

*City of Boston*  
Massachusetts



*Basic Financial  
Statements*

**Fiscal Year Ended June 30, 2018**

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*Martin J. Walsh, Mayor*

*Emme Handy, Chief of Administration and Finance & Collector Treasurer*

*Sally D. Glora, City Auditor*

*Prepared by the City of Boston Auditing Department*



# Table of Contents

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## FINANCIAL SECTION

Independent Auditors' Report .....	A-1
Management's Discussion and Analysis (Unaudited) .....	A-4

### *Basic Financial Statements:*

#### **Government-wide Financial Statements**

Statement of Net Position .....	A-18
Statement of Activities .....	A-20

#### **Fund Financial Statements**

Balance Sheet – Governmental Funds .....	A-22
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position .....	A-23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	A-24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	A-25
Statement of Revenues and Expenditures – Budgetary Basis, General Fund – Budget and Actual .....	A-26
Statement of Net Position – Proprietary Fund .....	A-27
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund .....	A-28
Statement of Cash Flows – Proprietary Fund .....	A-29
Statement of Fiduciary Net Position – Fiduciary Funds .....	A-30
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	A-31

<b>Notes to the Basic Financial Statements</b> .....	A-32
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### *Required Supplementary Information (Unaudited):*

Schedules of OPEB Contributions .....	A-78
Schedules of Changes in Net OPEB Liability .....	A-79
Schedule of City's Proportionate Share of the Net Pension Liability – Boston Retirement System .....	A-80
Schedule of City's Contributions – Boston Retirement System .....	A-80



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## Independent Auditors' Report

To the Honorable Mayor and City Council

City of Boston, Massachusetts:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dudley Square Realty Corporation, the Ferdinand Building Development Corporation, and the City's Permanent Funds, which represent 4.9% and 0.3% of the assets and revenues of the governmental activities, respectively, and 1.3% and 0.6% of the assets and revenues of the aggregate remaining fund information, respectively. We also did not audit the financial statements of the Boston Retirement System and the City's OPEB Trust Fund and Private-Purpose Trust Funds, which represent 97.2% and 87.4% of the assets and revenues of the aggregate remaining fund information, respectively. Further, we did not audit the financial statements of the Boston Public Health Commission, Trustees of the Public Library of the City of Boston and the Economic Development and Industrial Corporation of Boston, which represent 58.2% and 88.0% of the assets and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the



appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the City's General Fund for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matters***

#### *Adoption of New Accounting Pronouncements*

As discussed in Note 2q to the financial statements, in 2018, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matters.

### ***Other Matters***

#### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information related to the budgetary comparison for the City's General Fund. Such information does not include all of the information required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2017, from which such partial information was derived.

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules listed under Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

December 24, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2018. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements include three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains required supplementary information regarding historical pension information and other postemployment benefit (OPEB) plan information. The components of the financial statements are described in the following sections.

#### Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the City – the *Government-wide Financial Statements* and the *Fund Financial Statements*. The *Notes to the Basic Financial Statements* supplement the financial statement information and clarify line items that are part of the financial statements.

#### Government-wide Financial Statements

The *Government-wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The Government-wide Financial Statements include two statements:

- The *Statement of Net Position* presents all of the government's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

Both the above financial statements present two separate sections as described below.

- *Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, public health programs, state and district assessments, and debt service.



- *Discretely Presented Component Units* – These are legally separate entities for which the City has financial accountability but function independent of the City. For the most part, these entities operate similar to private sector businesses. The City's four discretely presented component units are the Boston Public Health Commission, the Boston Development & Planning Agency, the Economic Development Industrial Corporation, and the Trustees of the Boston Public Library.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units is presented in the Notes to the Financial Statements.

The Government-wide Financial Statements can be found immediately following this discussion and analysis.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The *Fund Financial Statements* focus on individual parts of the City government, reporting the City's operations in more detail than the Government-wide Financial Statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

**Governmental Funds** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, the Governmental Fund Financial Statements focus on near term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual (i.e., measurable and available to liquidate liabilities of the current period). Expenditures are generally recorded when liabilities are incurred, except for those related to long-term liabilities, which are recorded when due and payable. These statements provide a detailed short term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

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. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City presents four columns in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All non-major governmental funds are combined in the "Other Governmental Funds" column on these statements. The Governmental Fund Financial Statements can be found immediately following the Government-wide Financial Statements.

Of the City's governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Statement of Revenues and Expenditures – Budgetary Basis* is presented after the governmental fund financial statements. This statement provides a comparison of the General Fund original and final budget and the actual expenditures for the current and prior year on a budgetary basis.

In accordance with state law and regulations, the City's legally adopted General Fund budget is prepared on a "budgetary" basis instead of U.S. generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records any amount raised to cover a prior year deficit as an expenditure and any available funds raised from prior year surpluses as a revenue, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 to the Financial Statements.

**Proprietary Funds** – These funds are used to show activities that operate more like those of commercial enterprises. Like the Government-wide Financial Statements, Proprietary Fund Financial Statements use the economic resources measurement focus and accrual basis of accounting. There are two types of proprietary funds – enterprise funds and internal service funds. Enterprise funds charge fees for services provided to outside customers including local governments. Enterprise Funds provide the same type of information as the business-type activities of the Government-wide Financial Statements within governmental activities, only in more detail. Currently, the City does not have any enterprise funds. The Internal Service Fund provides health insurance services predominantly to other funds, departments or agencies of the City. Therefore, its activities are included in the Government-wide financial statements within governmental activities.

The Proprietary Funds Financial Statements can be found immediately following the Governmental Fund Financial Statements.

**Fiduciary Funds** – These 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 accounting used for fiduciary funds is much like that used for proprietary funds. They use the economic resources measurement focus and accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Fund (the Boston Retirement System), which accounts for the transactions, assets, liabilities, and net position of the City employees' pension plan; the Other Postemployment Benefits (OPEB) Trust Fund, which is an irrevocable trust established for the accumulation of assets to reduce the liability associated with the City's obligation for other postemployment benefits; and the Private Purpose Trust and Agency Funds, which include money held and administered by the City on behalf of third parties.

The Fiduciary Funds Financial Statements can be found immediately following the Proprietary Fund Financial Statements.

### **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 the Fund Financial Statements. The Notes to the Financial Statements can be found immediately following the Fiduciary Funds Financial Statements.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the OPEB Trust Fund, a schedule of changes in net OPEB

liability and related ratios, a schedule of the City's proportionate share of the net pension liability of the Boston Retirement System, and a schedule of the City's contributions to the Boston Retirement System.

## CURRENT YEAR FINANCIAL IMPACTS

- The City of Boston's OPEB obligation significantly impacts the Government-wide financial results. In fiscal year 2018, The City implemented GASB 75, "Accounting and Financial Reporting for Postemployment Benefits other than pensions." The most recent valuation of the City's OPEB obligation as of June 30, 2017, estimated that the total OPEB liability of the City increased by \$36.0 million to \$2.3 billion. This increase was largely as a result of increasing costs.
- In fiscal year 2018, the City's contribution to the OPEB Trust Fund (\$164.6 million) for retiree health benefits includes \$40.0 million in advance funding toward reducing the OPEB liability. The ADC was not met in 2018 resulting in an increase in the net OPEB obligation. In fiscal year 2019, the City has also appropriated \$40.0 million in advance funding toward reducing the OPEB liability.
- With the implementation of GASB Statement No. 75, the City is required to report a net OPEB liability and OPEB expense as it relates to the benefits provisions of Massachusetts General Law Chapter 32B. As a result of the implementation of GASB Statement No. 75, beginning net position of the governmental activities as of July 1, 2017 was restated (reduced) by approximately \$1.4 billion.
- The City of Boston's net pension liability significantly impacts the Government-wide financial results. With the implementation of GASB Statement No. 68 in fiscal year 2015, the City is required to report its proportionate share of the Boston Retirement System's collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. In addition, the City is also required to report a net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense related to its non-contributory retirement plan. Based on the measurement of the Boston Retirement System's net pension liability as of December 31, 2017, the City's proportionate share of that net pension liability decreased by \$196 million and the net pension liability for the City's non contributory plan decreased by \$4.3 million resulting on a total net pension liability of \$1.37 billion.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis is based on the Statement of Net Position and the Statement of Activities found directly after Management's Discussion and Analysis.

### Government-wide Highlights

*Net Position – Primary Government* – The total liabilities and deferred inflows of resources of the City exceeded its assets and deferred outflows of resources at fiscal year ended June 30, 2018 resulting in a net deficit of \$1.74 billion (presented as net position). At year end, the City had a deficit in governmental activities unrestricted net position in the amount of \$2.45 billion.

*Changes in Net Position – Primary Government* – The City's total net position increased by \$135.0 million from the amount reported in fiscal year 2017.

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net deficit totaled \$1.74 billion at the end of 2018, compared to a net deficit of \$1.88 billion, (restated) reported at the end of the previous year.

The components of net position comprise the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding – this amount is \$685.0 million indicating that the net book value of the City's capital assets exceeds the amount of related capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's governmental activities net position, \$75.1 million, represents restricted net position, or resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The unrestricted net position increased by \$76.4 million from the 2017 restated amount of \$2.6 billion.

### Net Position – Primary Government

(In thousands)

	Governmental Activities	
	Total Primary Government	
	2018	2017 <sup>(1)</sup>
<b>ASSETS:</b>		
Current assets .....	\$ 1,924,930	\$ 1,683,091
Capital assets .....	2,142,789	2,091,030
Other assets .....	198,906	226,147
<b>Total assets .....</b>	<b>4,266,625</b>	<b>4,000,268</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
<b>Total deferred outflows of resources .....</b>	<b>340,804</b>	<b>291,681</b>
<b>Liabilities:</b>		
Current liabilities .....	689,530	634,777
Noncurrent liabilities .....	5,414,072	3,990,579
<b>Total liabilities .....</b>	<b>6,103,602</b>	<b>4,625,356</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
<b>Total deferred inflows of resources .....</b>	<b>245,463</b>	<b>171,549</b>
<b>NET POSITION:</b>		
Net investment in capital assets .....	685,036	648,786
Restricted .....	75,098	52,746
Unrestricted .....	(2,501,770)	(2,578,157)
<b>Total net position .....</b>	<b>\$ (1,741,636)</b>	<b>\$ (1,876,625)</b>

(1) The 2017 amounts in the tables above have not been restated to reflect the implementation of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.", as described in note 2q to the Financial Statements.

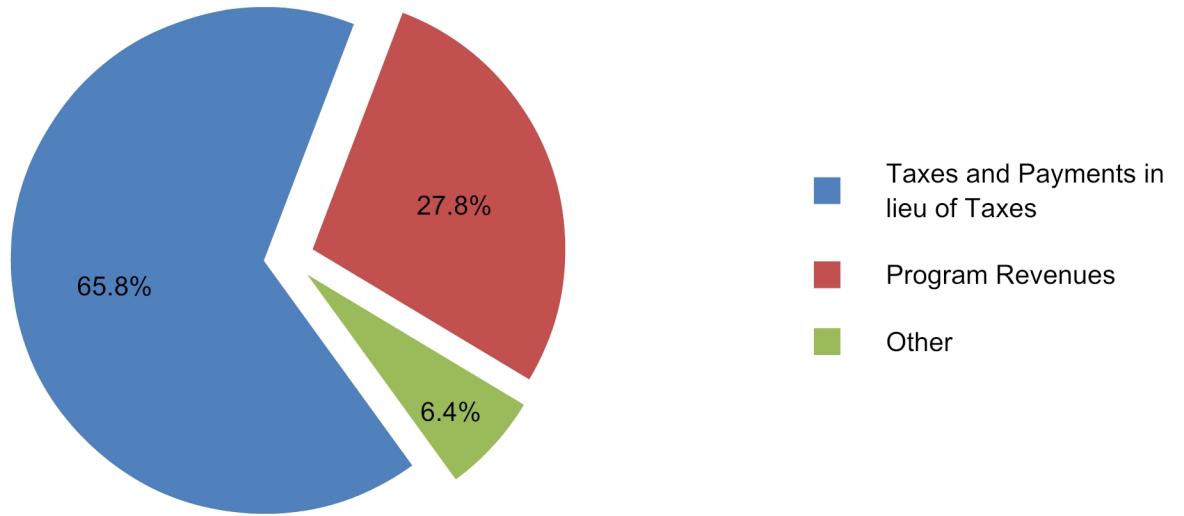
### Changes in Net Position – Primary Government

(In thousands)

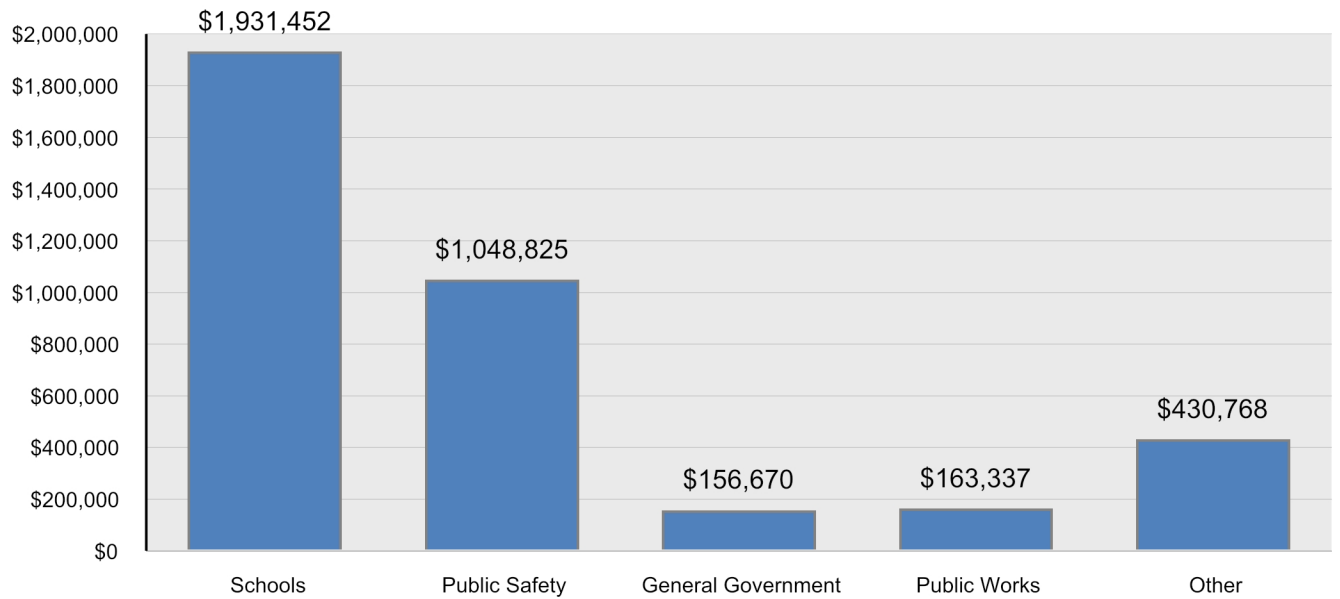
	Governmental Activities	
	Total Primary Government	
	2018	2017 <sup>(1)</sup>
<b>Revenues:</b>		
Program revenues:		
Charges for services .....	\$ 221,538	\$ 217,549
Operating grants and contributions .....	788,666	760,230
Capital grants and contributions .....	64,548	52,348
General revenues:		
Taxes .....	2,543,645	2,381,358
Grants and contributions not restricted .....	214,106	201,013
Investment income .....	31,417	19,588
Miscellaneous .....	2,121	3,738
<b>Total revenues</b> .....	<b>3,866,041</b>	<b>3,635,824</b>
<b>Program expenses:</b>		
General government .....	156,670	128,465
Human services .....	58,494	49,974
Public safety .....	1,048,825	962,654
Public works .....	163,337	130,182
Property and development .....	137,296	168,276
Parks and recreation .....	48,861	41,236
Library .....	55,626	51,397
Schools .....	1,931,452	1,833,105
Public health programs .....	86,228	81,859
Interest on long-term debt .....	44,263	42,321
<b>Total program expenses</b> .....	<b>3,731,052</b>	<b>3,489,469</b>
<b>Change in net position</b> .....	<b>134,989</b>	<b>146,355</b>
<b>Net position - beginning of year, as restated (note 2q)</b> .....	<b>(1,876,625)</b>	<b>(2,022,980)</b>
<b>Net position-end of year</b> .....	<b>\$ (1,741,636)</b>	<b>\$ (1,876,625)</b>

(1) The 2017 amounts in the tables above have not been restated to reflect the implementation of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.", as described in note 2q to the Financial Statements.

### Revenues - Governmental Activities Fiscal Year 2018



### Expenses - Governmental Activities FY18 (in thousands)



## Governmental Activities

The City's governmental activities net position increased by \$135.0 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2018. In the assets accounts, cash and investments increased by \$241.8 million, receivables decreased by \$33.2 million, and capital assets increased by \$51.8 million. In the liability accounts, there was an increase in warrants and accounts payable of \$16.7 million and an increase in accrued liabilities of \$62.2 million. Additionally, an increase of \$36.0 million was recorded relative to the City's other postemployment benefit obligation and a decrease of \$195.7 million was recorded relative to the City's net pension liability in 2018.

During fiscal year 2018, the City's revenues increased by 6.3%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$2.54 billion (65.8% of total revenues) and \$1.07 billion of program revenues (27.6% of total revenues). Taxes increased by \$162.3 million from the previous year. Program revenues increased by \$44.6 million for fiscal year 2018. This is largely due to increases in operating grants and contributions. The City's expenses cover a range of services. The largest expenses were for schools (\$1.93 billion), public safety (\$1.05 billion), general government (\$156.7 million), public works (\$163.3 million), and property and development (\$137.3 million). In 2018, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$2.66 billion. This shortfall was covered primarily through taxes (\$2.54 billion) and unrestricted grants and contributions (\$214.1 million).

Comparative data on these revenues and expenses is itemized in the reporting of the Changes in Net Position – Primary Government earlier in this Management Discussion and Analysis.

## FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS

This analysis is based on the Governmental and Proprietary Fund Financial Statements. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

### Fund Highlights

**Governmental Funds – Fund Balances** – as of the close of fiscal year 2018, the City's governmental funds reported a combined ending fund balance of \$1.61 billion, an increase of \$158.7 million from the prior year. Of this total amount, \$781.4 million represents the unassigned fund balance. The increase in fund balance is largely due to an increase in property and excise taxes and intergovernmental revenue.

### Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

**General Fund – Fund Balance** – The General Fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP unassigned fund balance in the General Fund that is 15%, or higher, of GAAP General Fund operating expenditures for the fiscal year. The GAAP unassigned fund balance at the end of fiscal year 2018 was \$781.4 million, which represents approximately 23.9% of GAAP General Fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of unassigned fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the General Fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, which is available for appropriation and is generated when actual revenues, on a cash basis, exceed budgeted amounts and encumbrances are less than appropriations, or both.



The City has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e., revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP Unassigned Fund Balance in the General Fund that is 15% or higher than the current fiscal year's GAAP General Fund Operating Expenditures. The City shall only consider the certification of Free Cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of Free Cash shall not cause the fiscal year's GAAP Unassigned Fund Balance to go below 15% of the fiscal year's GAAP General Fund Operating Expenditures, while maintaining a Budgetary Unassigned Fund Balance at 10% or higher of Budgetary Operating Expenditures. The City shall only consider the appropriation of Certified Free Cash to offset: (1) certain fixed costs such as pension contributions and related post-retirement health benefits; and/or (2) to fund extraordinary and non-recurring events as determined and certified by the City Auditor.

**Special Revenue Fund – Fund Balance** – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are restricted or committed to expenditures for predefined purposes. The fiscal year 2018 Special Revenue Fund balance is reported at \$247.4 million, a \$8.0 million decrease from fiscal year 2017.

**Capital Projects Fund – Fund Balance** – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2018 Capital Projects Fund balance is \$183.3 million, a \$62.0 million increase from fiscal year 2017 due to the issuance of bonds in the current year.

**Other Governmental Funds – Fund Balance** – Other Governmental Funds account for assets held by the City in permanent trust funds, as well as the activities related to DSRC and FBDC. The fiscal year 2018 Other Governmental Funds fund balance is \$101.9 million, a \$7.9 million increase from fiscal year 2017.

#### Internal Service Fund

The City's Internal Service Fund accounts for the City's self-insurance program for health benefits provided by Blue Cross Blue Shield, Harvard Pilgrim Health Care, and Tufts for City employees and their dependents. The Internal Service Fund is included as part of the governmental activities in the government-wide financial statements.

#### Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2018 with a \$21.2 million surplus. There were no material variances between the original budget and final budget amounts. Unfavorable variances from the final budget to actual results occurred in public safety, judgments and claims, and public works.

Favorable results were reported for General Fund revenue sources, including \$15.6 million in payments in lieu of taxes, \$11.5 million in departmental and other revenue, \$66.2 million in excises and \$13.4 million in investment income. Other available funds shows a revenue deficit of \$63.5 million, however, this is a result of not transferring \$22.5 million of parking meter funds and \$40.95 million of free cash from the general fund.

## CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

### Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2018, has a net book value of \$2.14 billion, made up of costs totaling \$4.23 billion less accumulated depreciation of \$2.09 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was approximately \$51.8 million in terms of net book value. However, actual expenditures to purchase or construct capital assets and contributions of capital assets were \$201.9 million for the fiscal year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements and infrastructure. Depreciation charges for the year totaled \$150.1 million. Additional information on the City's capital assets can be found in note 8 to the Financial Statements.

### Long Term Obligations

**Debt Administration** – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year end, the City had \$1.31 billion in General Obligations Bonds principal outstanding – an increase of \$30.0 million over last year.

On May 30, 2018, the City issued \$150.0 million in Series A general obligation bonds to finance various capital projects in the City. In conjunction with the City's annual bond offering, the rating service bureau Moody's Investors Service reaffirmed the City's bond ratings at Aaa and the rating service bureau Standard & Poor's reaffirmed the bond rating to AAA. General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

**Notes and Leases Payable and Other Long Term Obligations** – The City's general long term notes and leases and other long term obligations decreased \$141.2 million, or 3.22%, during the current fiscal year. Key factors for this decrease are a decrease in the net pension liability of \$200.4 million and an increase in the net OPEB obligation of \$36.0 million.

Additional information on the City's long term debt obligations can be found in note 10 to the Financial Statements.

## NEW ACCOUNTING STANDARDS

The GASB has issued GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended"*, and No. 57, *"OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB."* This Statement was implemented in fiscal 2018.

The GASB has issued Statement No. 85 *"Omnibus 2017."* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement was implemented in fiscal 2018 without any material impact.

The GASB has issued Statement No. 86 "*Certain Debt Extinguishment Issues*." The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement was implemented in fiscal 2018 without any material impact.

## FUTURE PRONOUNCEMENTS

The GASB has issued Statement No. 83 "*Certain Asset Retirement Obligations*." This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

The GASB has issued Statement No. 84 "*Fiduciary Activities*." The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

The GASB has issued Statement No. 87 "*Leases*." The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

The GASB has issued Statement No. 88 "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

The GASB has issued Statement No. 89 "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

The GASB has issued GASB Statement No. 90, "*Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*". The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all of the City's citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M 4, Boston, MA 02201. Alternatively, these requests may also be made through email, by contacting the Auditing Department at [CityAuditor@boston.gov](mailto:CityAuditor@boston.gov).



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## Statement of Net Position

June 30, 2018

(Amounts in thousands)

	<u>Primary Government</u>	<u>Discretely Presented</u>
	<u>Governmental</u>	<u>Component Units</u>
	<u>Activities</u>	
<b>ASSETS:</b>		
Current Assets:		
Cash and investments .....	\$ 1,855,633	\$ 83,544
Cash and investments held by trustees .....	69,298	13,262
Receivables, net: .....		
Property and other taxes .....	20,749	—
Intergovernmental .....	75,705	—
Other .....	19,231	47,093
Other assets .....	11,988	2,358
Due from primary government .....	—	2,413
Due from component units .....	1,509	—
Total current assets .....	<u>2,054,113</u>	<u>148,670</u>
Noncurrent Assets:		
Intergovernmental receivables .....	2,461	—
Cash and investments held by trustee .....	—	61,926
Notes and other receivables .....	61,537	179,702
Capital assets:		
Nondepreciable assets .....	81,535	29,419
Depreciable, net .....	2,061,254	56,985
Due from component units .....	5,725	—
Total noncurrent assets .....	<u>2,212,512</u>	<u>328,032</u>
<b>Total assets</b> .....	<b><u>4,266,625</u></b>	<b><u>476,702</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount for pension costs .....	177,033	16,789
Deferred amount from OPEB .....	159,966	6,536
Deferred amount from debt refunding .....	3,805	—
<b>Total deferred outflows of resources</b> .....	<b><u>340,804</u></b>	<b><u>23,325</u></b>

**LIABILITIES:**

## Current Liabilities:

Warrants and accounts payable .....	120,045	30,253
Accrued liabilities - current:		
Compensated absences .....	61,572	—
Judgments and claims .....	78,095	—
Payroll and related costs .....	173,037	—
Deposits and other .....	104,356	3,386
Unearned revenue .....	—	4,894
Current portion of long-term bonds, notes and leases .....	150,012	4,426
Due to component units .....	2,413	—
Due to primary government .....	—	1,509
<b>Total current liabilities</b> .....	<b>689,530</b>	<b>44,468</b>

## Noncurrent Liabilities:

Bonds due in more than one year .....	1,333,090	17,369
Notes and leases payable due in more than one year .....	111,372	—
Other noncurrent liabilities .....	307,765	147,078
Net pension liability .....	1,373,685	131,227
Other postemployment benefits obligation .....	2,288,160	143,781
Unearned revenue .....	—	65,475
Due to primary government .....	—	5,725
<b>Total noncurrent liabilities</b> .....	<b>5,414,072</b>	<b>510,655</b>
<b>Total liabilities</b> .....	<b>6,103,602</b>	<b>555,123</b>

**DEFERRED INFLOWS OF RESOURCES:**

Deferred amount for pension costs .....	225,746	33,313
Deferred amount for OPEB .....	18,363	20,055
Deferred amount from debt refunding .....	1,354	—
<b>Total deferred inflows of resources</b> .....	<b>245,463</b>	<b>53,368</b>

**NET POSITION:**

Net investment in capital assets .....	685,036	66,598
Restricted for:		
Nonexpendable trust .....	10,041	75,187
Expendable trust .....	53,223	—
Capital projects .....	11,834	—
Unrestricted deficit .....	(2,501,770)	(250,249)
<b>Total net position</b> .....	<b>\$ (1,741,636)</b>	<b>\$ (108,464)</b>

**Statement of Activities**

Year Ended June 30, 2018

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b> .....				
Governmental activities:				
General government .....	\$ 156,670	\$ 31,196	\$ 27,499	\$ 8,653
Human services .....	58,494	5	13,423	—
Public safety .....	1,048,825	139,793	57,612	—
Public works .....	163,337	31,120	—	21,905
Property and development .....	137,296	13,867	78,128	50
Parks and recreation .....	48,861	957	4,564	—
Library .....	55,626	325	2,442	—
Schools .....	1,931,452	4,275	604,998	33,940
Public health programs .....	86,228	—	—	—
Interest on long-term debt .....	44,263	—	—	—
<b>Total primary government</b> .....	<b>\$ 3,731,052</b>	<b>\$ 221,538</b>	<b>\$ 788,666</b>	<b>\$ 64,548</b>
<b>Component Units:</b> .....				
Boston Public Health Commission .....	\$ 173,752	\$ 43,168	\$ 45,831	\$ —
Boston Planning & Development Agency .....	22,598	10,221	13,965	—
Trustees of the Public Library of the City of Boston .....	9,106	2,825	7,569	—
Economic Development and Industrial Corporation of Boston .....	39,673	26,962	12,913	—
<b>Total component units</b> .....	<b>\$ 245,129</b>	<b>\$ 83,176</b>	<b>\$ 80,278</b>	<b>\$ —</b>

## General Revenues:

## Taxes:

Property taxes, levied for general purposes .....

Excises .....

Payments in lieu of taxes .....

Grants and contributions not restricted .....

Investment income .....

City appropriation .....

Miscellaneous .....

Special item - gain on sale of land .....

**Total general revenues** .....**Change in net position** .....**Net position - beginning of year, as restated (note 2q)** .....**Net position - end of year** .....



Net (Expense) Revenue and Changes in  
Net Position

Governmental Activities	Component Units
\$ (89,322)	\$ —
(45,066)	—
(851,420)	—
(110,312)	—
(45,251)	—
(43,340)	—
(52,859)	—
(1,288,239)	—
(86,228)	—
(44,263)	—
<b>\$ (2,656,300)</b>	<b>\$ —</b>
\$ —	\$ (84,753)
—	1,588
—	1,288
—	202
<b>\$ —</b>	<b>\$ (81,675)</b>
\$ 2,219,700	\$ —
239,005	—
84,940	—
214,106	—
31,417	207
—	79,563
2,121	1,714
—	5,848
<b>2,791,289</b>	<b>87,332</b>
<b>134,989</b>	<b>5,657</b>
<b>(1,876,625)</b>	<b>(114,121)</b>
<b>\$ (1,741,636)</b>	<b>\$ (108,464)</b>

See accompanying notes to the basic financial statements

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**  
(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments .....	\$ 1,309,193	\$ 247,631	\$ 198,417	\$ 11,012	\$ 1,766,253
Cash and investments held by trustees .....	364	—	10,185	58,749	69,298
Receivables, net: .....					
Property and other taxes .....	20,749	—	—	—	20,749
Intergovernmental .....	10,525	54,583	13,058	—	78,166
Departmental and other .....	19,003	29,215	—	32,552	80,770
Total receivables .....	50,277	83,798	13,058	32,552	179,685
Due from other funds .....	1,860	211	—	7,696	9,767
Due from component units .....	7,234	—	—	—	7,234
<b>Total assets</b> .....	<b>\$ 1,368,928</b>	<b>\$ 331,640</b>	<b>\$ 221,660</b>	<b>\$ 110,009</b>	<b>\$ 2,032,237</b>
<b>LIABILITIES</b>					
Warrants and accounts payable .....	\$ 57,050	\$ 24,382	\$ 26,081	\$ 449	\$ 107,962
Accrued liabilities:					
Payroll and related costs .....	172,942	95	—	—	173,037
Deposits and other .....	25,429	57,673	—	—	83,102
Due to other funds .....	168	1,899	—	7,700	9,767
Due to component unit .....	2,413	—	—	—	2,413
<b>Total liabilities</b> .....	<b>\$ 258,002</b>	<b>\$ 84,049</b>	<b>\$ 26,081</b>	<b>\$ 8,149</b>	<b>\$ 376,281</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Revenue not considered available .....	28,872	200	12,302	—	41,374
<b>Total deferred inflows of resources</b> .....	<b>\$ 28,872</b>	<b>\$ 200</b>	<b>\$ 12,302</b>	<b>\$ —</b>	<b>\$ 41,374</b>
<b>FUND BALANCES</b>					
Nonspendable .....	—	—	—	10,041	10,041
Restricted .....	—	47,854	183,277	91,819	322,950
Assigned .....	300,652	199,537	—	—	500,189
Unassigned .....	781,402	—	—	—	781,402
<b>Total fund balances</b> .....	<b>1,082,054</b>	<b>247,391</b>	<b>183,277</b>	<b>101,860</b>	<b>1,614,582</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b> .....	<b>\$ 1,368,928</b>	<b>\$ 331,640</b>	<b>\$ 221,660</b>	<b>\$ 110,009</b>	<b>\$ 2,032,237</b>

See accompanying notes to the basic financial statements

## Reconciliation of the Balance Sheet

### Governmental Funds to the Statement of Net Position

June 30, 2018

(Amounts in thousands)

**Total fund balance - governmental funds** ..... \$ **1,614,582**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements .....	2,142,789
Certain revenues of the government-wide financial statements are earned but not considered available in the governmental fund financial statements .....	41,374
Internal service funds are included in the government-wide financial statements .....	81,393
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 .....	(1,375,373)
Capital leases .....	(69,626)
Bond issue premiums/discounts, net .....	(149,475)
Deferred bond refunding losses/gain, net .....	2,451
Accrued interest on bonds .....	(21,254)
Compensated absences .....	(227,695)
Landfill .....	(6,957)
Judgments and claims .....	(192,390)
Other postemployment benefits, net of deferred amounts .....	(2,146,557)
Net pension liability, net of deferred amounts .....	(1,434,398)
Pollution remediation .....	(500)
<b>Net position of governmental activities</b> .....	<b><u><u>(1,741,636)</u></u></b>

## Statement of Revenues, Expenditures and Changes in Fund Balances

### Governmental Funds

Year Ended June 30, 2018

(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Real and personal property taxes .....	\$ 2,221,877	\$ —	\$ —	\$ —	\$ 2,221,877
Excises .....	243,581	—	—	—	243,581
Payments in lieu of taxes .....	84,940	—	—	—	84,940
Fines .....	63,206	73	—	—	63,279
Investment income .....	15,390	213	—	5,931	21,534
Licenses and permits .....	74,144	212	—	—	74,356
Departmental and other .....	98,287	71,385	—	7,059	176,731
Intergovernmental .....	570,753	265,723	38,261	—	874,737
<b>Total revenues</b> .....	<u>3,372,178</u>	<u>337,606</u>	<u>38,261</u>	<u>12,990</u>	<u>3,761,035</u>
<b>EXPENDITURES:</b>					
Current:					
General government .....	90,076	9,472	—	6,500	106,048
Human services .....	35,023	8,953	—	—	43,976
Public safety .....	689,929	21,692	—	—	711,621
Public works .....	111,772	10,062	—	—	121,834
Property and development .....	39,022	88,005	—	—	127,027
Parks and recreation .....	25,285	4,845	—	—	30,130
Library .....	36,025	2,452	—	—	38,477
Schools .....	1,087,192	150,198	—	—	1,237,390
Public health programs .....	81,129	2,140	—	—	83,269
Judgments and claims .....	7,693	—	—	—	7,693
Retirement costs .....	356,251	—	—	—	356,251
Other employee benefits .....	261,377	—	—	—	261,377
State and district assessments .....	267,205	—	—	—	267,205
Capital outlays .....	9,738	1,659	222,598	—	233,995
Debt service .....	176,240	—	—	—	176,240
<b>Total expenditures</b> .....	<u>3,273,957</u>	<u>299,478</u>	<u>222,598</u>	<u>6,500</u>	<u>3,802,533</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b> .....	<u>98,221</u>	<u>38,128</u>	<u>(184,337)</u>	<u>6,490</u>	<u>(41,498)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt, notes and capital leases issued .....	—	—	176,698	—	176,698
Premiums on long-term debt issued .....	—	233	23,289	—	23,522
Transfers in .....	—	—	46,385	1,455	47,840
Transfers out .....	(1,455)	(46,385)	—	—	(47,840)
<b>Total other financing sources (uses)</b> .	<u>(1,455)</u>	<u>(46,152)</u>	<u>246,372</u>	<u>1,455</u>	<u>200,220</u>
<b>Net change in fund balances</b> .....	<u>96,766</u>	<u>(8,024)</u>	<u>62,035</u>	<u>7,945</u>	<u>158,722</u>
<b>Fund balance - beginning of year</b> .....	<u>985,288</u>	<u>255,415</u>	<u>121,242</u>	<u>93,915</u>	<u>1,455,860</u>
<b>Fund balance - end of year</b> .....	<u>\$ 1,082,054</u>	<u>\$ 247,391</u>	<u>\$ 183,277</u>	<u>\$ 101,860</u>	<u>\$ 1,614,582</u>

See accompanying notes to the basic financial statements

**Reconciliation of the Statement of Revenues,  
Expenditures and Changes in Fund Balance  
Governmental Funds to the Statement of Activities  
Year Ended June 30, 2018**

(Amounts in thousands)

<b>Net change in fund balances - total governmental funds .....</b>	<b>\$</b>	<b>158,722</b>
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 and contributions of capital assets (\$ 201,938) exceeded depreciation expense (\$ 150,085) and loss on disposals (\$ 94) .....		51,758
Certain revenues in the statement of activities that are not reported as revenues in the governmental funds as they are not considered available .....		(1,151)
Issuances of long-term debt (\$ 176,698) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Repayment of bonds, notes and lease principal (\$ 153,445) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position. This is the amount by which issuances exceed repayments .....		(23,253)
Decreases in bond premiums net (\$ 10,519) decrease the long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Decreases in deferred loss on refunding, net (\$ 978) decrease deferred outflows, net on the statement of net position, but are included in the operating statement of governmental funds .....		(11,497)
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 increase in liabilities for other postemployment benefits \$51,832, workers compensation \$1,296, interest payable \$1,649, compensated absences \$31,139, judgments and claims \$1,833 and a decrease in landfill closure and post-closure costs (\$407,000) and net pension liability, net of deferred amounts (\$22,935)..		(64,407)
Net operating income from the internal service fund, which is presented in the statement of activities, but not in the governmental funds .....		24,817
<b>Change in net position of governmental activities .....</b>	<b>\$</b>	<b>134,989</b>

See accompanying notes to the basic financial statements

## Statement of Revenues and Expenditures

### Budgetary Basis

#### General Fund – Budget and Actual

Year Ended June 30, 2018 (with comparative actual amounts for 2017)

(Amounts in thousands)

	2018				
	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance	2017 Actual
<b>REVENUES AND OTHER AVAILABLE FUNDS:</b>					
Real and personal property taxes, net.....	\$ 2,185,887	\$ 2,185,887	\$ 2,191,992	\$ 6,105	\$ 2,053,396
Excises .....	198,591	198,591	264,814	66,223	209,498
Commonwealth of Massachusetts .....	440,583	440,583	439,708	(875)	424,933
Departmental and other revenue .....	68,064	68,064	79,590	11,526	77,082
Fines .....	63,721	63,721	63,389	(332)	63,082
Payments in lieu of taxes .....	67,998	67,998	83,634	15,636	82,132
Investment income .....	2,000	2,000	15,390	13,390	2,329
Licenses and permits .....	67,056	67,056	74,508	7,452	84,093
Miscellaneous .....	267	267	267	—	267
Other available funds .....	63,450	63,450	—	(63,450)	—
<b>Total revenues and other available funds .....</b>	<b>3,157,617</b>	<b>3,157,617</b>	<b>3,213,292</b>	<b>55,675</b>	<b>2,996,814</b>
<b>EXPENDITURES:</b>					
General government .....	111,265	111,557	111,283	274	121,507
Human services .....	35,824	36,051	35,954	97	32,521
Public safety .....	673,913	679,127	694,457	(15,330)	641,567
Public works .....	111,951	110,254	115,758	(5,504)	109,478
Property and development .....	38,513	39,476	39,402	74	45,295
Parks and recreation .....	25,049	28,811	28,793	18	24,451
Library .....	36,031	35,760	35,758	2	34,775
Schools .....	1,092,056	1,093,311	1,093,290	21	1,031,628
Boston Public Health Commission .....	79,513	79,563	79,563	—	77,267
Judgments and claims .....	5,000	5,000	19,513	(14,513)	3,188
Other employee benefits .....	270,551	263,157	262,902	255	256,044
Retirement costs .....	225,502	237,034	236,968	66	202,925
Debt requirements .....	184,130	170,538	170,514	24	165,160
State and district assessments .....	268,319	267,978	267,949	29	244,320
<b>Total expenditures .....</b>	<b>3,157,617</b>	<b>3,157,617</b>	<b>3,192,104</b>	<b>(34,487)</b>	<b>2,990,127</b>
<b>Excess of revenues and other available funds over expenditures .....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 21,188</b>	<b>\$ 21,188</b>	<b>\$ 6,687</b>

See accompanying notes to the basic financial statements

## Statement of Net Position

### Proprietary Fund

June 30, 2018

(Amounts in thousands)

	<u>Internal Service</u>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents .....	\$ 89,380
Total current assets .....	<u>89,380</u>
Noncurrent assets:	
Other assets .....	11,988
Total noncurrent assets .....	<u>11,988</u>
<b>Total assets</b> .....	<b><u>\$ 101,368</u></b>
<b>LIABILITIES:</b>	
Current liabilities:	
Accrued liabilities .....	19,975
<b>Total current liabilities</b> .....	<b><u>\$ 19,975</u></b>
<b>NET POSITION:</b>	
Unrestricted .....	81,393
<b>Total net position</b> .....	<b><u>\$ 81,393</u></b>

## Statement of Revenues, Expenses and Changes in Net Position

### Proprietary Fund

Year Ended June 30, 2018

(Amounts in thousands)

	<u>Internal Service</u>
<b>OPERATING REVENUES:</b>	
Employee contributions .....	\$ 68,905
Employer contributions .....	172,640
<b>Total operating revenues .....</b>	<b><u>241,545</u></b>
<b>OPERATING EXPENSES:</b>	
Health benefits .....	216,728
<b>Total operating expenses .....</b>	<b><u>216,728</u></b>
<b>Operating Income .....</b>	<b><u>24,817</u></b>
<b>Net position - beginning of year .....</b>	<b><u>56,576</u></b>
<b>Net position - end of year .....</b>	<b><u><u>\$ 81,393</u></u></b>



## Statement of Cash Flows

### Proprietary Funds

Year Ended June 30, 2018

(Amounts in thousands)

	<u>Internal Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from employees and employer .....	\$ 241,545
Cash paid to vendors .....	(226,081)
<b>Net cash provided by operating activities .....</b>	<b><u>15,464</u></b>
Cash and cash equivalents- beginning of year .....	73,916
Cash and cash equivalents- end of year .....	<b><u>\$ 89,380</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>	
<b>USED IN OPERATING ACTIVITIES:</b>	
Operating Income .....	<b>\$ 24,817</b>
Adjustments to reconcile operating income to net cash used in operating activities: .....	
Changes in operating assets and liabilities: .....	
Other assets .....	(5,447)
Accounts payable and accrued liabilities .....	(3,906)
<b>Net cash provided by operating activities .....</b>	<b><u>\$ 15,464</u></b>

## Statement of Fiduciary Net Position

### Fiduciary Funds

June 30, 2018

(Except Employee Retirement Plan, which is as of December 31, 2017)

(Amounts in thousands)

	Pension and OPEB Trust Funds	Private- Purpose Trusts	Agency Funds
<b>ASSETS:</b>			
Cash and cash equivalents .....	\$ 791,514	\$ 113,042	\$ 9,115
Receivables:			
Interest and dividends .....	7,294	—	—
Securities sold .....	130,646	—	—
Employer contributions .....	16,709	—	—
Other .....	5,313	99	—
Total receivables .....	159,962	99	—
Prepaid Expenses .....	28	—	—
Investments, at fair value:			
Short term:			
Domestic .....	59,258	—	—
International .....	7,333	—	—
Equity:			
Domestic .....	1,374,977	—	—
International .....	1,372,795	—	—
Fixed-income:			
Domestic .....	763,822	—	—
International .....	331,347	—	—
PRIT Pooled Fund .....	1,572,852	—	—
Real estate .....	429,435	—	—
Alternative .....	491,835	—	—
Total investments .....	6,403,654	—	—
Securities lending short-term collateral investment pool .....	173,640	—	—
<b>Total assets</b> .....	<b>7,528,798</b>	<b>113,141</b>	<b>9,115</b>
<b>LIABILITIES:</b>			
Accounts payable, accrued expenses and other liabilities .....	16,835	2,230	9,115
Securities purchased .....	30,714	—	—
Collateral held on securities lending .....	173,522	—	—
<b>Total liabilities</b> .....	<b>221,071</b>	<b>2,230</b>	<b>9,115</b>
<b>NET POSITION RESTRICTED FOR PENSIONS:</b>			
Held in trust for pension, OPEB benefits and other purposes .....	<b>\$ 7,307,727</b>	<b>\$ 110,911</b>	<b>\$ —</b>

See accompanying notes to the basic financial statements

## Statement of Changes in Fiduciary Net Position

### Fiduciary Funds

Year Ended June 30, 2018

(Except Employee Retirement Plan, which is year ended December 31, 2017)

(Amounts in thousands)

	Pension and OPEB Trust Funds	Private- Purpose Trusts
<b>ADDITIONS:</b>		
<b>Contributions:</b>		
Employers .....	\$ 424,756	\$ —
Commonwealth of Massachusetts (nonemployer) .....	131,298	—
Employees .....	154,955	—
Donations and other .....	—	5,627
<b>Total contributions</b> .....	<b>711,009</b>	<b>5,627</b>
<b>Investment earnings:</b>		
Realized and unrealized gains on investments .....	920,993	17,056
Investment income .....	125,120	3,881
Less investment expenses .....	(31,032)	—
<b>Net investment earnings</b> .....	<b>1,015,081</b>	<b>20,937</b>
<b>Securities lending activities:</b>		
Securities lending income .....	3,026	—
Less borrower rebates and fees .....	(1,828)	—
<b>Net income from securities lending activities</b> .....	<b>1,198</b>	<b>—</b>
<b>Total net investment income (loss)</b> .....	<b>1,016,279</b>	<b>20,937</b>
Intergovernmental .....	8,961	—
Miscellaneous income .....	213	—
<b>Total additions</b> .....	<b>1,736,462</b>	<b>26,564</b>
<b>DEDUCTIONS:</b>		
Benefits .....	709,648	—
Reimbursements .....	12,515	—
Refunds of contributions .....	20,439	—
Administrative expenses and other .....	7,478	25,909
<b>Total deductions</b> .....	<b>750,080</b>	<b>25,909</b>
<b>Change in net position</b> .....	<b>986,382</b>	<b>655</b>
<b>Net position - beginning of year</b> .....	<b>6,321,345</b>	<b>110,256</b>
<b>Net position - end of year</b> .....	<b>\$ 7,307,727</b>	<b>\$ 110,911</b>

See accompanying notes to the basic financial statements

## NOTES TO THE BASIC FINANCIAL STATEMENTS

*June 30, 2018*

### 1. The Financial Reporting Entity

#### a. Primary Government

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth), which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The legislative body of the City is the City Council, which consists of 13 elected members serving two-year terms.

The accompanying basic financial statements present the City 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 Units Disclosure

- i. **Boston Retirement System (BRS)** is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprising five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor; and a fifth member chosen by the other members. BRS provides pension benefits to retired City, Boston Planning & Development Agency, Boston Housing Authority, Boston Water and Sewer Commission, and Boston Public Health Commission employees. Although legally separate, BRS provides services entirely, or almost entirely, to the City and thus has been reported as a blended component unit among the City's fiduciary funds. The financial statements of BRS are included for its fiscal year end which is December 31, 2017.
- ii. **Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC)** – The DSRC is a Qualified Active Low-Income Community Business, and is the owner and developer of the Dudley Municipal Center property. FBDC is the leverage lender of the Dudley Municipal Center property. FBDC leases the property from DSRC and the City subleases the property from FBDC. The DSRC and FBDC are non-profit organizations qualified as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code. Both entities are instrumentalities of the City, as the Mayor has full control of appointments to their boards of directors. Although legally separate, both DSRC and FBDC provide services entirely, or almost entirely, to the City and thus have been reported as blended component units. These funds are presented as non-major funds within the other governmental funds as of their fiscal year end, which is June 30, 2018.

**c. Discretely Presented Component Units Disclosure**

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for the organizations, meaning it appoints, at a minimum, a voting majority of the board of directors of the organization and is able to impose its will on the organizations or has a financial benefit or burden relationship with the organizations. Unless otherwise indicated, the Notes to the Financial Statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion, and their relationship with the City are as follows:

- i. Boston Planning & Development Agency (BPDA)** – The BPDA is legally separate from the City and a body politic and corporate constituting the City’s redevelopment authority and exercising the powers of a planning board for the City. The BPDA is governed by a five-member board, four of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is appointed by the Governor of Massachusetts (same board members as the EDIC). The BPDA receives a significant amount of intergovernmental revenue, which is used solely for capital projects that are under the oversight of the BPDA. In accordance with GASB Statement No. 61, the BPDA is presented as a discrete component unit of the City.
- ii. Economic Development and Industrial Corporation of Boston (EDIC)** – The EDIC is legally separate from the City and a body politic and corporate and an instrumentality of the Commonwealth. The EDIC is governed by a five-member board, four of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is appointed by the Governor of Massachusetts (same board members as the BPDA). The EDIC receives a significant amount of intergovernmental revenue, including grants and contracts with the City for jobs and community service activities. In accordance with GASB Statement No. 61, the EDIC is presented as a discrete component unit of the City.
- iii. Boston Public Health Commission (BPHC)** – The BPHC is legally separate from the City and a body politic and corporate and an instrumentality of the Commonwealth. The BPHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center. The BPHC receives the majority of its funding from a City appropriation, EMS and other third party billings, and federal and state grants. The BPHC expects that the City will continue to provide support for the public health programs of the BPHC. In accordance with GASB Statement No. 61, the BPHC is presented as a discrete component unit of the City.
- iv. Trustees of the Public Library of the City of Boston (TPL)** – The TPL is legally separate from the City of Boston and is a non-profit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. The trustees of the TPL are appointed by the Mayor and the TPL places substantial reliance upon the City to fund its daily operations. In addition, the Library receives significant support through state and federal government appropriations and private sources. In accordance with GASB Statement No. 61, the TPL is presented as a discrete component unit of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year ends, which is June 30, 2018.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 20.

**d. Related Organizations**

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority, and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

**2. Summary of Significant Accounting Policies**

The accounting policies of the City conform to U.S. generally accepted accounting principles as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). 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 Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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 any business-type activities, which rely to a significant extent on fees and charges for support. The City currently reports no business-type activities. Likewise, the primary government is reported separately from certain legally separate component units 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 is 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 are reported as separate columns in the Fund Financial Statements.

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

**i. Government-wide Financial Statements**

The Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund Financial Statements. The Agency Fund within the Fiduciary Fund Financial Statements has no measurement of results. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements for recognition have been met.

**ii. Governmental Fund Financial Statements**

Governmental Fund Financial Statements are reported using the current financial resources measurement 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 inflows of resources.

The City applies the susceptible to accrual criteria to property and other 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 recognized based upon the amount of expenditures incurred subject to availability requirements. 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 and other taxes are recognized as revenue in the year for which taxes have been levied or earned, provided they are collected within 60 days after year-end. Generally, intergovernmental revenues are recognized as revenue provided they are earned during the year and collected within one year after year-end, except for Massachusetts School Building Authority (MSBA) and Chapter 90 receivables which are considered available when received.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to long-term liabilities including compensated absences, other postemployment benefits, workers’ compensation and judgments and claims, are recorded only when payment is mature and due.

**iii. Proprietary Fund Financial Statements**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the provision of services. The principal operating revenues of the City’s Internal Service Funds are receipts from employer and employees for health insurance premiums. Operating expenses for the Internal Service Fund include administrative expenses, vendor payments, and health benefits. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**iv. Description of Major Funds**

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

1. 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.
2. The *Special Revenue Fund* accounts for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are legally restricted or assigned to expenditures for various general governmental functions. Revenue sources include grant funding for education, housing, and public safety and 1% surcharge on the newly adopted Community Preservation Act.
3. The *Capital Projects Fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City’s capital facilities.

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

4. The City uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying proprietary fund financial statements, it is not considered a major fund.

*Fiduciary Funds* – The City reports the following fiduciary fund types:

5. The *Private Purpose Trust Funds* are used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments. The City operates four pools used for the improvement of the City's parks and cemeteries, educational scholarships and sporting equipment, creation of public utility and beauty, and co-mingled nontestamentary trusts.
6. The *Pension Trust Fund* accounts principally for the activities of the Boston Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired employees of the City and other entities.
7. The *OPEB Trust Fund* is an irrevocable trust fund established for other postemployment benefits. The assets are appropriated from the General Fund and accumulate to reduce the City's total OPEB liability. The assets of the trust are currently not used for direct payments of benefits.
8. The *Agency Funds* are used to report funds held by the City in a purely custodial capacity. The City currently operates a drug evidence account for proceeds of property seized from illegal drug-related activities. These funds are then used to offset the costs of technical equipment or expertise and investigations.

**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 generally 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 BRS, which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

The City invests in the Massachusetts Municipal Depository Trust (MMDT) Cash Portfolio, which is an external investment pool and is not SEC-registered. The fund is state-regulated and is valued at amortized cost.

**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."

**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 include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets such as easements, land use rights, computer software, trademarks and patents. Capital assets are reported in the governmental activities column in the Government-wide Financial Statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Any significant construction commitments are encumbered at year-end in the City's Capital Projects Fund.



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

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	30
Building improvements	30
Infrastructure	30
Land improvements - major	30
Land improvements - playgrounds	15
Computer upgrades	10
Equipment and machinery	10
Intangible assets, computer software and licenses	5
Computers and related equipment	3
Furniture and fixtures	3
Motor vehicles	3

***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. Public Safety employees are compensated for unused personal leave in addition to sick and vacation leave. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2018 is recorded in the Governmental Fund Financial Statements. The entire amount of the liability is reported in governmental activities in the Government-wide Financial Statements. 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 that would be paid upon termination (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

***i. Long-Term Obligations and Related Costs***

Long-term debt and other long-term obligations are reported as liabilities in the Government-wide Statement of Net Position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. The unamortized portion is presented in the Government-wide Statement of Net Position as a component of bonds payable. Bond issuance costs are reported as expenses when incurred.

The Governmental Fund Financial Statements recognize bond premiums and discounts, as well as bond issuance costs, during the period incurred. 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. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the BRS and additions to/deductions from the BRS fiduciary net position have been determined on the same basis as they are reported by BRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are generally reported at fair value.

**k. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Other Postemployment Benefit Trust Fund (the Plan) and additions to/deductions from Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are generally reported at fair value.

**l. Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources increase net position, similar to assets, and inflows or resources decrease net position, similar to liabilities.

**m. Net Position and Fund Balance**

In the Government-wide and Proprietary Fund Financial Statements, net position is reported in the following categories:

*Net investment in capital assets:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted:* Net position the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. Nonexpendable amounts are required to remain intact under such constraints.

*Unrestricted:* Remaining net position not considered net investment in capital assets or restricted.

For purposes of net position classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

In the Governmental Fund Financial Statements, fund balance is reported in the following categories:

*Nonspendable:* Amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact.

*Restricted:* Amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation.

*Committed:* Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.

*Assigned:* Amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted or committed. Under M.G.L. Chapter 190, Acts of 1982, the City Auditor has the authority to assign amounts to be used for specific purposes on behalf of the City.

*Unassigned:* Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City. The City maintains a formal policy that unassigned fund balance in the General Fund be at least 15 percent of the current year's General Fund GAAP basis operating expenditures.

For purposes of fund balance classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources are used, committed resources are used first, followed by assigned and unassigned resources, respectively.

***n. Tax Abatement Refunds***

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the General Fund. A liability for estimated future tax abatement refunds has been recorded in the Government-wide Statement of Net Position.

***o. Landfill Closure and Postclosure Care Costs***

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2018, 100% of the Gardner Street landfill had been capped.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology, or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the General Fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the Government-wide Statement of Net Position. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2018 were \$407 thousand.

***p. Use of Estimates***

The preparation of the accompanying basic financial statements in conformity with U.S. generally accepted accounting principles 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.

#### q. *Adoption of Accounting Pronouncements*

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended", and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB." As a result of the implementation of Statement No. 75, beginning net position of the governmental activities was restated as follows (in thousands):

<u>Governmental Activities</u>	
Beginning Net Position as previously reported	\$ (504,956)
Implementation of GASB Statement No. 75	(1,371,669)
Beginning Net Position, as restated	\$ <u><u>(1,876,625)</u></u>

### 3. Short-Term Debt

During fiscal year 2018, the City had no short-term debt issued or outstanding.

### 4. Budgetary Data

The General Fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the General Fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council, and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3.0 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year.

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all non-property tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund, which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal year 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate

reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to over-expenditures in that department.

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:

- i. Revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- ii. Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) but have no effect on GAAP expenditures.
- iii. Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the General Fund (budget).
- iv. 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, 2018 (in thousands):

	Revenue	Expenditures	Other financing uses, net	Excess of revenue and other financing sources
As reported on a budgetary basis	\$ 3,213,292	\$ 3,192,104	\$ —	\$ 21,188
Adjustments:				
Revenues to modified accrual basis	27,589	—	—	27,589
Expenditures, encumbrances, and accruals, net	—	(47,989)	—	47,989
On-behalf contribution for teachers pension	131,297	131,297	—	—
Reclassifications:				
Other transfers	—	(1,455)	1,455	—
As reported on a GAAP basis	<u>\$ 3,372,178</u>	<u>\$ 3,273,957</u>	<u>\$ 1,455</u>	<u>\$ 96,766</u>

## 5. Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets, and certificates of deposit in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the financial institution involved. Investments from operating cash in the general fund 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 MMDT. MMDT, which is an external investment pool that is overseen by the Treasurer of the Commonwealth of Massachusetts, meets the criteria established by GASB 79, "*Certain External Investment Pools and Pool Participants*", to report its investments at amortized cost; therefore the City reports its investments in MMDT at amortized cost which approximates the net asset value of \$1.00 per share. MMDT has a maturity of less than 1 year and is not rated. The three highest commercial paper classifications for Moody's and Standard & Poor's (S&P) are as follows:

Commercial Paper Credit Ratings		
	Moody's	S&P
Superior	P1	A1+ or A1
Satisfactory	P2	A2
Adequate	P3	A3

### Primary Government (except the pension trust fund)

#### a. Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits or investments may not be returned. The City carries deposits that are fully insured by FDIC insurance or collateralized in the City's name. All of the City's investments are held by third parties in the City's name. As of June 30, 2018, the City of Boston Trust Funds had uninsured and uncollateralized deposits and investments of \$79.28 million.

#### b. Investment Policy

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a discipline in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The foundation of that discipline is fixed by Massachusetts General Laws (M.G.L.) c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limits the amount of the City's bank deposits in any one financial institution; and establishes qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City's name.

#### c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. It is the City of Boston Trust Funds' policy to limit the average duration of an actively managed fixed income portfolio to seven years. The following is a listing of the City of Boston Trust Funds' fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2018:

<b>Investment type</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More than 10</b>
Money market mutual funds	\$ 199,320	\$ 199,320	\$ —	\$ —	\$ —
Institutional and mutual funds	72,592	—	72,592	—	—
U.S. Treasury and agency securities	96,944	1,541	13,835	10,916	70,651
State and local municipal obligations	3,929	647	294	589	2,400
Corporate debt instruments	121,267	8,630	19,110	24,032	69,495
Certificate of deposits	25,423	25,423	—	—	—
	<u>\$ 519,475</u>	<u>\$ 235,561</u>	<u>\$ 105,831</u>	<u>\$ 35,537</u>	<u>\$ 142,546</u>

#### **d. Credit Risk**

It is the City of Boston Trust Funds' policy that there shall be no specific limitation in regard to credit worthiness of securities, except the overall average quality of each fixed income portfolio shall be AA or better. The City of Boston Trust Funds' fixed income investments as of June 30, 2018 were rated by S & P and/or an equivalent national rating organization, and the ratings are presented below using the S & P rating scale (in thousands):

<b>Investment type</b>	<b>Fair Value</b>	<b>Rating</b>
Money market mutual funds	\$ 199,320	Unrated
Institutional and mutual funds	72,592	AAA to A3
U.S. treasury and agency securities	92,302	AAA to A3
U.S. treasury and agency securities	2,640	Baa1 to B3
U.S. treasury and agency securities	2,002	Unrated
State and local municipal obligations	2,157	AAA to A3
State and local municipal obligations	773	Baa1 to B3
State and local municipal obligations	201	Caa1 to C
State and local municipal obligations	798	Unrated
Corporate debt instruments	72,820	AAA to A3
Corporate debt instruments	31,438	Baa1 to B3
Corporate debt instruments	296	Caa1 to C
Corporate debt instruments	16,713	Unrated
Certificate of deposits	25,423	Not Rated
	<u>\$ 519,475</u>	

#### **e. Concentration Risk**

The City adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the City may deposit its funds. No investments in a single issuer exceeded 5% of the City's investment portfolio.

#### **f. Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2018, the City of Boston Trust Funds held international equity mutual funds valued at \$102.3 million. Although these investments are not denominated in a foreign currency, the underlying securities are denominated in various foreign currencies.

#### **g. Fair Value Hierarchy**

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB statements require or permit in the Statement of Net Position or Balance Sheet at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical

assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability, or similar assets or liabilities either directly or indirectly through corroboration with observable market data; Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value.

*Money market funds:* Valued at the daily closing price as reported by the fund. Money market funds held by the Pool of the money market fund and the City are open-end money market funds that are registered with the Securities and Exchange Commission. The money market funds held by the City and classified as Level 1 are deemed to be actively traded.

*Institutional and mutual funds:* Valued at the daily closing price as reported by the fund. Institutional and mutual funds held by the City are open-end funds that are registered with the Securities and Exchange Commission. The institutional and mutual funds held by the Pool and classified as Level 1 are deemed to be actively traded. If market quotations are not readily available, the funds are valued by the pricing method determined by investment managers which determines valuations using methods based upon market transactions for comparable securities.

*Equity securities:* Consist primarily of corporate stocks traded on U.S. and non-U.S. active security exchanges. Stocks traded on active exchanges and valued at quoted market prices and documented trade history for identical assets are categorized within Level 1 of the fair value hierarchy. If market quotations are not readily available, the stocks may be valued using pricing models maximizing the use of observable inputs for similar securities and are classified as Level 2.

*US. Treasury and agency securities:* Securities issued by the U.S. government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security, and pricing models maximizing the use of observable inputs determined by investment managers.

*Corporate debt instruments:* Valued either by using pricing models maximizing the use of observable inputs for similar securities or valued by the investment manager.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The City of Boston Trust Funds have the following recurring fair value measurements as of June 30, 2018 (in thousands):



	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
Investments:				
Money market funds	\$ 199,320	\$ —	\$ —	\$ 199,320
Institutional and mutual funds	74,987	—	—	74,987
Equity securities	52,283	271,314	—	323,597
US Treasury & agency securities	2,309	94,635	—	96,944
State and Local municipal obligations	18	3,911	—	3,929
Corporate debt instruments	47,483	73,784	—	121,267
Total Investments:	\$ 376,400	\$ 443,644	\$ —	\$ 820,044

## Boston Retirement System

### a. Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance or collateralized with securities held by the System or the System's agent in the System's name. As of December 31, 2017, all of the System's deposits were insured or collateralized.

### b. Investment Policy

The provisions of M.G.L. C. 32, Sec 23(2); 840 C.M.R. 16-19, 21, 23, 26; and, the Plan's own investment regulations (stated at <http://www.mass.gov/perac/board-info/profiles/investment/bostonintsup.html>) govern the System's investment practice. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. C. 32, Sec. 3(3), the "Prudent Person" rule.

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

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), real estate, private equity, PRIT and hedge funds.

### c. Interest Rate Risk

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2017:

Investment type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. treasury notes and bonds	\$ 189,398	\$ 2,785	\$ 92,240	\$ 79,392	\$ 14,981
U.S. agencies	53,581	—	457	372	52,752
Domestic corporate	762,627	1,462	93,404	168,222	499,539
Municipal	2,689	—	1,750	—	939
International corporate	31,214	459	8,072	17,466	5,217
International government	11,242	176	3,540	4,382	3,144
Asset-backed:					
CMOs	14,851	11	—	658	14,182
Other	29,567	—	7,625	5,386	16,556
	<u>\$ 1,095,169</u>	<u>\$ 4,893</u>	<u>\$ 207,088</u>	<u>\$ 275,878</u>	<u>\$ 607,310</u>

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

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2017 are highly sensitive to changes in interest rates.

#### d. Credit Risk

The System allows investment managers to apply discretion under the "Prudent Person" rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The System's fixed income investments as of December 31, 2017 were rated by S & P and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the S & P rating scale:

Investment type	Fair Value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 53,581	\$ —	\$ 265	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 53,316
Domestic corporate	762,627	1,051	3,318	13,636	39,111	33,635	50,312	46,774	574,790
Municipal	2,689	—	2,328	123	238	—	—	—	—
International corporate	31,214	149	525	2,579	7,198	12,159	7,799	375	430
International government	11,242	721	1,324	908	602	464	—	—	7,223
Asset-backed:									
CMOs	14,851	1,185	—	28	—	—	—	—	13,638
Other	29,567	10,902	3,424	1,046	355	—	—	—	13,840
	<u>\$ 905,771</u>	<u>\$ 14,008</u>	<u>\$ 11,184</u>	<u>\$ 18,320</u>	<u>\$ 47,504</u>	<u>\$ 46,258</u>	<u>\$ 58,111</u>	<u>\$ 47,149</u>	<u>\$ 663,237</u>

In addition to the above schedule, the System has approximately \$189.4 million invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

#### e. Concentration Risk

Other than the Pension Reserves Investment Trust (PRIT) fund, The System has no investments, at fair value, except for pooled funds, that exceed 5% of the System's total investments as of December 31, 2017.

The System adheres to the provisions of M.G.L. c. 32, sec. 23(2); 840 C.M.R. 16-19, 21, 23, 26; and the Plan's own investment regulations when managing concentration risk.

**f. Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies.

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

Currency	Cash and short-term investments	Fixed income	Equity	Alternative	Total
Argentina	\$ 10	\$ 95	\$ —	\$ —	\$ 105
Australian dollar	78	716	30,649	—	31,443
Austria	—	—	1,829	—	1,829
Belgium	—	—	7,727	—	7,727
Brazilian real	10	208	—	—	218
Canadian dollar	107	696	299	—	1,102
Chile	2	—	—	—	2
Columbian Peso	7	102	—	—	109
Danish krone	35	169	14,566	—	14,770
Euro currency	980	—	—	1,612	2,592
Finland	—	227	5,684	—	5,911
France	—	711	66,647	—	67,358
Germany	—	1,051	52,309	—	53,360
Hong Kong dollar	9	—	22,388	—	22,397
Indonesian rupiah	8	358	264	—	630
Ireland	—	129	—	—	129
Israel	5	—	523	—	528
Italy	—	588	19,484	—	20,072
Japanese yen	30	2,384	99,694	—	102,108
Korea	54	—	7,700	—	7,754
Luxembourg	—	—	724	—	724
Malaysian ringgit	6	71	—	—	77
Mexican peso	24	239	—	—	263
Netherlands	—	259	31,175	—	31,434
New Zealand dollar	15	223	1,319	—	1,557
Norwegian krone	10	216	1,199	—	1,425
Polish zloty	12	44	—	—	56
Portugal	—	—	1,982	—	1,982
Pound sterling	293	1,866	71,310	19,131	92,600
Romania	—	25	—	—	25
Singapore dollar	22	160	1,445	—	1,627
South African rand	11	256	—	—	267
Spain	—	535	20,290	—	20,825
Swedish krona	12	92	9,461	—	9,565
Swiss franc	70	149	36,322	—	36,541
Thailand Baht	33	121	—	—	154
Uruguay	—	62	—	—	62
Total securities subject to foreign currency risk	\$ 1,843	\$ 11,752	\$ 504,990	\$ 20,743	\$ 539,328
U.S. dollars (securities held by international investment managers)	—	32,386	207,552	—	239,938
Total international investment securities	\$ 1,843	\$ 44,138	\$ 712,542	\$ 20,743	\$ 779,266

**g. PRIT External Investment Pooled Fund**

The Massachusetts legislature enacted Section 17 of Chapter 112 of the Acts of 2010 that requires the System to invest all assets, current and future, related to Boston Teachers in the PRIT fund. The PRIT pooled fund is an external investment pool that is not registered with the Securities Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. PRIT is not a rated fund.

The fair value of the PRIT pooled fund is based on unit value as reported by management of the PRIT pooled fund. The PRIT pooled fund issues separately available audited financial statements with a year-end of June 30.

On July 1, 2010, the System transferred 27% of its assets, or \$1.1 billion, to the PRIT pooled fund. As of December 31, 2017, the System had the following amounts invested in the PRIT fund (in thousands):

General allocation account	\$	1,572,852
Cash fund		131,350
Total PRIT pooled funds	\$	<u>1,704,202</u>

**h. Derivatives**

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations. As of December 31, 2017, the System had 24 forward foreign currency contracts with a net notional amount of \$6,077,144 and fair value of \$(19,305).

**i. 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. Securities lending is an investment management enhancement that utilizes certain existing securities of the Plan to earn additional income. 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.

Securities lending involves the loaning of securities to approved banks and broker-dealers. In return for the loaned securities, the custodian, prior to or simultaneous with delivery of the loaned securities to the borrower, receives collateral in the form of cash (including both U.S. and foreign currency) or U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral to serve as a safeguard against possible default of any borrower on the return of the loan. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver collateral in the amounts equal to not less than 100% of the market value of the loaned securities. The collateral is marked to market on a daily basis. In the event the counterparty is unable to meet its contractual obligation under the securities lending arrangement, the Plan may incur losses equal to the amount by which the market value of the securities differs from the amount of collateral held. The Plan mitigates credit risk associated with securities lending arrangements by monitoring the fair value of the securities loaned on a daily basis, with additional collateral obtained or refunded as necessary. At December 31, 2017, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System.

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, 2017. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine.

The Plan maintains full ownership rights to the securities loaned and, accordingly, classifies loaned securities as investments. At December 31, 2017, the fair value of securities loaned by the System amounted to \$291.3 million, against which was held collateral of \$306.4 million as follows (in thousands):

Short-term collateral investment pool	\$	173,522
Noncash collateral		132,858
Total	\$	<u>306,380</u>

***j. Commitments***

At December 31, 2017, the System had contractual commitments to provide \$204 million of additional funding to private equity funds, and \$84 million to real estate funds.

***k. Fair Value Measurements***

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of December 31, 2017 (in thousands):

	<b>Fair Value Measurements Using:</b>		
		<b>Quoted Prices in Active Markets for Identical Assets</b>	<b>Significant Other Observable Inputs</b>
	<b>Total at December 31, 2017</b>	<b>(Level 1)</b>	<b>(Level 2)</b>
Short-term:			
Domestic	\$ 59,258	\$ 59,258	\$ —
International	7,333	7,333	—
Total short-term	<u>66,591</u>	<u>66,591</u>	<u>—</u>
U.S. equities:			
Large cap core	773,900	773,900	—
Large cap growth	135,436	135,436	—
Large cap value	128,001	128,001	—
Small cap core	99,597	99,597	—
Small cap growth	137,660	137,660	—
Small cap value	100,383	100,383	—
Total U.S. equities	<u>1,374,977</u>	<u>1,374,977</u>	<u>—</u>
International equities	1,372,795	1,372,795	—
Fixed income securities:			
U.S. treasury securities	189,398	189,398	—
Corporate debt securities	762,627	451,816	310,811
Global multi-sector fixed income	42,456	—	42,456
Municipal	2,689	—	2,689
Collateralized mortgage obligations	14,851	—	14,851
Other asset backed securities	29,567	—	29,567
U.S. Agencies	53,581	—	53,581
Total fixed income securities	<u>1,095,169</u>	<u>641,214</u>	<u>453,955</u>
Total investments by fair value level	<u>3,909,532</u>	<u>\$ 3,455,577</u>	<u>\$ 453,955</u>
Government external investment pool:			
PRIT fund	1,572,852		
Investments measured at the net asset value (NAV):			
Hedge fund of funds	223,180		
Private equity funds	268,655		
Private real estate funds	429,435		
Total investments measured at the NAV	<u>921,270</u>		
Total investments at fair value	<u>\$ 6,403,654</u>		

Fixed income and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The PRIT pooled fund is an external investment pool that is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. PRIT is not a rated fund. The fair value of the PRIT pooled fund is based on unit value as reported by management of the PRIT pooled fund. The PRIT fund issues separately available audited financial statements with a year-end of June 30. The Plan is required to provide a 30-day redemption notice for this investment.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table (in thousands):

	Investments Measured at the NAV			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global multi-strategy hedge fund of funds <sup>1</sup>	\$ 223,180	\$ —	Quarterly	60-90 days
Real estate funds <sup>2</sup>	429,435	84,007	—	—
Private equity funds <sup>3</sup>	268,655	203,735	—	—

1. Global Multi-strategy Hedge Fund of Funds. This type includes investments in 5 hedge funds that invest in other hedge fund managers. Management of each hedge fund is given full discretion to invest with direct hedge fund managers. The fair value of the investments in this type has been determined using the NAV per share of the investments.
2. Real Estate Funds. This type includes 29 real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.
3. Private Equity Funds. This type includes 60 private equity funds that invest primarily in U.S. companies. These investments can never be redeemed with the funds; instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the funds. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.

## 6. 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 accrual and modified accrual basis of accounting as described in note 2.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 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. On December 19, 2017, all properties with unpaid fiscal year 2017 property taxes were liened. 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.

## 7. Receivables

Receivables as of year-end for the City's individual major governmental funds and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows (in thousands):

	General	Special revenue	Capital projects	Other nonmajor funds	Total
Receivables:					
Property taxes, current	\$ 13,881	\$ —	\$ —	\$ —	\$ 13,881
Other taxes	88,695	—	—	—	88,695
Intergovernmental	10,525	54,583	13,058	—	78,166
Other	19,003	29,215	—	32,552	80,770
Gross receivables	132,104	83,798	13,058	32,552	261,512
Less allowance for uncollectibles	(81,827)	—	—	—	(81,827)
Net total receivables	<u>\$ 50,277</u>	<u>\$ 83,798</u>	<u>\$ 13,058</u>	<u>\$ 32,552</u>	<u>\$ 179,685</u>

### a. Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the MSBA. The MSBA provides financial assistance (up to 80% of total costs) to the City to build and/or renovate schools. As of June 30, 2018, under this program, the City was due funds totaling \$11.8 million.

In the General Fund, the receivable is offset by deferred inflows of resources because the revenue is not considered available. The following is a schedule of the three-year paydown (in thousands) as of June 30, 2019 through 2020:

Fiscal year(s):	<u>Anticipated revenue</u>
2019	\$ 5,108
2020	2,461
Total	<u>\$ 7,569</u>



### **Notes Receivable**

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Housing and Urban Development (HUD) provides grants or loans to local governments, which in turn provides loans to developers. As of June 30, 2018, under this program, the City determined that \$29 million was collectible. This amount is recorded in the City's Special Revenue fund.

### **b. Tax Abatement Programs**

The City enters into tax abatement agreements that meet the reporting requirements of GASB Statement No. 77 "Tax Abatement Disclosures". Below are descriptions of the tax abatement programs and the amount of real estate taxes that were abated for each program during the fiscal year.

#### **Chapter 121A**

Chapter 121A of the Massachusetts General Laws authorizes a local government in cooperation with its redevelopment authorities to suspend the imposition of real and personal property taxes, betterments and special assessments on properties determined to be "blighted" in order to encourage the redevelopment of residential, commercial, civic, recreational, historic or industrial projects by Chapter 121A Corporations. The City receives two principal sources of revenue from Chapter 121A Corporations. The first consists of an excise, as determined under Section 10 of Chapter 121A, that each Chapter 121A Corporation must pay to the Commonwealth that is then distributed to the City. The second form of revenue consists of payments as required by a contract between the City and Chapter 121A Corporations as authorized by Chapter 121A, Section 6A that provide for additional revenue beyond the excise provided under Section 10 of Chapter 121A.

#### **Chapter 121B**

Chapter 121B of the Massachusetts General Laws authorizes a local government, at their option and through their redevelopment authorities, to undertake public actions to address substandard or blighted open areas for residential, commercial, industrial, business, government, recreational, educational, hospital or other uses. Chapter 121B project owners may be exempted from property taxes. In these cases, an agreement to make annual in lieu of tax payments to the City is required.

#### **Tax Increment Financing (TIF)**

Tax Increment Financing (TIF) is a property tax incentive authorized under the Economic Development Incentive Program pursuant to Massachusetts General Laws Chapter 40, Section 59 and administered by the Commonwealth's Economic Assistance Coordinating Council. In return for substantial job creation, a local government may provide businesses with tax relief on the incremental growth in their property's value for up to 20 years. In Boston, TIF projects must be approved by the Mayor and City Council.

The following are estimated taxes abated for the year ended June 30, 2018 by tax abatement program (in thousands):

<b>Tax Abatement Program (1)</b>	<b>Estimated Tax Amount</b>	<b>In Lieu of Tax Payments</b>	<b>Estimated Taxes Abated</b>
121A Urban Redevelopment	\$ 47,861	\$ 46,232	\$ 1,629
121B Urban Redevelopment	16,733	13,645	3,088
Tax Increment Financing	31,561	27,212	4,349
<b>Total</b>	<b>\$ 96,155</b>	<b>\$ 87,089</b>	<b>\$ 9,066</b>

(1) Individual tax abatement agreements are available upon request or through the City of Boston Assessing Department website at [boston.gov/assessing](http://boston.gov/assessing)

## 8. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2018 was as follows (in thousands):

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance</b>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 29,349	\$ —	\$ —	\$ 29,349
Construction in progress	113,732	140,508	(202,054)	52,186
Total capital assets not being depreciated	143,081	140,508	(202,054)	81,535
Capital assets being depreciated:				
Land improvements	275,360	12,309	—	287,669
Buildings and improvements	2,324,468	130,953	—	2,455,421
Furniture and equipment	457,356	35,156	(11,004)	481,508
Infrastructure	843,740	85,066	—	928,806
Total capital assets being depreciated	3,900,924	263,484	(11,004)	4,153,404
Less accumulated depreciation for:				
Land improvements	111,220	16,171	—	127,391
Buildings and improvements	1,216,286	56,027	—	1,272,313
Furniture and equipment	329,080	49,210	(10,910)	367,380
Infrastructure	296,389	28,677	—	325,066
Total accumulated depreciation	1,952,975	150,085	(10,910)	2,092,150
Total capital assets being depreciated, net	1,947,949	113,399	(94)	2,061,254
Governmental activities capital assets, net	<b>\$ 2,091,030</b>	<b>\$ 253,907</b>	<b>\$ (202,148)</b>	<b>\$ 2,142,789</b>

Depreciation expense was charged to functions of the governmental activities as follows (in thousands):

General government	\$	18,261
Human services		3,780
Public safety		27,003
Public works, including depreciation of general infrastructure assets		29,123
Property and development		10,423
Parks and recreation		14,064
Library		7,003
Schools		40,149
Public health		279
Total depreciation expense - governmental activities	\$	<u>150,085</u>

### 9. Interfund Balances and Amounts Due To and From Component Units

Individual fund receivable and payable balances at June 30, 2018 are as follows (in thousands):

Interfund balances	Receivable	Payable
General	\$ 1,860	\$ 168
Special revenue	211	1,899
Non-major governmental funds	7,696	7,700
Balances at June 30, 2018	<u>\$ 9,767</u>	<u>\$ 9,767</u>

The purpose of the internal balances is to fund cash flows due to timing differences between receipts and disbursements and to record amounts owed for rent related to the Dudley Municipal Center property.

Amounts due to and from discretely presented component units at June 30, 2018 are as follows (in thousands):

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 7,234	\$ 2,413
Balances at June 30, 2018	<u>7,234</u>	<u>2,413</u>
Discretely presented component units:		
TPL	—	578
BPHC	2,413	931
BPDA	—	5,725
	<u>2,413</u>	<u>7,234</u>
Balances at June 30, 2018	<u>\$ 9,647</u>	<u>\$ 9,647</u>

## 10. Long-Term Obligations

### Governmental Activities

The following is a summary of the long-term obligations of the governmental activities of the City as of June 30, 2018 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
<b>Bonds, Notes, Leases and Other long-term obligations:</b>						
General Obligation Bonds	<b>0 - 6.05%</b>	\$ 1,278,015	\$ 150,000	\$ 120,040	\$ 1,307,975	\$ 124,360
Add (deduct):						
					149,475	
					(124,360)	
					<u>1,333,090</u>	
	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Notes payable	<b>2.10-7.18%</b>	\$ 74,266	\$ —	\$ 6,868	\$ 67,398	\$ 1,569
Leases payable		69,465	26,698	26,537	69,626	24,083
Judgments and claims		5,551	7,233	7,700	5,084	3,221
Tax abatements		15,000	2,300	—	17,300	5,500
Workers' compensation		168,710	15,170	13,874	170,006	49,134
Health and life claims		23,881	224,951	228,942	19,890	19,890
Compensated absences		196,556	109,152	78,013	227,695	61,572
Landfill closure and postclosure care costs		7,364	—	407	6,957	350
Pollution remediation		500	—	—	500	—
Other postemployment benefits*		2,252,189	242,308	206,337	2,288,160	—
Net pension liability		1,574,036	—	200,351	1,373,685	—
Total bonds, notes, leases, and other long-term obligations		<u>\$ 4,387,518</u>	<u>\$ 627,812</u>	<u>\$ 769,029</u>	<u>\$ 4,246,301</u>	<u>\$ 165,319</u>

\*As restated in note 2q

The payment of long-term obligations of the governmental activities, except for health and life claims, is the responsibility of the City's General Fund. Health and life claims are the responsibility of the City's Internal Service Fund.

The annual debt service requirements of the City's general obligation bonds, notes and leases payable as of June 30, 2018, including subsidies to be received for Build America Bonds and Qualified School Construction Bonds, are as follows (in thousands):

General Obligation Bonds:	Principal	Interest	Subsidy	Total
Year(s) ending June 30:				
2019	\$ 124,360	\$ 55,917	\$ (3,150)	\$ 177,127
2020	114,620	50,657	(3,070)	162,207
2021	112,905	45,103	(2,986)	155,022
2022	117,215	39,574	(2,887)	153,902
2023	106,180	34,565	(2,397)	138,348
2024-2028	422,665	106,902	(4,681)	524,886
2029-2033	223,530	40,061	(214)	263,377
2034-2038	86,500	8,281	—	94,781
	<u>\$ 1,307,975</u>	<u>\$ 381,060</u>	<u>\$ (19,385)</u>	<u>\$ 1,669,650</u>
Notes Payable:				
Year(s) ending June 30:				
2019	\$ 1,569	\$ 1,066	\$ —	\$ 2,635
2020	1,708	1,040	—	2,748
2021	1,584	1,000	—	2,584
2022	1,438	947	—	2,385
2023	2,955	869	—	3,824
2024-2028	12,812	3,632	—	16,444
2029-2033	16,532	2,418	—	18,950
2034-2038	12,728	638	—	13,366
Thereafter	16,072	1,125	—	17,197
	<u>\$ 67,398</u>	<u>\$ 12,735</u>	<u>\$ —</u>	<u>\$ 80,133</u>
Leases Payable:				
Year(s) ending June 30:				
2019	\$ 24,083	\$ 955	\$ —	\$ 25,038
2020	17,745	632	—	18,377
2021	12,006	390	—	12,396
2022	7,497	224	—	7,721
2023	5,306	112	—	5,418
2024-2025	2,989	45	—	3,034
	<u>\$ 69,626</u>	<u>\$ 2,358</u>	<u>\$ —</u>	<u>\$ 71,984</u>

On May 30, 2018, the City issued \$150.0 million of general obligation bonds for various municipal capital projects. Interest on the bonds are payable semiannually each May 1 and November 1 until maturity in fiscal year 2038.

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. The gross amount of assets acquired under the equipment lease agreements totals \$69.6 million as of June 30, 2018. The City's operating lease with DSRC is described in note 19.

#### **No Obligation Debt**

The City has outstanding industrial, commercial, and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not charged against its general credit. This aggregate amount is immaterial to the financial statements.

### *Defeased Debt*

The principal amount of debt refunded through in-substance defeasance transactions for governmental activities and still outstanding at June 30, 2018 was approximately \$57.6 million.

### *Debt Capacity*

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the Massachusetts 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 Secretary of Administration and Finance. 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, 2018, the City may issue \$5.03 billion of additional general obligation debt under the debt limit. General obligation debt of \$896.9 million, subject to the debt limit, and \$76.6 million, exempt from the debt limit, are authorized but unissued as of June 30, 2018.

## **11. Retirement Plans**

### *a. Plan Description*

The City contributes to the BRS, a cost-sharing, multiple-employer qualified defined benefit governmental pension plan. The System provides retirement, disability, and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Planning & Development Agency
- (3) Boston Housing Authority
- (4) Boston Water and Sewer Commission
- (5) Boston Public Health Commission
- (6) Sheriff of Suffolk County (Retirees as of December 31, 2009, funded by the City)

The Commonwealth of Massachusetts also is another contributing entity and makes contributions to BRS related to City of Boston teachers.

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. A complete set of financial statements for BRS for the fiscal year ended December 31, 2017 can be obtained through the BRS, Boston City Hall, Room 816, Boston, MA 02201 or by accessing the website [www.cityofboston.gov/retirement/investment.asp](http://www.cityofboston.gov/retirement/investment.asp).

Participation in the System is mandatory for all permanent, full time, and certain part-time employees immediately upon the commencement of employment. Participants who resign from employment, or are receiving workers' compensation benefits, and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. In addition, those participants who resign voluntarily with less than ten years of service are entitled to receive 3% per year interest; all others receive interest which has accrued on their cumulative deductions at the regular interest rate (0.1% at December 31, 2017).

Employees with ten or more years of service having attained age 55 are entitled to pension benefits; an earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation (highest consecutive five-year average for those members who join the System on or after April 2, 2012). Benefit payments are based upon a participant's age, length of creditable service, regular compensation, and group classification. Participants become vested after ten years of creditable service. Effective July 1, 1998 Chapter 32 of the M.G.L. assigned the authority to establish and amend benefit provisions and grant cost-of-living increases for the plan to the Boston Retirement Board.

If a member in service dies due to causes unrelated to his or her job, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions and age. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump-sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive accidental or ordinary disability retirement benefits.

Accidental disability is provided to members with incapacitation resulting from a work-related injury or hazard. Generally, annual pension benefits are provided based on 72% of the annual rate of regular compensation a member earned while an active employee on date of injury or average annual rate of regular compensation. Ordinary disability is available to any member whose permanent incapacitation is not work-related and has attained ten years of creditable service. Such benefits are provided as if the member had attained the age of 55 (or actual age if over 55) based on the amount of creditable service actually earned. Limits are placed on how much a disability employee can earn from other sources while collecting a disability retirement pension.

The City is legally responsible for funding the employer portion of all pensions associated with certain retirees from the Suffolk County Sheriff's Department (SCSD), which became part of the Commonwealth of Massachusetts in 2010, pursuant to a cooperation agreement (the Agreement) dated June 28, 2011. According to the Agreement, all employees of the SCSD, or its predecessor department, who retired prior to January 1, 2010 remained retirees of the BRS. In addition, members of AFSCME Local 419 who retired between January 1, 2010 and October 31, 2010, remained retirees of the BRS. Employer contributions related to these retirees are the responsibility of the City under the Agreement.

### *Special Funding Situations*

The City is party to a special funding situation with the Commonwealth of Massachusetts with respect to City of Boston Teachers. The Commonwealth is responsible for funding the employer portion of all teacher pensions in the Commonwealth. All teachers in the Commonwealth are members of the Massachusetts Teachers Retirement System, with the exception of teachers employed by the City, who are members of BRS. Although Boston Teachers are members of BRS, the Commonwealth is the responsible contributing entity as described in Chapter 112 of the Massachusetts General Laws Acts of 2010.

The Commonwealth is also legally responsible for reimbursing BRS for a portion of the benefits payments for cost of living increases granted before July 1997 as described in Chapter 112 of the Massachusetts General Laws Acts of 2010.

### **b. BRS Basis of Accounting**

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized as additions in the period when they become due pursuant to formal statutory obligations. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. The following is a description of the valuation techniques and inputs used for each major class of assets and liabilities measured at fair value:

(1) Short-term, Equity and Fixed Income Investments - Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Certain fixed income securities not traded on an exchange are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

(2) Pooled funds - the fair value of shares in managed investment pools is based on unit values reported by the funds.

(3) Alternative investments include hedge funds, holding through commingled limited partnerships of venture capital funds, including equity interests in early, middle, and later stage companies, as well as debt and equity interests in buyouts, acquisitions, restructurings, mezzanine structures and special situations, such as litigation or spin-off activities. These investments are carried at the limited partnership interest or redemption value, the equivalent of net asset value, which approximates fair value. Values assigned to such investments are based on available information and do not necessarily represent amounts that may ultimately be realized in liquidation. Liquidation values depend largely on future circumstances, including marketability, and frequently cannot reasonably be estimated until at, or near, the liquidation date.

(4) Real estate investments consist of interests in commercial properties held by various partnerships and other limited liability entities, some of which utilize debt financing. Fair values of such holdings are reported based on the net asset values of the entities, which are estimated using third-party appraisals and other information provided by property managers.

### **c. Membership**

Membership in the System consisted of the following at December 31, 2015:

Active plan members	20,498
Retirees and beneficiaries receiving benefits	14,485
Inactive members entitled to a return of contributions	8,690
Inactive members entitled to, but not yet receiving benefits	1,050
Total membership	44,723
Total number of participating employers	6

### **d. Contributions**

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% – 11% of their regular gross compensation. Non-teacher members hired after January 1, 1979 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining System-wide actuarially determined contribution, which is apportioned among the employers based on an actuarial computation. The contributions of plan members and the participating employers are governed by Chapter 32 of the M.G.L. For the year ended December 31, 2017, the System was due \$391.5 million from all employers and the Commonwealth and received \$391.5 million in these contributions. For the year ended June 30, 2018, inclusive of contributions related to SCSD, and exclusive of contributions related to the City's teachers, the City's required and actual contribution was \$214.2 million. For the year ended June 30, 2018, the Commonwealth's required and actual contribution related to City Teachers was



\$131.3 million. The amount is reported as intergovernmental revenue and retirement cost expenditures in the General Fund.

**e. Legally Required Reserve Accounts**

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2017 is as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,763,239	Active members' contribution balance
Annuity reserve fund	440,791	Retired members' contribution account
Military service fund	50	Members' contribution account while on military leave
Pension reserve fund	4,431,640	Amounts appropriated to fund future retirement benefits
Pension fund	130,771	Remaining net position
	<u>\$ 6,766,491</u>	

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

**f. City Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions**

At June 30, 2018, the City reported a liability of \$1.29 billion for its proportionate share of the BRS net pension liability measured as of December 31, 2017. This net pension liability includes amounts related to SCSD retirees and reflects a reduction for the special funding situations with the Commonwealth. The amount recognized by the City as its proportionate share of the net pension liability, the proportionate share related to the Commonwealth special funding situations, and the total portion of the net pension liability associated with the City measured at December 31, 2017 were as follows (in thousands):

City's proportionate share of net pension liability	\$ 1,287,747
Commonwealth's proportionate share of net pension liability associated with the City	2,451,454
Total	<u>\$ 3,739,201</u>

To determine employers' proportionate share of the net pension liability, separate calculations of net pension liability were performed for each of the Commonwealth special funding situations, SCSD retirees, and the remaining non-teacher group. At December 31, 2017, the City was allocated 100% of the net pension liability for SCSD retirees and 82.1% of the remaining non-teacher group based on its proportion of 2015 required employer contributions related to this group. The City's proportion of the collective BRS net pension liability at December 31, 2017 was 32.04% compared to 35.66% at December 31, 2016.

For the year ended June 30, 2018, in the Government-wide financial statements, the City recognized pension expense of \$444.3 million and revenue of \$248.7 million related to the Commonwealth special funding situations. At June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual investment earnings	\$ —	\$ 91,651
Difference between expected and actual experience	—	96,383
Changes in assumptions	144,786	37,712
Changes in employer proportion	20,247	—
Employer contributions made subsequent to the measurement date	12,000	—
	<u>\$ 177,033</u>	<u>\$ 225,746</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018 related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2019	\$ 25,338
2020	3,278
2021	(58,708)
2022	(60,110)
2023	29,489
	<u>\$ (60,713)</u>

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the BRS and additions to/deductions from the BRS's fiduciary net position have been determined on the same basis as they are reported for the BRS.

#### ***g. Actuarial Assumptions***

The total pension liability for the December 31, 2017 measurement date was determined by using an actuarial valuation as of December 31, 2015, with updated procedures used to roll forward the total pension liability to December 31, 2017. The measurement of the total pension liability at December 31, 2017 applied the following actuarial assumptions:

Inflation	3.25%
Salary Scale	7.5% to 4% percent, indexed by year of service, for teachers and 4.5% to 4% for non-teachers
Investment rate of return, including inflation	7.50% for BRS excluding teachers and 7.35% for teachers, net of expenses, including inflation
Cost of living adjustments	3% of first \$14,000 (\$13,000 at December 31, 2016)
Mortality	RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables set forward 1 year for female participants projected generationally using Scale MP-2017 for BRS excluding Teachers and RP-2014 White Collar Employee and Healthy Annuitant Mortality Tables projected generationally with Scale MP-2016 for Teachers

The investment rate of return of 7.5% for non-teachers and 7.35% for teachers, indicated above, was a reduction from the 7.75% and 7.5%, respectively, used in the measurement of the December 31, 2016 liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of the actuarial valuation date of December 31, 2017 for BRS, excluding Teachers, are summarized below:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	25%	6.15%
International developed markets equity	16	7.11
International emerging markets equity	11	9.41
Core fixed income	11	1.68
High yield fixed income	13	4.13
Real estate	10	4.90
Hedge fund, GTAA, Risk parity	7	3.94
Private equity	7	10.28
	100%	

#### ***h. Discount Rate***

The discount rate used to measure the total pension liability was 7.50% for BRS excluding Teachers. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rate and that contributions of participating employers and the Commonwealth will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the BRS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*i. Sensitivity of the City's Proportionate Share of the BRS Net Pension Liability*

The following presents the City's proportionate share of the BRS net pension liability calculated using the discount rate of 7.50% for the BRS excluding Teachers, as well as what the City's proportionate share of the BRS net pension liability would be if the liability was calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate for BRS excluding Teachers (in thousands):

		<b>City's net pension liability</b>		
		1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
June 30, 2018	\$	1,903,685	\$ 1,287,747	\$ 767,146

*j. Non-contributory retirees and beneficiaries*

In addition to appropriation payments to cover current and future benefit payments of City employees covered by the BRS, the City funds noncontributory retirement benefits for pensioners whose employment predates the BRS, certain veterans who meet certain state law requirements, former employees retired under Massachusetts Special Acts and families receiving killed-in-the-line-of-duty benefits. These retirees and beneficiaries receive benefits for their lifetime. As of June 30, 2018, the date of the City's Actuarial Valuation for the City's Non-contributory and Special Legislation Retirees, the City is providing such benefits to 71 pensioners; these benefits are funded on a pay-as-you-go basis with annual benefits of approximately \$4.0 million. The City's net pension liability for the noncontributory retirees and beneficiaries is \$85.9 million, as of June 30, 2018.

The actuarial valuation as of June 30, 2016 was used to determine the City's pension liability and pension expense as of June 30, 2017 (in thousands):

Total Pension liability	\$	85,938
Plan fiduciary net position		—
Plan net pension liability	\$	85,938
Plan fiduciary net position as a percentage of the total pension liability		—%
Interest	\$	3,159
Recognized portion of current year assumption changes		(3,465)
Pension expense (income)	\$	(306)

The pension expense reflects immediate recognition of the change in assumptions because the group of retirees and beneficiaries is assumed to be closed.

There are no deferred outflows/inflows of resources related to these pensions. The discount rate used to determine the total pension liability was 3.87% as of June 30, 2018 and 3.58% as of June 30, 2017, which was the high quality tax-exempt general obligation municipal bond rates (20-Bond GO Index) as published by The Bond Buyer for those dates. The mortality assumptions are the same as used in the Boston Retirement System Actuarial Valuation Report as noted in footnote 11(g).

## 12. Other Post Employment Benefits (OPEB)

### *Plan Description*

The City sponsors and participates in the Other Postemployment Benefit Trust Plan (the Plan) an agent multi-employer defined benefit OPEB plan that provides healthcare and insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. The Boston Public Health Commission, a discretely presented component unit, also participates and contributes to the plan. City ordinance grants the authority to the City to establish a healthcare benefit trust fund for purposes of providing retiree healthcare benefits to employees of the City and the Boston Public Health Commission.

The OPEB plan is administered by the City and issues a standalone financial report that can be obtained from [www.boston.gov/departments/auditing](http://www.boston.gov/departments/auditing)

### *a. Benefits Provided*

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

Groups 1 and 2 retirees, including teachers, with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on accidental disability retirement are eligible at any age, while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive pre and post retirement death benefits, as well as medical and prescription drug coverage.

### *b. Employees Covered by the Benefit Terms*

As of June 30, 2017, the most recent actuarial valuation date, the following employees meet the eligibility requirements as put forth in Chapter 32B of M.G.L.:

	<u>City</u>	<u>PHC</u>
Active Plan members	14,186	904
Inactive members receiving benefits	14,863	251
Inactive Plan members entitled to but not yet receiving benefits	—	—
Total membership	<u>29,049</u>	<u>1,155</u>

### *c. Contributions*

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The OPEB Plan is currently funded on a pay-as-you-go basis plus periodic advance funding contributions as amounts are available. The employers and plan members share the cost of benefits. As of June 30, 2017, the valuation date, the plan members contribute 12.0% to 29.5% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

### *d. Basis of Accounting*

The OPEB Trust Fund Financial Statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when made. Benefits are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value. Fair value of securities held directly are based on quotations from national securities exchanges.

### *e. Investment Policy*

The provisions of Massachusetts General Laws (M.G.L) c. 44 sec 54 allows investment in securities listed on the Commonwealth's approved securities listing. The OPEB investment portfolio is managed by the City's Investment committee consisting of the City Auditor, the Assistant City Manager of Fiscal Affairs, Assistant Finance Director, and City Assessor. The investment strategy is to reduce risk through the prudent diversification of the portfolio across the distinct allowable asset classes. The Committee aims to remain consistent in the approach and refrain from dramatically shifting asset class allocation over a short period.

### *Actuarial Methods and Assumptions*

The total OPEB liability at June 30, 2018 was based on a June 30, 2017 valuation using the following assumptions:

Salary Increase. Non-teachers: 4.0 to 4.5%. Teachers: 4.0 to 7.5%

Inflation Increase. 3.25%

Actuarial Cost Method. The entry age normal cost method based on level percentage of payroll.

Mortality. RP-2014 generational table using Scale MP-2017 for non-teachers and MP-2016 for teachers, applied on a gender-specific basis.

Healthcare cost trend rates. Trend rates begin with 7.0% and decrease 0.5% annually to an ultimate rate of 5.0% for non-medicare costs and 8.0%, decreasing by 0.5% annually to an ultimate rate of 5.0%.

Discount Rate. The discount rate used to measure the total OPEB liability is 6.75% per annum.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and

best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of return
Domestic equity	30%	6.44%
International developed markets equity	12%	7.40%
International emerging markets equity	3%	9.42%
Core Fixed Income	33%	2.02%
Hedge Fund, GTAA, Risk parity	22%	3.75%
Total	<u>100%</u>	

### *Net OPEB Liability*

The components of the net OPEB liability for the Plan as of June 30, 2018, presented below on the June 30, 2017 measurement date and the actuarial assumptions are outlined above (in thousands):

Total OPEB Liability	\$ 2,874,860
Fiduciary net position	<u>(520,629)</u>
City's net OPEB liability	<u>\$ 2,354,231</u>
 Fiduciary net position as a percentage of the total OPEB liability	 <u>18.11%</u>

**Change in the Net OPEB Liability**

	<b>Total OPEB liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB liability</b>
Balances at June 30, 2016	<u>\$ 2,618,024</u>	<u>\$ 365,835</u>	<u>\$ 2,252,189</u>
Changes for the year:			
Service cost	65,146	—	65,146
Interest	177,157	—	177,157
Differences between expected and actual experience	(1,717)	—	(1,717)
Contributions - employer	—	157,464	(157,464)
Net investment income, net	—	47,156	(47,156)
Benefit payments	(117,464)	(117,464)	—
Administrative expenses	—	(5)	5
Net changes	<u>123,122</u>	<u>87,151</u>	<u>35,971</u>
Balances at June 30, 2017	<u>\$ 2,741,146</u>	<u>\$ 452,986</u>	<u>\$ 2,288,160</u>

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rates disclosed as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as of June 30, 2017 (in thousands):

	<b>Current Rate</b>	<b>1% Decrease in current rate</b>	<b>Current discount rate</b>	<b>1% Increase in current rate</b>
Net OPEB liability	<u>6.75%</u>	<u>\$ 26,751,343</u>	<u>\$2,288,160</u>	<u>\$1,970,660</u>

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or cost trend rates that are 1-percentage point higher than the current healthcare cost trend rates (in thousands):

	<b>1% Decrease of current rate</b>	<b>Current discount rate</b>	<b>1% Increase of current rate</b>
Net OPEB liability	<u>\$ 1,939,952</u>	<u>2,288,160</u>	<u>2,723,121</u>



*Annual Money Weighted Return*

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense was 5.59%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*OPEB plan fiduciary net position*

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Plan financial report.

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the year ended June 30, 2018 the City recognized OPEB expense of \$212 million.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension amounts from the following sources (in thousands):

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between projected and actual earnings	\$ —	\$ 16,891
Differences between expected and actual experience	—	1,472
Employer contributions made subsequent to the measurement date	159,966	—
Totals	<u>\$ 159,966</u>	<u>\$ 18,363</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ (4,468)
2020	(4,468)
2021	(4,468)
2022	(4,468)
2023	(245)
Thereafter	(246)
Total	<u>\$ (18,363)</u>

**13. Transfers**

Transfers and their purposes during the year ended June 30, 2018 were as follows (in thousands):

	<b>Governmental funds</b>			
	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental</b>
Primary government:				
Parking Meter Fees	\$ —	\$ (46,385)	\$ 46,385	\$ —
Debt Service	(1,455)	—	—	1,455
Total	<u>\$ (1,455)</u>	<u>\$ (46,385)</u>	<u>\$ 46,385</u>	<u>\$ 1,455</u>

**14. Excess of Expenditures over Budgets**

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2018 in the following categories (in thousands):

Public Safety:	
Snow Removal	\$ 5,605
Police	14,361
Fire	980
Execution of Courts	14,513
	<u>\$ 35,459</u>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

## 15. Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2018 are as follows (in thousands):

Fund Balances:	General	Special Revenue	Capital Projects	Other governmental funds
Nonspendable				
Permanent fund principal	\$ —	\$ —	\$ —	\$ 10,041
Subtotal	—	—	—	10,041
Restricted for:				
General government	—	—	31,402	3,622
Human services	—	—	1,398	—
Police	—	—	18,025	—
Fire	—	—	5,770	—
Other public safety	—	—	4,830	—
Public Works	—	—	51,657	—
Property and Development	—	38,447	16,051	34,974
Parks and recreation	—	—	14,873	41,644
Library	—	—	18,702	—
Schools	—	9,407	20,569	11,579
Subtotal	—	47,854	183,277	91,819
Assigned to:				
General government	3,144	2,022	—	—
Human services	351	4,049	—	—
Police	9,159	2,679	—	—
Fire	1,451	358	—	—
Other public safety	139	108,273	—	—
Public works	1,007	2,322	—	—
Property and development	2,116	71,424	—	—
Parks and recreation	72	2,856	—	—
Library	130	125	—	—
Schools	22,451	5,429	—	—
Judgments and claims	32,958	—	—	—
Catastrophic loss	26,072	—	—	—
Housing initiative	29,742	—	—	—
Debt service	7,162	—	—	—
Employee Related Costs	116,148	—	—	—
Designated for subsequent year expense	48,550	—	—	—
Subtotal	300,652	199,537	—	—
Unassigned	781,402	—	—	—
Total fund balances	\$ 1,082,054	\$ 247,391	\$ 183,277	\$ 101,860

## 16. Commitments and Contingencies

The City has assigned \$78.8 million in encumbrances for purchase orders, contracts, and judgments and claims in the General Fund, \$12.3 million in the Special Revenue Fund, \$22.8 million in the Capital Projects Fund, and \$262 thousand in Other Governmental Funds.

### *Infrastructure Investment Incentive Transactions*

Infrastructure Investment Incentive transactions (I-Cubed) are governed by Chapter 293 of the Acts of 2006 (the Act). Under the Act, the funding for the projects associated with these transactions is provided through proceeds of bonds issued by the Massachusetts Development Finance Agency (MDFA) and is to be used for approved public infrastructure improvements undertaken by the developer. The debt service on these bonds will be paid by the Commonwealth through State Infrastructure Development Assistance to the extent that New State Tax Revenues generated once the project is operational offset the amounts paid to MDFA to cover the debt service. When this is not the case, the participating municipality or developer generally will be responsible for the shortfall depending on the transaction agreement. The Act provides for the establishment of a Municipal Liquidity Reserve (MLR) from which the participating municipality can draw to offset any required payments made to the Commonwealth. The MLR is generally funded by the developer either through cash or a direct pay letter of credit.

During fiscal year 2015, the City executed two Infrastructure Development Assistance Agreements (IDAA) for I-Cubed transactions. Under the first IDAA, \$32.4 million in bonds were issued by MDFA in September 2015. Also, an MLR of \$1.2 million was established at the time of the issuance of the bonds. This reserve is equal to twice the maximum annual debt service payable in any fiscal year on the bonds issued under the indenture. The City is obligated for any shortfalls between debt service on the bonds and New State Tax Revenues. However, it has the right to assess the developer or draw from the MLR for any payments on such obligations. The City had no obligation for any shortfalls at June 30, 2018. The City also recorded \$11.2 million in donated capital assets in fiscal year 2016 for improvements to City-owned infrastructure made by the developer. These assets have been recorded at acquisition value which has been defined as "the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date."

Under the second IDAA, \$10.0 million in bonds were issued by MDFA in fiscal year 2016. The City is obligated for any shortfalls between debt service on the bonds and New State Tax Revenues. However, it has the right to assess the developer or draw from the MLR for one-third of any payments on such obligations. The City had no obligation for any shortfalls at June 30, 2018.

In connection with this second I-Cubed transaction, the City has a leasehold interest in a portion of the parking garage, which represents the public infrastructure improvements under the transaction, created under a master lease and its assignments and a sublease. With the execution of the master lease and sublease agreements, along with the assignment agreements transferring the interests of the owner of the parking garage to the City through the BPDA, the City essentially becomes the lessee on the master lease and the sub-landlord on the sublease. This results in the City having no responsibility for the operation of the parking garage and having the right to collect from the sub-lessee Section 121A PILOT payments from 2015 through 2036 and then base rent from 2036 through 2055, both of which are largely based on a percentage of gross revenues of the parking garage. The City has no obligation for any payments as lessee under the master lease.

## **17. Public Health System**

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, BCH and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by BPHC.

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the BMC.

The BPHC receives the majority of its funding from federal and state grants, and a City appropriation. During fiscal year 2018, the City appropriated \$79.6 million to the BPHC. As described below, the BPHC uses the appropriation to pay debt service on certain general obligation bonds, for administrative purposes and to support the various public health programs run by the BPHC. The City has budgeted \$85.6 million for the BPHC for fiscal year 2019.

#### *Due from BPHC/BMC*

The BPHC is also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation, and other miscellaneous expenses paid for by the City.

### **18. Risk Management**

The Risk Management Program focuses on a planned strategy of self-insurance, supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance. The City is self-insured in most areas of risk including general liability, property and casualty, workers' compensation, certain employee health care costs and unemployment compensation.

The City's legal liabilities are capped per M.G.L. Chapter 258, and Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. For workers' compensation, the City is exempt from state insurance requirements per M.G.L. Chapter 152 Section 25B. The City's Workers' Compensation Division as well as the Police and Fire Departments manage employee injury claims internally. The City budgets for and funds legal claims and employee injury costs through the General Fund, charging specific departments for their share of costs in order to promote awareness and prevention efforts.

The City provides health insurance coverage for employees and retirees through a variety of self-insured plans. The City budgets for and funds the premium costs for all plans through the General Fund. Self-insured plans are financially managed through the Internal Service Fund established in compliance with M.G.L. Chapter 32B, Section 3A. The guiding policy for the City of Boston Health Claims Trust Fund states that accounting for the fund will be in accordance with generally accepted accounting principles, and will ensure that all contributions and actual costs are shared between employers and their subscribers according to predetermined ratios.

For unexpected large losses, the City maintains a catastrophic risk reserve, which has an available balance of \$34.8 million at the end of fiscal 2018. To further protect the City's assets and finances from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$100.0 million for all risk protection after a \$10.0 million deductible. Boiler and machinery losses are insured up to \$25.0 million per incident, after a \$50 thousand deductible.

The City has established a liability based on historical trends of previous years and attorneys' estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2018 and 2017 are as follows (in thousands):

	<b>Internal service fund</b>	
	<b>2018</b>	<b>2017</b>
Health and life claims, beginning of year	\$ 23,881	\$ 24,730
Incurred claims	222,090	212,853
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	\$ (226,081)	(213,702)
Health and life claims, end of year	<u>\$ 19,890</u>	<u>\$ 23,881</u>

	<b>Government-wide statements</b>	
	<b>2018</b>	<b>2017</b>
Judgments and claims, beginning of year	\$ 189,261	\$ 190,625
Incurring claims	24,703	17,018
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(13,874)	(13,223)
Tax abatement liability	—	(1,400)
Court judgments	(7,700)	(3,759)
Judgments and claims, end of year	<u>\$ 192,390</u>	<u>\$ 189,261</u>

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys' estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

#### **19. Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC)**

As described in note 1, the DSRC is a Qualified Active Low-Income Community Business, and is the owner and developer of the Dudley Municipal Center property. FBDC is the leverage lender of the Dudley Municipal Center property. As the project sponsor during fiscal year 2013, the City authorized and issued \$28.9 million in general obligation bonds and transferred proceeds to FBDC. FBDC, utilizing these bond proceeds, made loans totaling \$29.3 million to two investment funds. As of June 30, 2018, \$29.3 million is due to FBDC on such loans. The investment funds made these proceeds and funds from additional investments available to eight leverage lenders that made loans in the aggregate amount of \$40.8 million to DSRC to finance the Dudley Municipal Center project. This amount is recorded in the City's Notes and Leases Payable line of note 10. With the completion of the Dudley Municipal Center project, FBDC is the master tenant and leases the project from DSRC.

FBDC subleases the majority of space of the project to the City. The schedule of payments is the same in the lease and the sublease as follows (in thousands):

<u>Year(s) ending June 30:</u>	<u>Lease payments</u>
2019	\$ 595
2020	638
2021	638
2022	638
2023	1,334
2024-2028	10,150
2029-2033	10,150
2034-2038	10,150
2039-2043	10,150
2044-2048	9,135
Total	<u>\$ 53,578</u>

## 20. Discretely Presented Component Units

The following presents condensed financial statements for each of the discretely presented component units:

### Condensed Statements of Net Position June 30, 2018 (In thousands)

	BPHC	BPDA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 35,947	\$ 27,269	\$ 3,911	\$ 16,417	\$ 83,544
Cash and investments held by trustee	—	—	13,262	—	13,262
Receivables, net:					
Other	27,345	14,836	761	4,151	47,093
Other assets	186	—	9	2,163	2,358
Due from primary government	2,413	—	—	—	2,413
<b>Total current assets</b>	<b>65,891</b>	<b>42,105</b>	<b>17,943</b>	<b>22,731</b>	<b>148,670</b>
Noncurrent assets:					
Cash and investments held by trustee	—	—	61,926	—	61,926
Notes receivable	43,502	136,174	26	—	179,702
Capital assets:					
Nondepreciable	11,755	7,517	—	10,147	29,419
Depreciable	11,980	13,518	166	31,321	56,985
<b>Total noncurrent assets</b>	<b>67,237</b>	<b>157,209</b>	<b>62,118</b>	<b>41,468</b>	<b>328,032</b>
<b>Total assets</b>	<b>133,128</b>	<b>199,314</b>	<b>80,061</b>	<b>64,199</b>	<b>476,702</b>
Deferred outflows of resources:					
Deferred amount for pension costs	\$ 15,048	\$ 1,741	\$ —	\$ —	\$ 16,789
Deferred amount for other postemployment benefits costs	4,626	1,910	—	—	6,536
<b>Total deferred outflows of resources</b>	<b>19,674</b>	<b>3,651</b>	<b>—</b>	<b>—</b>	<b>23,325</b>

**Condensed Statements of Net Position**

**June 30, 2018**

**(In thousands)**

	<u>BPHC</u>	<u>BPDA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 20,637	\$ 2,013	\$ 720	\$ 6,883	\$ 30,253
Accrued liabilities:					
Other	799	541	478	1,568	3,386
Current portion of long-term debt and leases	1,704	1,910	—	812	4,426
Due to primary government	931	—	578	—	1,509
Unearned revenue	2,268	1,899	—	727	4,894
Total current liabilities	<u>26,339</u>	<u>6,363</u>	<u>1,776</u>	<u>9,990</u>	<u>44,468</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	\$ 3,690	\$ 3,095	\$ —	\$ 10,584	\$ 17,369
Other noncurrent liabilities	1,575	144,433	—	1,070	147,078
Other postemployment benefits	112,125	31,656	—	—	143,781
Unearned revenue	44,510	20,965	—	—	65,475
Net pension liability	115,992	15,235	—	—	131,227
Due to primary government	—	5,725	—	—	5,725
Total noncurrent liabilities	<u>277,892</u>	<u>221,109</u>	<u>—</u>	<u>11,654</u>	<u>510,655</u>
<b>Total liabilities</b>	<b><u>304,231</u></b>	<b><u>227,472</u></b>	<b><u>1,776</u></b>	<b><u>21,644</u></b>	<b><u>555,123</u></b>
Deferred inflows of resources:					
Deferred amount for pension costs	\$ 29,209	\$ 4,104	—	—	\$ 33,313
Deferred amount for other postemployment benefits costs	14,877	5,178	—	—	20,055
<b>Total deferred inflows of resources</b>	<b><u>44,086</u></b>	<b><u>9,282</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>53,368</u></b>
Net position:					
<b>Net investment in capital assets</b>	<b>18,341</b>	<b>18,020</b>	<b>166</b>	<b>30,071</b>	<b>66,598</b>
<b>Restricted</b>	<b>—</b>	<b>—</b>	<b>74,483</b>	<b>704</b>	<b>75,187</b>
<b>Unrestricted</b>	<b>(213,856)</b>	<b>(51,809)</b>	<b>3,636</b>	<b>11,780</b>	<b>(250,249)</b>
<b>Total net position</b>	<b><u>\$ (195,515)</u></b>	<b><u>\$ (33,789)</u></b>	<b><u>\$ 78,285</u></b>	<b><u>\$ 42,555</u></b>	<b><u>\$ (108,464)</u></b>



**Condensed Statements of Revenues, Expenses, and Changes in Net Position**  
**Year ended June 30, 2018**  
**(in thousands)**

	<b>BPHC</b>	<b>BPDA</b>	<b>TPL</b>	<b>EDIC</b>	<b>Total</b>
Expenses	\$ 173,752	\$ 22,598	\$ 9,106	\$ 39,673	\$ 245,129
Program revenues:					
Charges for services	43,168	10,221	2,825	26,962	83,176
Operating grants and contributions	45,831	13,965	7,569	12,913	80,278
Capital grants and contributions	—	—	—	—	—
Total program revenues	88,999	24,186	10,394	39,875	163,454
<b>Net program revenues (expenses)</b>	<b>(84,753)</b>	<b>1,588</b>	<b>1,288</b>	<b>202</b>	<b>(81,675)</b>
General revenues:					
Investment income	66	77	64	—	207
Sale of property	—	5,848	—	—	5,848
City appropriation	79,563	—	—	—	79,563
Miscellaneous income	401	—	1,261	52	1,714
<b>Total general revenues</b>	<b>80,030</b>	<b>5,925</b>	<b>1,325</b>	<b>52</b>	<b>87,332</b>
<b>Change in net position</b>	<b>(4,723)</b>	<b>7,513</b>	<b>2,613</b>	<b>254</b>	<b>5,657</b>
<b>Net position - beginning of year, restated</b>	<b>(190,792)</b>	<b>(41,302)</b>	<b>75,672</b>	<b>42,301</b>	<b>(114,121)</b>
<b>Net position - end of year</b>	<b>\$ (195,515)</b>	<b>\$ (33,789)</b>	<b>\$ 78,285</b>	<b>\$ 42,555</b>	<b>\$ (108,464)</b>

## Required Supplementary Information

(Unaudited)

### Schedule of OPEB Contributions - OPEB

(Amounts in thousands)

	<b>2017</b>
Actuarially determined contribution	\$ 190,991
Contributions in relation to the actuarially determined contribution	157,464
Contribution surplus (deficiency)	<u>\$ (33,527)</u>
Covered payroll	<u>\$ 1,582,695</u>
Contributions as a percentage of covered-employee payroll	9.95%

Note: Information provided for Required Supplementary Information will be provided for 10 years as it becomes available.

#### Notes to Schedule:

Valuation date:

Actuarially determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. That is, the contribution for June 30, 2017 was determined with the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Projected Unit Credit
Amortization method:	Payments increasing at 4.5% per year
Remaining amortization:	30 years open
Asset valuation method:	Market Value
Inflation:	4.5%
Health care trend rates:	Non-Medicare costs 7% initial, decreasing 0.5% annually to an ultimate of 5%
	Medicare costs - 8% initial, decreasing 0.5% annually to an ultimate of 5%
	Medicare Part B premiums - 5%
Salary increases:	Non-teachers - 4% to 4.5%; Teachers 4% to 7.5%
Investment return:	7%
Mortality:	RP-2014 generational table using Scale MP-2017 for non-teachers and MP-2016 for teachers applied on a gender-specific basis.

Schedule of Changes in Net OPEB Liability and Related Ratios  
June 30, 2018  
(Amounts in thousands)

<b>Total OPEB Liability</b>	<b>2017</b>
Service Cost	\$ 65,146
Interest	177,157
Differences between expected and actual experience	(1,717)
Change in assumption	—
Benefit payments, including refunds of employee contributions	(117,464)
Net Change in total OPEB liability	123,122
Total OPEB liability - beginning	2,618,024
Total OPEB liability - ending	2,741,146
<b>Plan Fiduciary Net Position</b>	
Contributions - employers	157,464
Contributions - employees	—
Net investment income, net	47,156
Benefit payments, including refunds of employee contributions	(117,464)
Administrative expenses	(5)
Net change in plan fiduciary net position	87,151
Plan fiduciary net position - beginning	365,835
Plan fiduciary net position - ending	452,986
Net OPEB liability	\$ 2,288,160
Plan fiduciary net position as a percentage of the total	
OPEB Liability	16.53%
Net OPEB liability as a percentage of the total covered payroll	144.57%
Covered payroll	1,582,695

Notes: Information provided for Required Supplementary Information will be provided for 10 years as it becomes available.

**Notes to Schedule:**

Benefit Changes: None

Changes in assumptions: None

Schedule of City's Proportionate Share of the Net Pension Liability - Boston Retirement System

(Amounts in millions)

	<b>2018</b>	<b>2017</b>	<b>2016</b>
City's proportion of the net pension liability	32.04%	35.66%	36.78%
City's proportionate share of the net pension liability	\$ 1,288	\$ 1,484	\$ 1,622
Commonwealth's proportionate share of net pension liability associated with the City	2,451	2,345	2,426
Total	<u>\$ 3,739</u>	<u>\$ 3,829</u>	<u>\$ 4,048</u>
City's covered payroll (for the period ended on the measurement date December 31, 2015 and 2014)	\$ 1,547	\$ 1,475	\$ 1,475
City's proportionate share of the net pension liability as a percentage of covered payroll	83.26%	100.61%	109.97%
BRS fiduciary net position as a percentage of the total pension liability	62.73%	58.44%	55.76%

Note: Schedule is intended to show information for ten years. Historical information prior to the implementation of GASB Statement No. 68 is not required if the information is not available. Additional years will be displayed as they become available.

Schedule of City's Contributions - Boston Retirement System

(Amounts in millions)

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Actuarially determined contribution	\$ 214	\$ 193	\$ 179
Contributions in relation to the actuarially determined contribution	214	193	179
Contribution surplus (deficiency)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll (for the fiscal year ended June 30, 2017, 2016 and 2015)	\$ 1,542	\$ 1,467	\$ 1,467
Contributions as a percentage of covered payroll	13.88%	13.16%	12.20%

Note: Schedule is intended to show information for ten years. Historical information prior to the implementation of GASB Statement No. 68 is not required if the information is not available. Additional years will be displayed as they become available.