cash and short-term investments	\$ 407,977	4,027,996	263,641	6,563,505	1,141,935	17,910,581	2,528,414	32,844,049
Restricted cash and investments	—	—	—	—	—	600,000	—	600,000
Accounts receivable	1,000,000	698,371	—	—	110,194	176,391	—	1,984,956
Accounts receivable-developer	—	—	—	—	—	1,500,000	—	1,500,000
Due from other governments	657,944	—	—	—	—	—	—	657,944
Total assets	\$ 2,065,921	4,726,367	263,641	6,563,505	1,252,129	20,186,972	2,528,414	37,586,949
Liabilities and Fund Equity								
Warrants payable	\$ 32,462	—	—	—	—	—	—	32,462
Accrued payroll	16,511	—	—	—	—	35,338	—	51,849
Accrued liabilities – other	5,653	548,371	—	—	—	424,666	—	978,690
Deferred revenue	—	—	—	—	110,194	—	—	110,194
Due to other funds	2,011,295	—	—	—	—	—	—	2,011,295
Total liabilities	2,065,921	548,371	—	—	110,194	460,004	—	3,184,490
Fund equity (deficit):								
Reserved for encumbrances	—	489,580	—	—	—	1,808,166	—	2,297,746
Reserved for specific purposes	—	3,688,416	263,641	6,563,505	1,141,935	17,918,802	2,528,414	32,104,713
Total fund equity	—	4,177,996	263,641	6,563,505	1,141,935	19,726,968	2,528,414	34,402,459
Total liabilities and fund equity	\$ 2,065,921	4,726,367	263,641	6,563,505	1,252,129	20,186,972	2,528,414	37,586,949

CITY OF CAMBRIDGE, MASSACHUSETTS
Combining Statement of Revenues, Expenditures, and Changes in Fund Equity
Other Governmental Funds
Year ended June 30, 2002

	Special revenue							
	Community development block grant	School grants	Fuel assistance	Parking fund	Community preservation act	Other grants	Permanent funds	Total
Revenues:								
Intergovernmental	\$ 4,207,828	10,442,428	992,327	—	—	7,093,177	—	22,735,760
Private grants	—	—	—	—	—	—	—	—
Investment income	—	13,815	3,651	330,829	—	442,073	85,890	876,258
Other:								
Permits	—	—	—	350,975	—	—	—	350,975
Fines	—	—	—	7,762,847	—	—	—	7,762,847
Charges for services	—	—	—	6,080,819	—	—	—	6,080,819
Miscellaneous	38,061	1,284,421	—	125,535	4,921,935	593,354	208,075	7,171,381
Total revenues	4,245,889	11,740,664	995,978	14,651,005	4,921,935	8,128,604	293,965	44,978,040
Expenditures:								
General government	—	—	—	—	—	102,771	92,392	195,163
Public safety	—	—	—	—	—	649,845	—	649,845
Education	—	12,101,179	—	—	—	—	—	12,101,179
Fuel assistance	—	—	963,812	—	—	—	—	963,812
Community maintenance and development	941,502	—	—	—	—	3,173,490	—	4,114,992
Human services	655,798	—	—	—	—	3,991,850	—	4,647,648
Total expenditures	1,597,300	12,101,179	963,812	—	—	7,917,956	92,392	22,672,639
Excess (deficiency) of revenues over expenditures	2,648,589	(360,515)	32,166	14,651,005	4,921,935	210,648	201,573	22,305,401
Other financing sources (uses):								
Long-term debt issued	—	—	—	—	—	4,000,000	—	4,000,000
Operating transfers to other funds	(2,648,589)	—	—	(12,376,490)	(3,780,000)	—	(277,028)	(19,082,107)
Operating transfers from other funds	—	—	—	—	—	4,303,063	32,028	4,335,091
Excess (deficiency) of revenues over expenditures and transfers	—	(360,515)	32,166	2,274,515	1,141,935	8,513,711	(43,427)	11,558,385
Fund balances at beginning of year	—	4,538,511	231,475	4,288,990	—	11,213,257	2,571,841	22,844,074
Fund balances at end of year	\$ —	4,177,996	263,641	6,563,505	1,141,935	19,726,968	2,528,414	34,402,459

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2002

AGENCY FUNDS

The City's Agency Funds are used to account for assets received and disbursed by the City acting in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2002

Assets	Balance at June 30, 2001	Additions	Deductions	Balance at June 30, 2002
Contract Bids	\$ 89,725	4,400	650	93,475
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	251,939	1,994,143	—	2,246,082
Street Openings	289,819	86,270	500	375,589
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(703,924)	4,025,850	4,150,006	(828,080)
Cambridge Fire Detail	245,030	629,474	383,013	491,491
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	3,774	1,804	2,957	2,621
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	24,288	177,606	21,200	180,694
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	43,305	3,899	—	47,204
Accident and life Insurance	169,089	154,096	56,396	266,789
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	57,565	3,805	—	61,370
Retirement Office Payroll	373,084	274,582	569,734	77,932
New England Life	530,289	—	374,211	156,078
Continental Casualty	8,269	4,138	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	736,737	125,619	—	862,356
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	41,816	4,344	28,819	17,341
Retroactive Wages	6	—	—	6
Land Court Fees	49,661	1,971	1,008	50,624
Choke Program	1,182	—	—	1,182
Payroll Checks	67,594	—	—	67,594
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	234,063	—	—	234,063
Stop Payments	23,138	—	—	23,138
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	(255)	—	—	(255)
Levange/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,899	—	—	2,899
Police – Recovered Cash	(61)	1,164	—	1,103
Police – Found Cash	4,115	—	—	4,115
Firearms Recordkeeping Fund	900	863	—	1,763
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	10,219	—	—	10,219
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Total	\$ 2,992,213	7,494,028	5,588,494	4,897,747

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2002

Liabilities	Balance at June 30, 2001	Additions	Deductions	Balance at June 30, 2002
Guarantee deposits and amounts due other:				
Contract Bids	\$ 89,725	4,400	650	93,475
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	251,939	1,994,143	—	2,246,082
Street Openings	289,819	86,270	500	375,589
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(703,924)	4,025,850	4,150,006	(828,080)
Cambridge Fire Detail	245,030	629,474	383,013	491,491
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	3,774	1,804	2,957	2,621
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	24,288	177,606	21,200	180,694
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	43,305	3,899	—	47,204
Accident and life Insurance	169,089	154,096	56,396	266,789
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	57,565	3,805	—	61,370
Retirement Office Payroll	373,084	274,582	569,734	77,932
New England Life	530,289	—	374,211	156,078
Continental Casualty	8,269	4,138	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	736,737	125,619	—	862,356
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	41,816	4,344	28,819	17,341
Retroactive Wages	6	—	—	6
Land Court Fees	49,661	1,971	1,008	50,624
Choke Program	1,182	—	—	1,182
Payroll Checks	67,594	—	—	67,594
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	234,063	—	—	234,063
Stop Payments	23,138	—	—	23,138
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	(255)	—	—	(255)
Levange/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,899	—	—	2,899
Police – Recovered Cash	(61)	1,164	—	1,103
Police – Found Cash	4,115	—	—	4,115
Firearms Recordkeeping Cash	900	863	—	1,763
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	10,219	—	—	10,219
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Total	\$ 2,992,213	7,494,028	5,588,494	4,897,747

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2002

OTHER SCHEDULES

The following schedules present detailed information on the City's real estate, personal property, and motor vehicle excise taxes, and bonds and notes payable, as of June 30, 2002.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2002

	<u>Uncollected June 30, 2001</u>	<u>Commitments</u>	<u>Abatements</u>	<u>Transfers to tax title</u>	<u>Refunds</u>	<u>Collections</u>	<u>Adjustments increase (decrease)</u>	<u>Uncollected June 30, 2002</u>
Real estate taxes:								
1979 and prior	\$ 5,409	—	—	—	—	—	—	5,409
1980	—	—	—	—	—	51	51	—
1981	3,268	—	—	—	—	—	—	3,268
1982	3,416	—	—	—	—	—	—	3,416
1983	1,971	—	—	—	—	630	630	1,971
1984	17,256	—	—	—	—	—	—	17,256
1985	1,025	—	—	—	—	—	—	1,025
1987	376	—	—	—	—	—	—	376
1989	—	—	3,175	—	—	—	3,175	—
1991	9,477	—	—	—	—	9,477	—	—
1992	13,911	—	—	—	—	—	—	13,911
1993	3,013	—	—	—	—	—	—	3,013
1996	6,771	—	—	—	—	—	—	6,771
1997	660	—	—	—	—	(821)	(821)	660
1998	5,457	—	2,525	—	—	(9,320)	(6,795)	5,457
1999	8,159	—	44,063	—	58,366	35,316	32,675	19,821
2000	5,996	—	67,454	—	132,076	40,818	(14,808)	14,992
2001	3,930,189	—	214,802	—	911,173	3,140,207	(1,472,909)	13,444
2002	—	182,199,902	795,088	—	34,719	177,647,364	445,904	4,238,073
Total real estate	<u>4,016,354</u>	<u>182,199,902</u>	<u>1,127,107</u>	<u>—</u>	<u>1,136,334</u>	<u>180,863,722</u>	<u>(1,012,898)</u>	<u>4,348,863</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2002

	Uncollected June 30, 2001	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2002
Personal property taxes:								
1988	\$ 155,185	—	—	—	—	—	—	155,185
1989	125,187	—	—	—	—	—	—	125,187
1990	139,169	—	—	—	23	(5)	(26)	139,171
1991	119,952	—	—	—	1,218	—	(1,124)	120,046
1992	138,015	—	—	—	—	—	—	138,015
1993	141,864	—	—	—	—	(398)	(398)	141,864
1994	45,850	—	—	—	162	(18)	(180)	45,850
1995	65,720	—	—	—	16	—	(16)	65,720
1996	58,148	—	—	—	—	18	(1)	58,129
1997	63,360	—	—	—	5,110	23	(5,087)	63,360
1998	78,479	—	—	—	320	392	(22,266)	56,141
1999	74,249	—	—	—	665	4,794	(485)	69,635
2000	68,758	—	—	—	28,053	(27,093)	(55,134)	68,770
2001	113,430	—	—	—	109,418	135,559	26,231	113,520
2002	—	5,739,618	11,923	—	89,086	5,431,216	589	386,154
Total personal property	<u>1,387,366</u>	<u>5,739,618</u>	<u>11,923</u>	<u>—</u>	<u>234,071</u>	<u>5,544,488</u>	<u>(57,897)</u>	<u>1,746,747</u>
Property taxes	\$ <u>5,403,720</u>	<u>187,939,520</u>	<u>1,139,030</u>	<u>—</u>	<u>1,370,405</u>	<u>186,408,210</u>	<u>(1,070,795)</u>	<u>6,095,610</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2002

	Uncollected June 30, 2001	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2002
Motor vehicle excise taxes:								
1986	\$ 2,806	—	—	—	—	12	—	2,794
1987	155,036	—	—	—	—	958	—	154,078
1988	167,092	—	—	—	—	496	(193)	166,403
1989	197,819	—	—	—	—	1,080	—	196,739
1990	151,700	—	—	—	—	1,369	87	150,418
1991	154,961	—	—	—	—	1,053	287	154,195
1992	114,881	—	—	—	—	897	73	114,057
1993	102,139	—	40	—	—	1,187	291	101,203
1994	110,709	—	—	—	—	630	56	110,135
1995	119,952	—	94	—	—	1,791	56	118,123
1996	127,030	—	419	—	—	3,101	96	123,606
1997	143,889	—	93	—	108	5,950	112	138,066
1998	157,495	—	851	—	283	12,425	(83)	144,419
1999	222,488	9,801	8,421	—	1,707	53,012	753	173,316
2000	331,654	22,505	51,516	—	54,324	105,613	40,537	291,891
2001	528,196	818,543	79,397	—	98,692	1,318,126	407,123	455,031
2002	—	4,502,350	97,298	—	26,860	4,366,197	693,193	758,908
Total motor vehicle	\$ <u>2,787,847</u>	<u>5,353,199</u>	<u>238,129</u>	<u>—</u>	<u>181,974</u>	<u>5,873,897</u>	<u>1,142,388</u>	<u>3,353,382</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

June 30, 2002

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2001	Additions	Retired	Balance June 30, 2002
Inside Debt Limit:							
Fire Station Renovations	4.3-5.3%	6/15/1992	6/15/2002	50,000	—	50,000	—
Senior Center/City Hall Renovations	4.75-5.75%	6/15/1996	6/15/2006	225,000	—	45,000	180,000
Emergency Communications	4.75-5.75%	6/15/1996	6/15/2006	1,650,000	—	330,000	1,320,000
Acquisition of computers	4.75-5.75%	6/15/1996	6/15/2006	300,000	—	60,000	240,000
Frisoli Youth Center	4.0-5.0%	6/15/1997	6/15/2007	2,160,000	—	360,000	1,800,000
Area 4 Youth Center Renovations	4.0-5.0%	6/15/1997	6/15/2007	120,000	—	20,000	100,000
Building Renovations	4.0-5.0%	6/15/1997	6/15/2007	300,000	—	50,000	250,000
Fiber Optics Network	4.0-5.0%	6/15/1997	6/15/2007	600,000	—	100,000	500,000
Personal Computer Acquisition	4.0-5.0%	6/15/1997	6/15/2002	100,000	—	100,000	—
Frisoli Youth Center	4.3-5.0%	8/1/1998	8/1/2018	560,000	—	70,000	490,000
Personal Computer Acquisition	4.75%	11/1/1999	11/1/2004	1,800,000	—	450,000	1,350,000
Public Art	4.75-5.0%	11/1/1999	11/1/2009	45,000	—	5,000	40,000
City Hall Renovations	4.75-5.0%	11/1/1999	11/1/2009	450,000	—	50,000	400,000
Gately Center Renovations	4.5-5.0%	12/1/2000	12/1/2010	2,500,000	—	250,000	2,250,000
City Hall Renovations	4.5-5.0%	12/1/2000	12/1/2010	3,000,000	—	300,000	2,700,000
Open Space Improvements	4.3-5.3%	6/15/1992	6/15/2002	180,000	—	180,000	—
Building Acquisition – teen center	4.3-5.3%	6/15/1992	6/15/2002	190,000	—	190,000	—
Open Space Improvements	3.75-4.3%	2/1/1994	2/1/2004	525,000	—	175,000	350,000
City Hall Renovations	5.5-5.9%	11/1/1994	11/1/2004	120,000	—	30,000	90,000
Senior Center Renovations	5.5-5.9%	11/1/1994	11/1/2004	1,540,000	—	385,000	1,155,000
Open Space Improvements	5.5-5.9%	11/1/1994	11/1/2004	100,000	—	25,000	75,000
Central Square Enhancements	4.0-5.0%	6/15/1997	6/15/2007	2,145,000	—	360,000	1,785,000
Yerxa Road Underpass	4.5-5.0%	12/1/2000	12/1/2010	1,900,000	—	190,000	1,710,000
Open Space Improvements	4.5-5.0%	12/1/2000	12/1/2010	4,500,000	—	450,000	4,050,000
MWPAT/Sewer Loan	3.75-4.3%	2/1/1994	2/1/2004	150,000	—	50,000	100,000
MWPAT/Sewer Loan	5.5-5.9%	11/1/1994	11/1/2004	200,000	—	50,000	150,000
MWPAT/Sewer Loan	2.35-5.5%	5/21/1993	8/1/2003	1,919,670	—	739,586	1,180,084
MWPAT/Sewer Loan	4.0-6.13%	5/1/1995	2/1/2005	3,016,233	—	699,359	2,316,874
MWPAT/Sewer Loan	4.25-5.75%	6/15/1996	6/15/2006	375,000	—	75,000	300,000
MWPAT/Sewer Loan	4.0-5.0%	6/15/1997	6/15/2007	300,000	—	50,000	250,000
MWPAT/Sewer Loan	4.0-5.0%	5/1/1997	2/1/2007	2,888,905	—	453,609	2,435,296
MWRA Loan	N/A	5/20/1999	5/20/2004	477,963	—	159,321	318,642
MWPAT/Sewer Loan	4.0-5.75%	10/6/1999	8/1/2009	398,710	—	40,983	357,727
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	2,302,697	—	207,969	2,094,728
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	1,185,457	—	107,044	1,078,413
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	246,595	—	22,257	224,338
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	8,442,915	—	762,550	7,680,365
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	4,558,041	—	411,674	4,146,367
MWPAT/Sewer Loan	4.5-5.0%	12/1/2000	12/1/2010	15,605,000	—	1,565,000	14,040,000
Hospital (Ambulatory Center)	4.5%	2/1/1998	2/1/2018	25,500,000	—	1,500,000	24,000,000
Nursing Home Renovations	4.3-5.3%	6/15/1992	6/15/2002	150,000	—	150,000	—
MWRA Loan	N/A	10/21/2001	8/15/2006	—	1,246,415	—	1,246,415
Improvements to War Memorial	3.5-5.0%	12/15/2001	12/15/2011	—	1,000,000	—	1,000,000
City Hall Renovations	3.5-5.0%	12/15/2001	12/15/2011	—	13,230,000	—	13,230,000
Sewer Loan	3.5-5.0%	12/15/2001	12/15/2011	—	10,675,000	—	10,675,000
Traffic Improvement	3.5-5.0%	12/15/2001	12/15/2011	—	1,250,000	—	1,250,000
Total Inside Debt Limit				92,777,186	27,401,415	11,269,352	108,909,249
Outside Debt Limit:							
School:							
Elementary school construction	3.75-4.3%	2/1/1994	2/1/2004	3,165,000	—	1,055,000	2,110,000
Elementary school construction	5.5-5.9%	11/1/1994	11/1/2004	5,292,000	—	1,323,000	3,969,000
Elementary school construction	4.75-5.75%	6/15/1996	6/15/2006	1,215,000	—	245,000	970,000
Elementary school construction	4.5%	2/1/1998	2/1/2008	8,400,000	—	1,200,000	7,200,000
Elementary school renovation-Fitz	4.75-5.0%	11/1/1999	11/1/2009	12,985,000	—	1,445,000	11,540,000
Elementary school renovation-Morse	4.75-5.0%	11/1/1999	11/1/2009	630,000	—	70,000	560,000
Elementary school renovations	4.5-5.0%	12/1/2000	12/1/2010	5,305,000	—	535,000	4,770,000
Total School				36,992,000	—	5,873,000	31,119,000
Water:							
Treatment Plant Renovations	3.75-4.3%	2/1/1994	2/1/2004	165,000	—	55,000	110,000
Water Plant Equipment	5.5-5.9%	11/1/1994	11/1/2004	348,000	—	87,000	261,000
Water Main Replacements	5.5-5.9%	11/1/1994	11/1/2004	400,000	—	100,000	300,000
Water Main Replacements	4.25-5.75%	6/15/1996	6/15/2006	1,500,000	—	300,000	1,200,000
New Water Treatment Plant	4.3-5.0%	8/1/1998	8/1/2018	36,000,000	—	2,000,000	34,000,000
MWPAT/Water Loan	4.0-5.75%	10/6/1999	8/1/2009	10,931,400	—	1,103,886	9,827,514
Construction/Water Treatment Plant	4.75-5.75%	11/1/1999	11/1/2019	9,500,000	—	500,000	9,000,000
MWPAT/Water Loan	4.25-5.63%	11/1/2000	11/1/2010	12,640,580	—	1,112,485	11,528,095
Construction/Stoney Brook	3.5-5.0%	12/15/2001	12/15/2011	—	6,475,000	—	6,475,000
Total Water				71,484,980	6,475,000	5,258,371	72,701,609

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

June 30, 2002

	<u>Interest rates</u>	<u>Issue dates</u>	<u>Final maturity date</u>	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2002</u>
HUD Sec 108 Notes (2/95)	7.71-9.03%	2/1/1995	8/1/2014	\$ 935,000	—	110,000	825,000
School Equipment Notes	6.85%	6/15/1998	6/15/2008	2,608,387	—	293,735	2,314,652
Housing Trust Fund: Note payable	2.00%	4/15/2000	4/15/2022	2,000,000	4,000,000	—	6,000,000
Total Outside Debt Limit				114,020,367	10,475,000	11,535,106	112,960,261
Total Debt Outstanding				\$ 206,797,553	37,876,415	22,804,458	221,869,510

See accompanying independent auditors' report.

PROPOSED FORM OF LEGAL OPINION

PALMER & DODGE LLP

111 HUNTINGTON AVENUE, BOSTON, MA 02199-7613

(Date of Delivery)

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

(Cambridge Municipal Purpose Loan of 2003 Bonds)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of \$28,675,000 Municipal Purpose Loan of 2003 Bonds, dated January 15, 2003, 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 1986, 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. We express no opinion regarding other federal tax consequences arising with respect to the bonds.

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,

APPENDIX C

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cambridge, Massachusetts (the "Issuer") in connection with the issuance of its \$28,675,000 Municipal Purpose Loan of 2003 Bonds, dated January 15, 2003 (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 January __, 2003 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: _____, 2003

CITY OF CAMBRIDGE

By _____
Treasurer

City Manager

[EXHIBIT A: List of National Repositories]

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



12.

CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager

Richard C. Rossi, Deputy City Manager

January 27, 2003

To The Honorable, The City Council:

Please find attached information related to the City's General Obligation Bond Sale on January 21, 2003.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
Attachment

F-12

Consent Agenda #12

Information related to the
City's General Obligation
Bond Sale on January 21,
2003.

In City Council January 27, 2003

**REFERRED TO FINANCE
COMMITTEE.**