



Finance and Administration

January 31, 2006

John E. (Jef) Faw
Director
Chief Financial Officer

Honorable Mayor
Members of the City Council, and
Citizens of Boise City

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In accordance with State statutes and City Code, I herewith transmit the Comprehensive Annual Financial Report (CAFR) for the City of Boise as of September 30, 2005 and for the twelve-month year then ended. Under State law, copies of these audited financial statements will be submitted to the Idaho Legislative Council. The audit was performed by the independent auditing firm, Eide Bailly LLP, in accordance with generally accepted governmental auditing standards.

Responsibility for both the accuracy of the information presented and the completeness and fairness of its presentation, including all disclosures, rests with the City. Management believes that the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial activity of the City's various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. To provide a reasonable basis for making these representations, management of the City of Boise has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Boise's financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The City's framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As a general rule, the cost of internal controls should not outweigh their benefits. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Boise for the fiscal year ended September 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Boise's financial statements for the fiscal year ended September 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are contained in the Single Audit section of this report.

GAAP requires that management provide a narrative introduction, overview, and

analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of City Government

Boise City was chartered in 1866 under the laws of the Territory of Idaho. Since 1961 the City has been governed using a strong mayor organization. The Mayor is the chief administrative officer of the City and participates with a six-member City Council in developing policy. The Council is organized into several policy groups typically comprised of two Council members each. The Mayor's Chief of Staff, department directors and a representative of the Employee Advisory Committee (EAC) comprise the Executive Management Team (EMT). This group recommends budget and operational priorities to the Mayor and City Council. In March 2005, the Mayor and City Council approved a reorganization that created the Department of Finance and Administration. The new Department Head is vested with the title and authority to serve as the City's chief financial officer (CFO).

Boise City provides the following services: public safety (police and fire), parks and recreation, culture, community services (planning and development services, public works, cemetery, and parking control), community development, and general government. The streets and sidewalks are owned and maintained by the Ada County Highway District (ACHD). The City's financial report also includes the Capital City Development Corporation (CCDC). While CCDC is a component entity of the City, its financial statements are reported separately. Additional information on CCDC can be found in Note IV. M in the notes to the financial statements.

The city limits enclose an area of about 66 square miles. The city's "area of impact" contains approximately 120 square miles. The "area of impact" is the planned potential size of the city urban service area approved by the county commissioners. The city's estimated population for 2005 is 200,062.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Boise operates.

Local economy. Boise is the center of business and government activity within the State of Idaho, serving as its economic hub. The city provides financial, medical and commercial services for southern Idaho and portions of eastern Oregon. Corporate headquarters of several major firms contribute to the strong Boise economy with a healthy mix of business, technology, education, health care, retail, manufacturing, government and the military, and professional communities, all working together to provide stability and promise for Boise's residents. Several local companies, such as Micron Technology, are reporting strong profit growth and are making plans for expansion of operations. A potential downside to a generally favorable economic recovery was the announcement in September that Albertsons, a major national food retailer, was seeking a buyer. In January 2006, the company's Board of Directors announced that a consortium of retailers and financial buyers had purchased the company for approximately \$9.6 billion. Local business and government leaders have

expressed guarded optimism that despite the sale, a significant employment presence of the acquiring companies' will remain in Boise.

Boise also has two regional medical centers and extensive associated medical services, and is the center of governmental facilities. These comprise significant portions of the City's market value, but are exempt from ad-valorem taxation under Idaho Code. Also important to the City's economy are the activities of the federal and state government including the National Interagency Fire Center, which coordinates fire fighting on public lands throughout the United States, and a Veterans Affairs medical center.

The seasonally adjusted unemployment rate at September 2005 was 3.5 percent, down from 2002 by 1.2 percent. Much of this significant employment increase was in the construction sector. By November 2005, the Boise City MSA unemployment rate had declined even further to 3.3 percent while the statewide rate was 3.6 percent.

Construction increased by 26 percent in FY 2005 compared to FY 2004. Commercial construction rates were up 61 percent and single-family housing was up 51 percent as of October 2005. Multi-family housing has increased 69 percent. This contributed to the permit fees for general, business, and subdivision applications exceeding budgeted revenue by approximately \$1.7 million.

During the past year, several major construction projects were at or near completion. The Bodo ("**Boise Downtown**") project, a \$60 million, 500,000-square-foot urban mixed-use district formerly known as the Eighth Street Marketplace, has been under construction since late 2004 with parts of the project "open for business." When completed, Bodo will include retail shops, restaurants, a cinema, a hotel, and office space. Saint Alphonsus Regional Medical Center is well along in constructing its Center for Advanced Healing, a \$162.2 million, nine-story patient care tower on the medical center campus in west Boise.

Long-term financial planning. Prior to a financial restructuring the City undertook in 1995, the City maintained a five percent cash flow reserve to demonstrate the City's ability to repay debt and to assist in cash flow management. The 1995 refinancing project resulted in a reserve of \$3.4 million, which was close to five percent of the FY 1996 general fund budget. However, that percentage eroded in subsequent years. During its June 2005 Budget Workshop, the City Council directed that the general fund cash flow reserve goal be re-set at eight percent of budgeted revenue. It was further established that the reserve requirement should be achieved using one-time monies over a five-year period at a minimum amount of \$500,000 per annum. The cash-flow reserve, as of September 30, 2005, was \$6.23 million, or 4.8 percent of operating revenues. On December 22, 2005 the City council allocated an additional \$500,000 to these reserves, bringing the total to \$6.73 million, and 5.2 percent of operating revenues.

During the 2002-2003 budget process, the City Council approved a debt initiative to refinance eligible general-fund-supported debt in order to reduce annual debt service (by extending the term and securing lower interest rates). With the annual debt service that would be made available in the general fund, the City had planned to issue debt for the construction of a new police headquarters and for construction of branch libraries. The refinance was done in December 2001 and January 2002. A request for judicial validation on the police facility was denied. Accordingly, the City has set aside, and will continue to set aside, \$2.5 million per year over the four-year period, FY 2004 through FY 2007, for a total of \$10 million. This resource will be used to enlarge and update police facilities. This fall, the City Council authorized a \$38 million bond levy election to be held February 7, 2006 for the purposes of building three branch library/community centers in west, east and northwest areas of the city.

Major Enterprise Funds

Airport – In FY 2005, Boise Airport (BOI) enplanements were up over ten percent from the previous year, significantly better than the national average, which increased 3.6 percent. Growth in the number of enplanements is a key indicator of airport strength as enplanements drive nearly all revenue sources of the facility. Operating revenues topped \$20 million for the first time at BOI and were up 15 percent from the previous year. This was largely due to higher passenger activity and rate increases. The new terminal is fully open, operational, and all support systems totally functional. In FY 2005, taxiway J was repaved, concourse B was remodeled, and the baggage system was upgraded to increase capacity during peak-hour demand periods. BOI has been ranked 7th in the world in the J.D. Power and Associates 2004 Global Airport Satisfaction Index Survey.

Sewer – The City's sewer is comprised of 604 miles of pipeline. It provides sewer treatment service not only to Boise, but also to five sewer districts and to Garden City. In 2005 the system treated over 10 billion gallons of wastewater.

Solid Waste – The solid waste service provider Allied (formerly called BFI), under contract to the City, serves 64,100 residential and 3,800 commercial customers. The recycling component of the service diverted approximately 7,400 tons of material from the landfill. Eight household hazardous-waste pick-up sites are distributed throughout the city.

Foothills Levy- Included in the capital projects fund are funds that have been received as a result of a special election held in 2001 creating a two-year levy for a total of \$10 million. The funds are used to purchase land in the foothills of Boise City and other projects as allowed under the levy. In April 2005, the Foothills Learning Center opened its doors as an environmentally focused community facility. At September 30, 2005, approximately \$4.5 million remained in the Foothills capital projects fund.

Cash management policies and practices. Cash temporarily idle during the year was invested in compliance with the City's investment policy. This policy has been adopted by resolution of the City Council and certified by the Association of Public Treasurers of the United States and Canada. It is updated periodically. Information regarding the types, amounts and risks of investments held are contained in the footnotes in Note IV.A. The maturities range from one day to 4.96 years. The average maturity is 349 days. The average yield on the last day of the fiscal year was 3.55 percent, although the average yield for the preceding twelve months was 1.90 percent. Yields and amounts include decreases in fair value during the current year. However, decreases in fair value do not necessarily represent trends that will continue or cash that will be available. Decreases in market value are temporary changes in the fair value of investments that the City intends to hold to maturity.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Boise for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2004. This is the tenth year that the City of Boise has earned this distinction. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

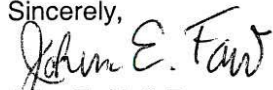
The Certificate of Achievement is valid for a period of one year only. We believe that our most recent CAFR will continue to meet the Certificate of Achievement Program's requirements. We are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, Boise City government also received the GFOA's Distinguished Budget Presentation Award for its biennial budget for FY 2004/2005. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including its serving as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and committed services of key staff in the Department of Finance and Administration under the leadership of Comptroller Jan Bronson. I would also like to express my appreciation to all City staff members whose dedicated efforts resulted in a timely and successful completion of this year's report.

The Mayor and City Council have demonstrated a willingness to allocate the resources necessary to provide the means to account, audit, report, monitor, and control the financial operations and transactions of the City of Boise in a responsible and progressive manner.

Sincerely,

A handwritten signature in black ink that reads "John E. Faw". The signature is written in a cursive style with a large initial "J".

John E. (Jef) Faw
Director of Finance and Administration
Chief Financial Officer