

January 26, 2007

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

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, 2006, and for the 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, is vested in 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, 2006, 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, 2006, are fairly presented and in conformity with GAAP. The independent auditors' 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. Pursuant to Code, the Mayor is the chief executive officer (CEO) of the City and directs its operations, participating 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 Department Head is in charge of various divisions handling financial and administrative matters, and serves as the City's chief financial officer (CFO).

Boise City provides the following services: public safety (police and fire), parks and recreation, libraries and culture, community services (planning and development services), aviation and public transportation, public works, cemetery, downtown on-street parking services, 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. O 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 2006 is 211,473.

## **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. Construction, notably most recently in the commercial sector, is a principal economic driver, and several local companies, such as Micron Technology, have been hiring and investing in the region. In May, Micron announced plans to build a new multi-million dollar facility in Boise and hire 75 new workers as part of a joint venture with another company to improve the manufacture of memory chips.

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 area unemployment rate, based on the October 2006 Idaho Employment Report, was 3.0 percent, down 0.3 percent from one year ago. Much of this significant employment increase was in the commercial construction sector. The City's economy has continued to benefit from strong construction activity but clear indications portend to a slowing housing market and more sustainable growth rates. That said, permit fees for general, business, and subdivision applications exceeded budgeted revenue by approximately \$2.4 million, or 47 % in the recently concluded FY 2006 fiscal year.

As of September 2006, total passenger traffic at the Boise Airport increased 5 percent over the same time last year. This represents approximately 275,000 more people passing through the Airport each month. Operating revenue in FY 2006 increased over \$2 million, or 10 percent, primarily due to increased parking revenue and car rental concessions.

During the past year, several major construction projects were at or near completion. Saint Alphonsus Regional Medical Center is well along in constructing its Center for Advanced Healing, a \$161.2 million, nine-story patient care tower on the medical center campus in west Boise. It is due for final completion early in 2008. The \$60 million, 500,000 square

feet BoDo (Boise Downtown) mixed-use project opened its doors in October 2005 and recently reached 95 percent occupancy, including several major national retailers. Last spring, the Banner Bank building was completed, an eleven story, 185,000 square feet class-A office structure that houses the bank's downtown branch office on its ground floor.

In June, the Minneapolis-based SuperValu Inc. announced its acquisition of Albertson's Inc., a Boise-based grocery retailer with a wide presence in the intermountain west, the northwest and southern California. Albertson's was among the top five in market valuation among City taxpayers with a sprawling headquarters complex located in the southeast section of the City. City officials have expressed concern that the relocation of Albertson's corporate main offices could lead to a loss of \$11 million Albertson's annually paid in state and local taxes, and in its generous community donations. SuperValu's future plans for maintaining an intermountain regional headquarters presence in Boise remain unclear.

The development of a downtown residential "skyscraper" in bankruptcy for several years has a possible re-birth as several legal issues that have caused the project to languish were resolved in mid-year. The former Boise Tower project, now referred to as The Residences at Boise Place, is planned to become at 34 floors the tallest building in Idaho.

Software giant Microsoft gained its initial Boise presence in its purchase last summer of local software developer ProClarity.

The Downtown Boise Mobility Study final report was released in 2005 and its partners have been pursuing funding for implementation. Valley Regional Transit, the area's public transportation entity that is largely funded by City resources, has secured a \$9.5 million federal assistance grant to design and construct a multimodal transportation center and explore options for creating a much-needed downtown people "circulator".

**Long-term financial planning.** In recent years, the City has endeavored to maintain a totally uncommitted "cash-flow" reserve that was initially targeted to remain at 5 percent of annual revenues. Guidelines of the Government Finance Officers Association (GFOA) formally recommend 5 percent to be the minimum level and that this reserve range up to 15 percent. During its June 2005 Budget Workshop, the City Council directed that the general fund cash flow reserve goal be re-set at 8 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, 2006, was \$6.23 million, or 4.8 percent of operating revenues. On December 19, 2006 the City council allocated an additional \$500,000 to these reserves, bringing the total to \$7.4 million, which is 5.7 percent of FY 2007 operating revenues.

In the winter and spring of 2005, the Mayor and City Council conducted an ambitious and thorough Strategic Planning process that established a Vision of where they wanted the City to go, set a Mission Statement of what Boise is as a City, and defined its key Values. A Strategy Map and Balanced Score Card were important outcomes of the first phase of this strategic update. In addition, the Mayor and Council identified several principal policy

focus areas, and delineated initiatives, goals and objectives for each.

In early fall of this year, Phase II of the City's Strategic planning initiative began in earnest. The Strategy Map that was developed as part of the initial phase will be actualized in FY 2007 by two processes. A six-year business planning model will be developed by every department in the organization, creating an actionable road map to realize the strategic goals and initiatives. As well, a new leadership model for the Mayor and Council will be created that identifies clear roles and accountabilities for each. A change management process will enable the City's leaders to propel the implementation of department business plans and the attainment of its strategic objectives.

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 set aside over a four-year period, FY 2004 through FY 2007, a total of \$10 million. This resource will be used to enlarge and update public safety facilities. On February 7, 2006, a \$38 million bond levy election was held for the purposes of building three branch library/community centers in west, east and northwest areas of the city. The measure failed to gain the "super-majority" required by the Idaho Constitution to pass a tax levy-supported bond, but a 57 percent "yes" vote indicated the clear support of a majority of Boise citizens for enhanced library services. Finally, in mid-April the Idaho Supreme Court reversed a District Court decision to allow the Boise Airport to issue debt to expand its parking garage without a citizen vote. The Supreme Court's opinion hinged on its opinion that garage parking expansion did not meet the Idaho Constitutional rigor that it be "ordinary and necessary." This decision will clearly impact the City of Boise and other local governments in Idaho as they plan future capital infrastructure financing in an era of high growth in both population and demands for services.

Like many other governmental entities across the country, the City is grappling with implementation of fiscal impacts from the recent Government Accounting Standards Board (GASB) pronouncement (Statement 45) that set out revised standards for reporting post-employment health benefits (PEHB). Boise City has traditionally funded most of its PEHB, such as life insurance but it has not funded insurance "rate subsidies" it provides on behalf of its retired employees. Booking the value of this benefit, referred to as the Annual Required Contribution or ARC, will become a GASB-required activity beginning in the City's FY 2008. Actuarial analysis recently completed has indicated the City's Unfunded Actuarial Liability (UAL) for pre-Medicare subsidies for its retirees is over \$13.3 million, with an associated ARC of just under \$1.9 million. These amounts are expected to increase significantly over time unless fundamental changes are made in the way the City structures its post-employment health-care benefits.

## **Major Enterprise Funds**

**Airport** – In FY 2006, Boise Airport (BOI) enplanements were up 5 percent from the previous fiscal year period, significant because FY 2005 enjoyed record enplanement levels. Growth in this statistic is a key indicator of airport strength as it is the key driver of nearly all revenue sources of the facility. Operating revenues again topped \$20 million, and with a \$2 million increase from the prior fiscal year, were up 10 percent. This was largely due to continued high passenger activity and the burgeoning use of parking facilities and car rentals. The new air terminal enjoys full functionality and all support systems are reliably operational. Airport and City officials teamed with the Idaho Congressional Delegation to obtain Federal Aviation Authority (FAA) approval to install and fund the Cat III approach lighting. This will enable aircraft to land in heavy fog with very low visibility, and will be operational in FY 2008. Agreement was also reached with the FAA to begin construction of a new, 21<sup>st</sup> century Air Traffic Control Tower in 2009. Both of these milestone projects are major accomplishments for the Airport which could not proceed on either without FAA authorization and funding.

**Sewer** – The City's sanitary sewer system is comprised of over 600 miles of pipeline. It provides wastewater treatment service not only to Boise, but also to five sewer districts and to Garden City. In 2006 the system treated well over 10 billion gallons of wastewater.

**Solid Waste** – Allied is the solid waste service provider under contract to the City of Boise; it serves approximately 65,000 residential and 3,800 commercial customers. The recycling component of the service diverted approximately 7,500 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 have been used to purchase land in the foothills of Boise City and other projects as allowed under the levy. The Foothills Learning Center has been operating since April 2005 as an environmentally focused community facility. At September 30, 2006, approximately \$4.14 million remained in the Foothills Capital Projects Fund and is available for re-budgeting.

**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 currently being updated. 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 4.64 years. The average maturity is 401 days. The average yield on the last day of the fiscal year was 5.03 percent and the total return for the fiscal year was 4.59 percent. Total return includes the effect of increases in market value during the current year. However, increases in market value do not necessarily represent trends that will continue or cash that will be available. Increases 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, 2005. This is the eleventh consecutive 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.

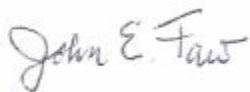
The Certificate of Achievement is valid for a period of one year only. We believe that our most recent CAFR will continue to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, Boise City government also received the GFOA's Distinguished Budget Presentation Award for its biennial budget for FY 2005/2006. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be successful 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 Controller Mike Middleton and Financial Services Manager Tonya Wallace. I would also like to express my appreciation to all City staff whose dedicated efforts resulted in a timely and successful completion of this year's report.

The Mayor and City Council have continued to demonstrate a commitment to allocate the resources needed to ensure its ability 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 cursive script that reads "John E. Faw".

John E. (Jef) Faw  
City of Boise, ID  
Director of Finance and Administration  
Chief Financial Officer