

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2006  
(AMOUNTS EXPRESSED IN THOUSANDS)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Boise conform to U.S. generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA) in the publication entitled "Audits of State and Local Governmental Units", and by the Financial Accounting Standards Board (FASB) when applicable. As allowed in Section P80 of GASB's "Codification of Governmental Accounting and Financial Reporting Standards", the City has elected not to apply to its enterprise and government-wide financial statements FASB Statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989.

A. Financial Reporting Entity

As required by GAAP, these basic financial statements present the City and its component unit in conformance with the GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units." Under these statements, component units are organizations that are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

The Component Unit column in the accompanying financial statements contains the financial data of the City's single component unit, the Capital City Development Corporation (CCDC). CCDC is a separate and distinct legal entity created by state statute but does not have fiscal independence from the City. The directors are appointed by the Mayor and approved by City Council and if the CCDC should go out of business, the assets would revert to the City. CCDC is therefore included in the financial statements as a discretely presented component unit. CCDC provides urban renewal services and parking facilities for the citizens of the City. Complete financial statements of CCDC can be obtained from their office at 800 W. Idaho Street, Boise, Idaho.

Organizations for which the City is accountable because it appoints a voting majority of the board but is not financially accountable are referred to as related organizations. Financial information of related organizations is not included in the City's financial statements. The only related organization of the City is the Boise City/Ada County Housing Authority.

B. Government Wide and Fund Financial Statements

The government wide financial statements, which are the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separated component unit (CCDC) 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 operation or capital requirements of a particular function or segment. Taxes and other items not 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.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. Agency funds use the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, sales and liquor taxes, franchise fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period.

The government reports the following major governmental funds:

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition of construction of major capital facilities other than those financed by proprietary and fiduciary funds.

The government reports the following major proprietary funds:

The Airport Fund accounts for the operation of the municipal airport. All operations, debt service and capital additions are accounted for in the fund.

The Sewer Fund accounts for the operation of the portion of the sewer system owned by the City. Three sewer districts collect sewage within the City and contract with the City to process it in one of the three City operated plants. Debt service and capital improvements are also accounted for in this fund.

The Solid Waste Fund accounts for the City solid waste service. The collection service is contracted with an independent firm and Ada County landfill service.

Additionally, the government reports the following fund types:

Internal Service Funds account for vehicle maintenance, risk management and arboretum services provided to other departments of the government or other government entities, on a cost reimbursement basis.

The Health Insurance Trust is used to account for the City's self insured health insurance trust. Plan assets are dedicated to providing health benefits to current and retired employees.

The Agency Fund accounts for items that must be held in trust for any reason. The major item accounted for in this fund is the Boise Improvement District payments.

As a general rule the effect of inter-fund activity has been eliminated from the government wide financial statements. Exceptions to this general rule are charges between the government's sewer and solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Indirect charges have been eliminated in the entity wide statements.

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

#### D. Assets, Liabilities and Net Assets or Equity

##### 1. Cash and Investments

Investments are reported at fair value except for money market investments with a remaining life to maturity at time of purchase of less than one year as required by GASB Statement No. 31. Fair value is estimated for investments without quoted market prices by using on line or other sources to identify market prices of similar investments. Cash represents cash on hand and in banks. Some of the cash resources of the individual funds are combined to form a pool of cash for cash management purposes. Investments made from pooled cash consist primarily of short-term investments. Interest income earned as a result of pooling is distributed to the appropriate funds based on the average daily balance of pooled cash of each fund.

Restricted cash equivalents are defined differently than unrestricted cash equivalents because they are restricted by and outside source. They are therefore not included in the cash equivalents reported in the statement of cash flows.

The City has entered into a master repurchase agreement with several financial institutions. The agreements require short-term repurchase agreements (less than 5 days) be evidenced by a safekeeping certificate segregated in the City's name.

Long-term repurchase agreements require delivery to the City of securities with a market value between 101 and 105 percent (depending upon the maturity of the underlying securities) of the amount paid by the City for the repurchase agreement.

The City has entered into a custodial agreement with a financial institution for the purpose of providing safekeeping and custody of certain investments owned by the City. Idaho Code provides authorization for the investment of funds as well as specific guidelines as to what constitutes and allowable investment. City policy is consistent with these guidelines.

The City, except as indicated below, is limited to the following general types of investments:

- Certain revenue bonds, general obligation bonds, local improvement district bonds, tax and revenue anticipation notes and registered warrants of state and local government entities.
- Time deposit accounts.
- Bonds, treasury bills, interest-bearing notes, debentures or other similar obligations of the United States Government and the Farm Credit System and its agencies and instrumentalities. U.S. Government Securities include U.S. Treasury receipts and U.S. Treasury Stripped interest Payment series (STRIPS).
- Repurchase agreements.
- Banker's acceptance and prime commercial paper
- Mutual or Money Market Funds.
- Corporate notes.

Investments associated with the City's deferred compensation plans are subject to the investment guidelines of state laws governing such plans, which allow for investment in equity securities in an addition to the investment alternatives indicated above. Investments associated with the Health Insurance Trust fund must be allowable under both Idaho code 50-1013 and 68:401 et. Seq.

## 2. Receivables and Payables

Outstanding balances between funds at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of inter-fund loans or "advances to/from other funds" for the noncurrent portion. Any residual balances outstanding between the governmental activities and business type activities are reported in the government wide financial statements as "internal balances".

Idaho Code provides taxing entities the ability to levy property taxes for the current or ensuing year. The City levies property taxes, as most entities do, for the ensuing year. This results in the tax collections being received in the fiscal year they are budgeted for and used to pay expenditures of that period.

In the General Fund there is an allowance for uncollectibles for any specific items in dispute.

In the proprietary funds, receivables are shown net of an allowance for uncollectibles. In the Sewer and Solid Waste Funds, the allowance consists of amounts equal to utility receivables older than 180 days. The Airport Allowance is made up of specific receivables turned over to collections.

The property tax calendar is as follows:

- Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>.
- Taxes are levied on the third Monday in September for the subsequent year.
- Ada County bills and collects property taxes for the City.
- The first half of the taxes is payable to Ada County by December 20<sup>th</sup> and the second by June 20<sup>th</sup> of the following year.

Taxes are remitted to the City in the month following collection.

## 3. Inventories

Inventories are stated at cost (first in, first out method). The cost of inventory items are recognized as expenditures in governmental financial statements and as expenses in government wide and proprietary fund financial statements when used (consumption method).

#### 4. Restricted Assets

Funds to meet bond reserve and debt service requirements for the debt service and enterprise funds, deferred compensation amounts held for the benefit of employees and cash from Passenger Facility Charges are classified as restricted assets since applicable bond indenture provisions, trust agreements and federal regulations limit their use. While there is no written policy, the practice is to use restricted assets first when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

#### 5. Property, Plant and Equipment

Capital Assets, including property, plant, equipment and infrastructure assets (e.g., sewer lines, runways and similar items), are reported in the applicable governmental or business type activities columns in the government wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5 and an estimated useful life in excess of three years. All material capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from the disposal is credited or charged back to operations. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the assets constructed. The total capitalized interest during the current fiscal year was \$25 for Airport projects and \$417 for Sewer projects.

Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over its estimated useful life as follows:

	Estimated Useful Life (Years)	
Buildings	3	- 60
Airport terminal building		40
Improvements other than buildings	3	- 50
Airport runways, taxiways and apron	10	- 20
Airport terminal parking	10	- 15
Sewer service lines	20	- 100
Geothermal wells		40
Geothermal service lines		50
Office furniture and equipment	3	- 30
Vehicles	3	- 20
Machinery and equipment	3	- 40

#### 6. Long Term Liabilities

Long term liabilities consist bonds, notes and other indebtedness including liabilities associated with compensated absences.

In the government wide financial statements and proprietary fund type statements, long term obligations are reported as liabilities in the applicable governmental activities, business type activities or proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

The City complies with applicable arbitrage regulations.

#### Governmental Funds:

Revenue Refunding Bonds, Series-2001A - \$28,445 of Refunding Bonds were issued to refinance the outstanding principal amounts of the Court Facilities Refunding Bonds Series 1993 originally issued in the amount of \$2,075 and used for the construction of a court building and the Note Refunding Bonds, Series 1996 originally issued in the amount of \$34,900 and used to refinance short term Revenue Anticipation Notes. The City has pledged its General Fund revenues as security on the Bonds.

Revenue Refunding Bonds – Series 2002A - \$2,410 Refunding Bonds were issued to refinance the following obligations of the City: The Essential Facilities Refunding Bonds Series 1993 originally issued in the amount of \$2,840 to refinance debt for the rehabilitation of a parking garage and the construction for the relocation of a fire station; the Certificates of Participation Series 1996A originally issued in the amounts of \$1,235 and \$1,445 respectively were used for the relocation of two fire stations. The City has pledged its General Fund revenues but the obligation to pay debt service on the bonds is subject to renewal by annual appropriation.

Certificates of Participation – The City issued \$1,185 in COP'S for a golf course improvement project. The obligation of the City to make payments is subject to annual renewal by appropriation of sufficient funds to make the payments. If the City fails to appropriate funds to make payments under the Certificates, the Certificate holders are entitled to be paid solely to the extent of monies previously appropriated for Certificate payments, amounts held in trust accounts under the agreement, and the monies which become available from foreclosure. The City is not liable to pay any deficiency in the event such sums are not adequate to pay the unpaid amount due.

Capital Lease – The City entered into a \$5,228 lease with Ada County to purchase a building adjacent to City Hall.

Compensated Absences Payable – Boise City provides vacation and sick leave to its full-time employees. Earned vacation is paid to employees when taken or paid to employees or their beneficiaries upon the employee's termination, retirement or death. Certain employees can elect to be paid each year for a portion of their accrued unused vacation. The amount of unused vacation accumulated by City employees is accrued as expense when incurred in Proprietary funds and the entity-wide financial statements, which both use the accrual basis of accounting. In the Governmental Fund statements only the amount that normally would be liquidated with expendable available financial resources is accrued as current year expenditures and therefore compensated absences are recognized only when they mature. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. Sick leave is paid to employees when taken and the cost is recognized when payment is made. There are some employee groups in the General Fund that receive a portion of their earned sick leave when they retire due to the provisions of related

employee group contracts. During 2006, \$188 was paid to these eligible employees. These employee group contracts also provide for some of the sick leave payoff funds to be transferred annually to a Post Employment Health Plan (PEHP). In 2006, the City contributed on behalf of employees not belonging to the contract groups mentioned above, a percentage of sick leave accumulated over 600 hours to the PEHP. During 2006, \$72 was transferred to the PEHP for this group. See the separate discussion of the PEHP.

#### Enterprise Funds:

Wastewater Facility – The City previously entered into three loans with the State of Idaho Department of Health and Welfare to expand and modernize the West Boise and Lander Street wastewater treatment plants. The three loans were then consolidated into one Wastewater Facility Note, which in turn was refinanced during 1999 with the issuance of refunding bonds. The bonds are secured by system revenues and are not a general obligation to the City.

The City has the option to redeem bonds maturing on or after February 1, 2009 to August 1, 2009 at 101.0% of par value, from February 1, 2010 to August 1, 2010 at 100.5% of par value and 100% of par value after February 1, 2011.

Airport Certificates of Participation – The Certificates of Participation were issued to fund the expansion and remodel of the Airport terminal area. The City's obligation to make lease payments is limited and is not a general obligation of the City. The City's payment obligations under the agreement are secured by a security interest in the net revenue derived by the City from its airport facilities and properties and by the funds and accounts created by the COP agreement.

The City has the option to redeem Certificates maturing on or after September 1, 2010 on September 1, 2009 or any interest payment date thereafter at par plus accrued interest. Certificates maturing on September 1, 2030 are subject to redemption at the City's option as of September 1, 2005 or any interest payment date thereafter at the price of par plus accrued interest.

Section 108 Advance – The City has entered into an advance with the United States Department of Housing and Urban Development to convert facilities for use as affordable housing units. Optional redemption is available for principal amounts due on or after August 1, 2013.

Installment Loans – The City has entered into two loans with the State of Idaho Department of Health and Welfare to realign trunk sewer lines. The loans are secured by a pledge of revenue and income of the Boise Wastewater Treatment Facilities. The loans require that within five years of project completion, loan reserves be established equal to one year's principal and interest paid on each of the loans in semi-annual installments over a 20-year period.

The City has also entered into a line of credit with the State of Idaho Department of Health and Welfare to modify and upgrade existing wastewater treatment facilities. When this project is completed, this obligation will become a loan with similar conditions as the loans described above.

Airport Refunding Bonds – On June 29, 2004, the City issued the Airport Revenue Refunding Bonds Series 2004-1 in the amount of \$9,515. The Bonds were used to (A) refinance the outstanding principal amount of the Airport Parking Facility Revenue Bonds, Series 1997A originally issued in the aggregate amount of \$14,200 and (B) to pay the costs of issuing the Bonds.

## DEFERRED COMPENSATION

The City has two deferred compensation plans. The first is available to employees other than sworn police officers and the second for sworn police officers only. Employees may make voluntary contributions to the plans within the limits allowed by the Internal Revenue Service Code Section 457. The first 5 percent of base salary per year contribution made by a sworn police officer is matched by the City up to a maximum of 3.5 percent of salary. The remaining 1.5 percent match is contributed to the Post Employment Health Plan. The City also matches the contribution of certain other employees up to a maximum of 2 percent and 4.5 percent of salary per year.

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City provides oversight of the plans, selecting the investment options made available and overseeing all training.

## POST EMPLOYMENT HEALTH PLANS

The City has a Post Employment Health Plan for all full time employees. The City makes annual contributions to a medical trust established under IRS code section 501c(9) on behalf of the participants utilizing existing funding sources. Individual accounts are established for the benefit of and are the property of each participant. Each participant is responsible for selecting the investment vehicle for his/her account. Upon separation from service the employee may use the accumulated balance for IRS allowable medical expenses for themselves and qualified dependents. The City has no ongoing responsibility for the trust and has not recorded it in the financial statements.

### 7. Postretirement Benefits

By City Council authorization, the City provides at retirement to all employees eligible for the Public Employee Retirement System of Idaho a \$10,000 life insurance policy, the premium of which is paid for by the City. Additionally, the City contributes \$50 per month toward a retiree health insurance plan. Funds for the estimated liability associated with the governmental fund types are set-aside in the Debt Service Fund. Amounts related to the proprietary fund types are provided for separately in those funds.

The postretirement benefits are advance funded on an actuarial basis. Actuarial valuations of the postretirement benefits were done as of September 30, 2006. The actuarially accrued liability which was set aside was \$5,134. The actuarial cost method used is the Projected Unit Credit Actuarial Cost method. The significant actuarial assumptions used to determine funding requirements are: a) a discount rate of 5.75%, b) an expected Asset Return rate of 5.75%, c) the percentage of eligible retirees electing health coverage is 40% for general employees and 70% for Fire and Police and d) the termination rates for general employees are based on the July 1, 2006 Public Employees Retirement System of Idaho assumptions. Termination rates for Fire and Police are based on Boise City historical data. There are 1,464 active plan participants.

### 8. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, or employee injuries. The City has a Risk Management Fund (an internal service fund to account for and finance these risks of loss.) The self-insured retention is summarized as follows:

Fiscal Year	Liability Coverage		Property Coverage		Workers Compensation Coverage	
	Per Incident	Aggregate	Per Incident	Aggregate	Per Incident	Aggregate
1997	\$250	unlimited	\$100	unlimited		
1998	\$250	unlimited	\$100	unlimited		
1999	\$250	unlimited	\$100	unlimited	\$250	unlimited
2000	\$250	unlimited	\$100	unlimited	\$250	unlimited
2001	\$250	unlimited	\$100	unlimited	\$250	unlimited
2002	\$250	unlimited	\$100	unlimited	\$300	unlimited
2003	\$400	unlimited	\$100	unlimited	\$400	unlimited
2004	\$400	unlimited	\$100	unlimited	\$400	unlimited
2005	\$400	Unlimited	\$100	Unlimited	\$400	unlimited
2006	\$400	Unlimited	\$100	Unlimited	\$400	unlimited

The City has purchased commercial insurance for claims in excess of these amounts.

All funds of the City participate in the program except for liability coverage for the Airport fund, which is insured under a separate policy purchased from an outside insurance carrier. Amounts to be provided for funding of the self insured retention are based on actuarial estimates of the amounts necessary to pay and current year claims and to establish a reserve for catastrophic losses.

A liability for claims is established if information indicates that it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

#### 9. Self insurance Trust Fund

In 2005, the City created a trust fund for its health insurance costs. Plan assets are dedicated to provide benefits to our employees and retirees, are legally protected from creditors and employer contributions to the plan are irrevocable. The trust is basically self insured but has reinsurance for claims over \$100 with an aggregate limit of 120% of aggregate claims.

#### 10. Fund Equity

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

### II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. Another element of

that reconciliation states that: "The net effect of various transactions involving capital assets (i.e., sales and donations) is to increase net assets." The details of this \$22,264 difference are as follows:

Loss on capital assets sold	\$ (366)
Transfer of kitchen equipment to governmental activities	11
Donations of capital assets	<u>22,619</u>
Net adjustment to increase net changes in fund balances total governmental funds to arrive at changes in net assets of governmental activities	  <u>\$ 22,264</u>

Another element of that reconciliation states that: "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The detail of this \$983 difference is as follows:

Principal repayments:	
Golf Course Improvement Project	\$ 75
Refunding 2001A	485
Refunding 2002A	90
City Hall lease	349
Deferred issuance costs:	
Issuance costs for 2001A	(13)
Issuance costs for 2002A	<u>(3)</u>
Net adjustment to increase net changes in fund balances total governmental funds to arrive at changes in net assets of governmental activities	  <u>\$ 983</u>

### III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTIBILITY

#### A. Budgets and Budgetary Accounting

The basis of budgeting refers to the conventions for recognition of costs and revenues in budget development and in establishing and reporting appropriations, which are the legal authority to spend or to collect revenues.

Boise City used a modified accrual basis for budgeting in governmental funds. Under Idaho State Law, unspent appropriations from prior years must be specifically "re-budgeted," via resolution of the City Council, or "encumbered," in order to be carried forward into the next fiscal year. A valid, legal commitment such as a contract or purchase order is required for encumbrances.

Proprietary funds are budgeted using accrual concepts. However, all operating and capital expenses that will be incurred during the year and income to be received and credited to the year are identified in the budgeting process because of the need for appropriation authority.

The budget is fully reconciled to the accounting system at the beginning of the year, and in preparing the Comprehensive Annual Financial Report (CAFR) at year-end. A number of adjustments are made to reflect balance sheet needs and their effect on the budget. These include changes in designations and reserves and recognition, via studies and analysis of various sorts, of accrued liabilities. Amounts needed for such long-term liabilities as future payoffs of accumulated employee vacation and sick leave, are budgeted as they are recognized via actuarial projections and subsequently adjusted to actual amounts. The budget does not recognize capital construction expense in enterprise funds in the same manner as in the

Comprehensive Annual Financial Report. Reconciliation is completed in quarterly and “year end” budget to actual reports.

The City uses a two-year budget format to facilitate a strategic approach to financial planning and to reduce the time spent in budget preparation. The FY 2006 budget was the first year of the FY 2006 and 2007 Two Year Budget.

Idaho State Code does not recognize the concept of a two-year budget and requires the City to adopt an annual budget each year through formal publishing and hearing requirements and by adopting an annual appropriation ordinance. Therefore, each year of the two-year budget is separately adopted consistent with State Code requirements. However, administratively, the two-year budget incorporates both annual budgets and the second year adoption entails a streamlined mid-biennium review and revision process to address changes that occurred since the two-year budget was developed. The Mayor and City Council also review the results of operation and financial position of funds quarterly for each of the fiscal years within the two-year budget period. The City of Boise has established a Six Year Financial Plan that includes financial and human resource policies that provide direction for accounting, budgeting, cash management, and other financial management for the City. The policies provide broad direction for financial planning, control and reporting.

The following procedures are used to establish budgetary control:

1. Prior to October 1, the budget is legally enacted through passage of an ordinance and based upon extensive public budget workshops and public hearings. All funds are recognized in the budget including the General, Special Revenue, Debt Service, Capital Projects, Enterprise, Internal Service and certain Trust Funds.
2. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Total appropriations represent budget amounts as originally adopted plus current year adjustments for council approved prior year encumbrances, uncompleted items (primarily capital and equipment) carried forward to the following year and new projects or expenditures approved by council from prior year turn back dollars and appropriation changes approved during the year.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects, Enterprise, Internal Service and certain Trust Funds. To provide oversight and control, the Mayor’s Executive Management Team reviews all proposed changes to the budget that are exceptions to department head authority.
4. During the fiscal year, all expenditures are authorized by Payment Voucher, Purchase Order, or Journal Entry which are reviewed, according to procedures in the City Code, for budget authority, available funds and adherence to the City’s purchasing procedures and good business practices.
5. Department directors have defined discretionary authority to transfer budget appropriation amounts within approved budget totals, between line items within funds and consistent with the Mayor’s Budget Flexibility Guidelines.
6. Transfer of budget appropriations not allowed under Department Director discretion, may be recommended by the Mayor’s Executive Management Team and approved by the City Council. Revisions increasing total expenditure appropriation of any fund or adding permanent employee positions must be approved by the City Council. Any transfers of contingent funds require Mayor and City Council approval. State law does not allow fund expenditures to exceed fund appropriation. Appropriations lapse at year-end.

7. Idaho State Code allows the City to reopen the annual budget if a need for increased appropriations beyond the budgeted total is experienced. The reopened budget must be adopted by following a process similar to that, which was used to adopt the original budget, including public hearings and adoption of a revised annual appropriations ordinance. No supplemental appropriations were necessary during fiscal year 2006.

B. Excess of Expenditures over Appropriation.

For the fiscal year ended September 30, 2006, expenditures exceeded appropriations in the Debt Service Fund (\$621) and Risk Management Fund (\$864).

C. Deficit Fund Equity

The Geothermal Fund has a deficit unrestricted net assets of \$259 at September 30, 2006.

IV. DETAILED NOTES ON ALL FUNDS

A. At September 30, 2006, cash and investments, including restricted investments were invested as follows:

	<u>Carrying Amount</u>	<u>Bank Ledger Balance</u>
Cash: demand deposits		
Insured (FDIC)	\$	\$
Collateralized	1,885	3,030
Less credit balance: Fiduciary fund	(1,137)	(164)
Total Net Cash	<u>\$ 748</u>	<u>\$ 2,866</u>
Investments:		Fair Value
Commercial paper		\$ 24,618
U.S. agency securities		91,090
Money market mutual funds		<u>28,107</u>
Subtotal		<u>143,815</u>
Less: Restricted and fiduciary fund investments		<u>(8,841)</u>
Total Net Investments		<u>\$134,974</u>

Deposit and Investment Policies

Idaho Code 50-1013 limits the City's legal investments to savings accounts, prime commercial paper, general obligations of the State of Idaho and United States Treasury, notes, bonds and obligations of Government Sponsored Enterprises (FNMA, FHLMC, FFCB, FHLB), A-rated corporate bonds, and money market and mutual funds whose portfolios consist of the aforementioned underlying instruments.

The City's Investment Policy requires that investments within the portfolio are to be diversified as to security type, duration, and issuer in order to maintain a balanced portfolio. The policy does not place specific restrictions with regard to credit, concentration, and interest rate risks. The City only conducts investment purchases on a delivery versus payment basis with all securities held by a safe keeper, in the City's name, to eliminate custodial credit risk.

## Interest Rate Risk

<u>Investments by Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. Agency Securities	\$ 91,090	0.638
Commercial Paper	24,618	0.066
Money Market Mutual Funds	<u>27,792</u>	Not Available
Total Fair Value	<u>\$ 143,500</u>	

Portfolio Effective Duration 0.417

In accordance with the City's Investment Policy of diversifying its investments as to type, issuer, and maturity, the City chooses to monitor its interest rate risk exposure utilizing effective duration. Effective duration is the preferred method for callable securities, and measures the price sensitivity of an investment or portfolio, taking into account that expected cash flows will change as interest rates change. The effective duration of the City's Investment Portfolio was .417% on September 30, 2006.

## Credit Risk

<u>Investments by Type</u>	<u>Credit Rating</u>	<u>Portfolio Percentage</u>
U.S. Agency Securities	AAA	63.48%
Commercial Paper	A1/P1	17.16%
Money Market Mutual Funds	AAA	18.67%
Key Bank Account (FDIC Insured)	A1/P1	<u>0.70%</u>
Total		<u>100.00%</u>

All agency securities within the Portfolio at September 30, 2006 are rated AAA by Standard and Poors or Aaa by Moody's. All commercial paper held in the Portfolio on September 30, 2006 is rated A1/P1 by Standard and Poors and Moody's, respectively. All money market mutual funds are rated AAA by Standard and Poor's as of September 30, 2006. A \$1,000,000 balance is maintained in a Key Bank account that carries a short-term deposit rating of A1/P1. This account is insured by the FDIC up to \$100,000.

## Custodial Credit Risk

As of September 30, 2006 the City's Investment Portfolio was held in the City's name by a third-party custodian. Consequently, the City is not exposed to custodial credit risk.

## Concentration of Credit Risk

In order to maintain a balanced Portfolio, the City's adopted Investment Policy requires that investments within the Portfolio be diversified as to type of security, duration, and issuer. Consequently, to the extent allowed by State Code, the Investment Policy does not specifically place limits on amounts invested in any one issuer. On September 30, 2006, the City's Investment Portfolio exceeded 5% of total Portfolio value in the following issuers:

<u>Issuer</u>	<u>Portfolio Percentage</u>
Federal Home Loan Bank	23.49%
Federal Home Loan Mortgage Corporation	19.61%
Federal National Mortgage Association	20.46%

**B. Receivables**

September 30, 2006

	General	Capital	Airport	Sewer	Solid Waste	Nonmajor and Other Funds	Fiduciary	Total
Receivables								
Interest	\$ 135	\$ 197	\$ 46	\$ 487	\$ 15	\$ 719	\$ 39	\$ 1,638
Taxes	88,464	2						88,466
Accounts	6,921	355	1,403	1,692	1,656	477	8	12,512
Passenger Facility Charges			637					637
Sewer District				4,213				4,213
Special Assessments	9			2,241				2,250
Grants	108	138	350			46		642
Loans						5,649		5,649
								-
								-
Gross Receivables	95,637	692	2,436	8,633	1,671	6,891	47	116,007
Less: Allowance for uncollectibles	680		190	317	309			1,496
	<u>\$ 94,957</u>	<u>\$ 692</u>	<u>\$ 2,246</u>	<u>\$ 8,316</u>	<u>\$ 1,362</u>	<u>\$ 6,891</u>	<u>\$ 47</u>	<u>\$ 114,511</u>

The Sewer Receivables includes \$2,036 in long term. This is included in the Statement of Net Assets under Noncurrent assets.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental fund financials were as follows:

Property taxes receivable (general fund)	\$ 88,163
Property taxes receivable (capital projects fund)	37
Other unearned revenue	<u>380</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 88,580</u>

### C. Restricted Assets

	Debt Reserve Fund	Bond Fund / Lease Payment Fund	Undisbursed Proceeds	Reserve Funds	PFC and Deferred Compensation	Total
Governmental Fund Type						
Revenue Refunding 2002A	\$ 190					\$ 190
Warm Springs Golf Course	123			59		182
Total	313			59		372
Business-Type						
Airport Parking Facilities 2004-1		1				1
Airport PFC Restriction					4,112	4,112
Sewer Loan Reserve				177		177
Total		1		177	4,112	4,290
Total All Funds	\$ 313	\$ 1	\$ -	\$ 236	\$ 4,112	\$ 4,662

Funds set aside for payment of Governmental and Enterprise Fund debt are classified as restricted assets, since their use is limited by applicable debt agreements. Amounts restricted for specific purposes are for transportation PFC funds.

### D. Capital Assets

A Summary of the changes in capital assets for the year ending September 30, 2006 follows:

Primary Government Governmental activities:	Balance September 30, 2005	Additions	Transfers	Deletions	Balance September 30, 2006
Capital assets, not being depreciated:					
Land	\$ 40,753	\$ 23,309			\$ 64,062
Construction in progress	1,645	2,013		(16)	3,642
Total capital assets, not being depreciated	42,398	25,322		(16)	67,704
Capital assets, being depreciated:					
Buildings	57,860	506		(253)	58,113
Improvements Other Than Buildings	51,284	1,161	(1,160)	(61)	51,224
Automobiles and Trucks	18,316	1,509		(908)	18,917
Machinery and Equipment	31,428	1,564	(5,710)	(880)	26,402
Other Capital Assets		117	6,870	(199)	6,788
Total capital assets being depreciated	158,888	4,857	-	(2,301)	161,444
Less Accumulated Depreciation for:					
Buildings	22,093	2,028		(146)	23,975
Improvements other than Buildings	21,826	2,047	(499)	(59)	23,315
Automobiles and Trucks	11,612	1,457		(900)	12,169
Machinery and Equipment	16,797	1,675	(4,102)	(826)	13,544
Other Capital Assets	-	210	4,601	(22)	4,789
Total accumulated depreciation	72,328	7,417		(1,953)	77,792
Total capital assets, being depreciated, net	86,560	(2,560)		(348)	83,652
Governmental activities capital assets, net	\$ 128,958	\$ 22,762		\$ (364)	\$ 151,356

Depreciation expense does not equal total accumulated depreciation additions due to Transfers between governmental and business activities as well as adjustments to accumulated depreciation.

Business-type activities:	Balance September 30, 2005	Additions	Transfers	Deletions	Balance September 30, 2006
Capital assets, not being depreciated:					
Land	\$ 28,309	\$ 389		\$ (5)	\$ 28,693
Construction-in-progress	16,038	(6,480)		(523)	9,035
Total capital assets, not being depreciated	<u>44,347</u>	<u>(6,091)</u>		<u>(528)</u>	<u>37,728</u>
Capital assets, being depreciated:					
Buildings	231,369	1,386		(1,212)	231,543
Land Improvements/Terminal Parking	54,611	2,988		-	57,599
Improvements Other Than Buildings	34,159	1,544	(575)	(453)	34,675
Service Lines	148,120	11,285		(21)	159,384
Automobiles and Trucks	9,867	1,294		(166)	10,995
Machinery and Equipment	48,162	13,756		(907)	61,011
Other Capital Assets	-	10	575	-	585
Total capital assets, being depreciated	<u>526,288</u>	<u>32,263</u>		<u>(2,759)</u>	<u>555,792</u>
Less Accumulated Depreciation for:					
Buildings	46,590	5,961		(877)	51,674
Land Improvements/Terminal Parking	28,011	3,282		-	31,293
Improvements Other Than Buildings	10,358	2,092	(88)	(381)	11,981
Service Lines	38,122	1,660		(19)	39,763
Automobiles and Trucks	6,296	610		(164)	6,742
Machinery and Equipment	19,640	5,199		(606)	24,233
Other Capital Assets	-	28	88	-	116
Total Accumulated Depreciation	<u>149,017</u>	<u>18,832</u>		<u>(2,047)</u>	<u>165,802</u>
Total capital assets, being depreciated, net	<u>377,271</u>	<u>13,431</u>		<u>(712)</u>	<u>389,990</u>
Business-type activities capital assets, net	<u>\$ 421,618</u>	<u>\$ 7,340</u>		<u>\$ (1,240)</u>	<u>\$ 427,718</u>

Depreciation Expense was charged to the government functions as follows:

General Government	\$ 1,083
Fire	1,380
Police	802
Parks and Recreation	2,377
Culture and Library	708
Community Service	944
Community development	33
Total government functions	<u>7,327</u>
Capital assets held by the government's internal service funds charged to the various functions based on their usage	<u>70</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 7,334</u>

E. Interfund Receivables, Payables and Transfers

The composition of the interfund balances as of September 30, 2006 is as follows:

	Receivable (Due to) Fund								Total
	General	Capital	Non-major Governmental	Airport	Sewer	Solid Waste	Non-major Proprietary	Internal Service	
Payable (Due from) Fund									
General		\$ 11,152	\$ 5	\$ 1,729	\$ 89		\$ 18	\$ 149	\$ 13,142
Capital	3,251			30					3,281
Non-major									
Governmental	722				6				728
Airport	230				133	2		8	373
Sewer	740			552		8			1,300
Solid Waste	65				110				175
Non-major									
Proprietary	77				16	68	35		196
Internal Service	44			9	16	5			74
	<u>5,129</u>	<u>11,152</u>	<u>5</u>	<u>2,320</u>	<u>370</u>	<u>83</u>	<u>53</u>	<u>157</u>	<u>19,269</u>

Interfund payables to General Fund were:

- Designated for cash flow (\$2,384)
- Capital Transfer (\$770)
- Transfer for accrual of compensated absences (\$621)
- Transfers from other funds to cover fringe benefits to be paid out of General Fund (\$391)
- Transfer of FY06 fourth quarter indirect costs (\$249)
- City Sewer, Trash & Geothermal charges (\$207)
- IT Charges (\$112)
- Other (\$395)

Interfund payables to the Capital Projects Fund were:

- Transfer of tax support for capital projects (\$11,087)
- Other (\$95)

Interfund payables to Airport Fund were:

- Cash reclassifications with other funds (\$2,218)
- Other (\$102)

Advances to/from other funds as of September 30, 2006:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer	Non-major proprietary	\$ 182
Solid Waste	Internal Service	819
		<u>\$1,001</u>

The amount not expected to be repaid within one year from the Solid Waste Fund to the City Shop is \$792. While \$100 of a loan from the Sewer Fund to the Geothermal Fund may not be paid, the current year's payment schedule will be reevaluated in February and the entire loan balance may be paid by year end.

	Transfer in:								Total	
	General	Capital	Non-major Governmental	Airport	Sewer	Solid Waste	Non-major Proprietary	Internal Service		
Transfer out:										
General	\$	\$ 7,922	\$ 2,687	\$ 36	\$ 22	\$ 1	\$ 99	\$ 2	\$ 10,769	
Capital Projects		85							85	
Non-major Governmental		714	2				5		721	
Sewer		1							1	
Solid Waste		103							103	
	\$	\$ 903	\$ 7,922	\$ 2,689	\$ 36	\$ 22	\$ 1	\$ 104	\$ 2	\$ 11,679

Transfers are used to 1) move revenues from the General Fund to Capital Projects to fund authorized projects (\$7,922), and 2) transfer support from one fund to another consisting mainly in 2006 of transfers to the debt service fund for debt payments (\$2,687).

## F. Risk Management –Claim Liability

Liability	<u>2006</u>	<u>2005</u>
Other accrued liabilities, at September 30, of prior year	\$ 1,991	\$ 1,004
Less: Compensated Absences	<u>(16)</u>	<u>(17)</u>
Total unpaid claims and claim adjustment expenses at September 30 of prior year	1,975	987
Provision for self-insured events of the current year	<u>473</u>	<u>617</u>
Total incurred claims and claims adjustment expenses	<u>\$ 2,448</u>	<u>\$ 1,604</u>
Payments:		
Claims and claim adjustment expenses attributable to self insured events of the current year	25	36
Claims and claim adjustment expenses attributed to self insured events of prior years	245	65
Less: Claim payments & (Plus) recoveries in process	3	(945)
Plus: Close-out of Prior Years	<u>-</u>	<u>473</u>
Total Payments	<u>\$ 273</u>	<u>\$ (371)</u>
Total unpaid claims and claim adjustment expenses at September 30	2,175	1,975
Add: Compensated Absences	<u>16</u>	<u>16</u>
Other accrued liabilities at September 30	<u>\$ 2,191</u>	<u>\$ 1,991</u>
Workers Compensation		
	<u>2006</u>	<u>2005</u>
Other accrued liabilities, at September 30, of prior year	\$ 2,318	\$ 1,880
Less: Compensated Absences	<u>(7)</u>	<u>(4)</u>
Total unpaid claims and claim adjustment expenses at September 30 of prior year	2,311	1,876
Provision for self-insured events of the current year	<u>1,209</u>	<u>1,387</u>
Total incurred claims and claims adjustment expenses	<u>\$ 3,520</u>	<u>\$ 3,263</u>
Payments:		
Claims and claim adjustment expenses attributable to self insured events of the current year	462	344
Claims and claim adjustment expenses attributed to self insured events of prior years	599	586
Less: Claim payments & (Plus) recoveries in process	<u>(38)</u>	<u>22</u>
Total Payments	<u>\$ 1,023</u>	<u>\$ 952</u>
Total unpaid claims and claim adjustment expenses at September 30	2,497	2,311
Add: Compensated Absences	<u>6</u>	<u>7</u>
Other accrued liabilities at September 30	<u>\$ 2,503</u>	<u>\$ 2,318</u>

There are no judgments outstanding. Claims expected to be paid within the next year are \$186 and \$655 for liability and workers compensation respectively.

### G. Long Term Debt

The following is a summary of changes in long-term obligations of the City a September 30, 2006.

Governmental Activities	Long-Term Obligations at			Long-Term Obligations at	
	October 1, 2005	Additions	Deletions	September 30, 2006	Due Within One Year
<b>Revenue Bonds:</b>					
Refunding Bonds 2001A	\$ 27,125		\$ 485	\$ 26,640	\$ 505
Refunding Bonds 2002A	2,160		90	2,070	90
Less: Def. Amt On Refunding	(880)		(210)	(670)	
<b>Capital Leases:</b>					
Golf Course Improvement Project	805		75	730	80
City Hall 2	3,703		349	3,354	363
<b>Other Long-Term Debt Obligations:</b>					
Compensated Absences	2,882	501	423	2,960	523
<b>Total Governmental Activities</b>	<b>35,795</b>	<b>501</b>	<b>1,212</b>	<b>35,084</b>	<b>1,561</b>
<b>Business-Type Activities</b>					
<b>Revenue Bonds:</b>					
Airport Revenue Refunding	7,305		1,110	6,195	1,140
Less deferral	(213)		(63)	(150)	(51)
Plus premium	53		9	44	9
Wastewater Facility Note	17,295		930	16,365	965
Deferred gain	259		63	196	53
<b>Capital Leases:</b>					
Airport Revenue COP's 2000	47,890		935	46,955	980
<b>Installment Loans:</b>					
Sewer Line Loan	1,417		31	1,386	31
Sewer Line Loan	279		38	241	40
Sewer Line Loan	7,447	793	140	8,100	143
<b>Other Long-Term Debt Obligations:</b>					
Airport Line Of Credit	3,400		3,400		
Section 108 Advance	1,680		140	1,540	140
Compensated Absences and Other Post Employment Benefits	1,262	6	11	1,257	221
<b>Total Business-Type Activities</b>	<b>88,074</b>	<b>799</b>	<b>6,744</b>	<b>82,129</b>	<b>3,671</b>
<b>Total</b>	<b>\$ 123,869</b>	<b>\$ 1,300</b>	<b>\$ 7,956</b>	<b>\$ 117,213</b>	<b>\$ 5,232</b>

For Governmental Activities, the General Fund generally liquidates compensated absences.

Governmental Activities:

BONDS:

Refunding Bonds 2001A  
\$28,445 Revenue Refunding Bonds due in annual installments of \$485 to \$1,840 through 2032, interest accrues at 4.75% to 5.375%. \$26,640

Refunding Bonds 2002A  
\$2,410 Revenue Refunding Bonds due in annual installments of \$90 to \$180 through 2022, interest accrues at 3.10% to 5.0%. 2,070

CAPITAL LEASES

Golf Course Improvement Project  
\$1,185 lease due in annual installments of \$75 to \$105 through 2014; interest accrues at 4.40% to 5.20%. 730

City Hall 2  
\$6,500 Capital Lease due in annual installments of \$363 to \$480 through 2015. Zero interest lease. Implied rate is 4.087% 3,354

OTHER LONG-TERM LIABILITIES

Less Discounts (670)  
Compensated absences 2,960

Total Governmental Funds 35,084

Business-type Activities:

REVENUE BONDS:

Airport Revenue Refunding Bond – Series 2004-1:  
\$9,515 Bonds due in annual principal installments of \$1,110 to \$1,360 and semi-annual interest installments of \$24 to \$122 through 2011; interest accrues at 3.00% to 3.50%. 6,195  
Less deferral (150)  
Plus premium 44

Wastewater Facility Note Refunding Bonds – Series 1999:  
\$22,145 Refunding bonds due in annual installments of \$930 to \$1,625 through 2019; interest accrues at 3.90% to 4.75%. 16,365

Deferred gain on refunding 196

CAPITAL LEASES:

Airport Revenue COP's – 2000:  
\$52,000 lease due in annual principal installment of \$935 to \$3,405 through 2030; interest accrues at

4.90% to 5.875%.	46,955
<b>LOANS:</b>	
Section 108 Loan: \$2,100 Section 108 loan due in annual installments of \$140 through 2017; interest accrues at 3.45% to 5.77%.	1,540
Sewer Line Loan: \$1,616 loan due in semi-annual payments including interest of \$59 through 2022; interest accrues at 4%.	1,386
Sewer Line Loan: \$672 sewer line loan due in semi-annual payments including interest of \$25 through 2012; interest accrues at 4%.	241
Sewer Line Loan: \$8,240 sewer line loan; to be repaid in bi-annual installments over 20 years; interest accrues at 3.75%.	8,100
Airport Line of Credit: \$0 drawn on a \$7,000 variable rate line of credit; to be repaid on or before October 2, 2006; interest accrues at Prime less 2.35%. Interest paid monthly.	1,257
Compensated Absences	<u>1,257</u>
Total Business-type Activities:	<u>82,129</u>
Total long-term liabilities	<u>\$117,213</u>

On May 1, 1993 the City redeemed the remaining balance on the 1984 Boise City Sewer Revenue Refunding Bonds. The Revenue Refunding Bonds were issued and a refunding escrow was established to provide for debt service on the 1978 Sewer Revenue Refunding Bonds, which, in turn, refunded 1974, 1975, and 1977 issues. All bonds have been extinguished as of September 30, 2006.

#### Conduit Bonds

The City is authorized under Title 50 Chapter 27 of the *Idaho Code* to create an industrial development corporation for the purpose of issuing Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of manufacturing, processing, production, assembly, warehousing, solid waste disposal, ski area and energy facilities (excluding facilities to transmit, distribute or produce electrical energy). Ordinance No. 4700 of the City created the Industrial Development Corporation of the City of Boise, Idaho.

From time to time the City, through the Industrial Development Corporation, has issued Industrial Revenue Bonds. The bonds are payable solely from payments received from the private-sector entity served by the issuance. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity. Pursuant to Title 50 Chapter 2706 of the *Idaho Code*, neither the City, the State nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of September 30, 2006, there is one Industrial Revenue Bond outstanding, with an aggregate principal amount of \$4,680.

#### Claims and Judgments

There are currently no outstanding claims or judgments against the City that would constitute long-term debt. Reserves for open, unsettled claims are disclosed in Footnote F and in the statistical section of the CAFR.

#### Capital Leases

The City is obligated under a lease accounted for as capital lease. The leased asset and related obligation are accounted for in the Statement of Net Assets in the Governmental-Wide Financial Statements. The future minimum lease payments as of September 30, 2006 are \$3,354.

The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of September 30, 2006.

<u>Fiscal Year Ending September 30</u>	<u>Lease Payments</u>
2007	\$ 500
2008	500
2009	500
2010	500
2011	500
2012-2014	<u>1,500</u>
Minimum Lease Payments for the Capital Lease	4,000
Less: Amount representing interest at the City's incremental borrowing rate of interest.	<u>(646)</u>
Present value of minimum lease payments on 09/30/06	<u>\$ 3,354</u>

The annual requirements to amortize all debt outstanding as of September 30, 2006 excluding obligations associated with compensated absences, post-retirement benefits, and deferred amounts are as follows:

	Governmental Activities		Business type activities		Entity Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,038	\$ 1,645	\$ 3,616	\$ 3,987	\$ 4,654	\$ 5,632
2008	1,083	1,598	3,752	3,844	4,835	5,442
2009	1,133	1,549	3,907	3,685	5,040	5,234
2010	1,189	1,498	4,113	3,517	5,302	5,015
2011	1,246	1,443	4,290	3,339	5,536	4,782
2012-2016	5,865	6,315	16,634	14,123	22,499	20,438
2017-2021	5,380	4,978	17,014	9,650	22,394	14,628
2022-2026	6,175	3,447	14,874	5,881	21,049	9,328
2027-2031	7,845	1,594	12,580	1,809	20,425	3,403
2032-2036	1,840	49	-	-	1,840	49
Total	\$ 32,794	\$ 24,116	\$ 80,780	\$ 49,835	\$ 113,574	\$ 73,951

See Note C under Detail Notes For All Funds for amounts available in reserve funds to offset the last installment payments of certain issues.

Total interest cost incurred during 2006 was \$5,706 of which \$5,688 related to long-term debt.

In Idaho, a municipality is allowed a debt limit of two percent of the market valuation of the real and personal property in its taxing area. Boise City legal debt limits for 2005, based on data available from Ada County, would be approximately \$318,412.

#### H. Pension Plan

Substantially all full-time employees of Boise City participate in the Public Employees Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public employee retirement system, created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute.

Designed as a mandatory system for eligible state and school district employees, the legislation provided for political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each year of credited service, the annual service retirement allowance is 2.0 percent or 2.3 percent (depending upon employee classification) of the average monthly salary for the highest consecutive forty-two months.

For the year ended September 30, 2006, the required contribution rates, as determined by PERSI, are as follows:

	<u>Employee</u>	<u>Employer</u>
General Member	6.23%	10.39%
Police	7.65%	10.73%
Fire (hired after October 1, 1980)	7.65%	27.97%
Fire (hired before October 1, 1980)	11.45%	36.62%

The combined contributions for the City and employee shares required and paid were \$15,959, \$15,084 and \$13,781 for the three years ended September 30, 2006, 2005 and 2004 respectively.

I. Fund Balance Designations

The amounts designated for subsequent year expenditures consist of the following:

<u>General Fund</u>	
Contributions to ValleyRide	\$ 1,107
Fire Station #9 Construction	1,071
Repair and Maintenance Backlog	899
Police Union Contingency	796
Employee Compensation	400
Professional Services	315
Permits and land acquisition	256
Citywide Contingency	195
Alternative Service Delivery & Capital Facility Study	175
City share of the Integrated Online Library System	162
Warm Springs Golf Course	139
Blueprint for Good Growth Implementation	123
Utility Vehicle	119
All other-each under \$100,000	<u>1,232</u>
	<u>\$ 6,989</u>

<u>Capital Projects</u>	
Reinvestment in essential public facilities	\$ 7,087
Hollandale and Harris Ranch fire stations	2,501
Special Planning Project/Studies	535
Oracle license renewal	350
J.D. tennis court resurfacing	327
Data Center Conversion	254
City Hall phone system replacement	242
All other-each under \$100,000	<u>929</u>
	<u>\$ 12,225</u>

The designation for special purposes is a set aside for cash flow purposes

J. Net Assets

The government-wide statement of net assets reports \$34,583 of restricted net assets, of which \$13,543 is restricted by enabling legislation

K. Commitments

Construction-in-progress as of September 30, 2006, is \$12,677. The estimated cost to complete proprietary construction projects was approximately \$31,055. Of the estimated cost to complete, approximately \$4,785 will be funded by state and federal grants, and passenger facility charges.

See note I for City commitments that are included in fund balance designations.

L. Contingent Liabilities

The City is involved in several claims and is a defendant in pending and threatened litigation. While it is not feasible to predict or determine the ultimate outcome of all these matters, in management's opinion, they will not have a material adverse effect upon accompanying financial statements. However, in the case of Boise Tower Associates, LLC v. The City of Boise, Timothy J. Hogland, et al, the likelihood of an unfavorable outcome to the City is possible with a loss in the range of \$100,000 to \$1,000,000 possible while the likelihood of a \$10,000,000 loss is remote.

M. Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

N. Special Items

In fiscal year 2006 the City has no significant special items to report.

O. Component Unit

Capital City Development Corporation is an urban renewal agency created by and existing under the Idaho Urban Renewal Law of 1965, as amended, and is an independent public body.

The following is a summary of the disclosures required for a fair presentation of the component unit in the City's financial statements:

The accounting and reporting policies of the Agency relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. As allowed in Section P80 of GASB's "Codification of Governmental Accounting and Financial Reporting Standards", the Corporation has elected not to apply to its proprietary fund and government-wide financial statements Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Restricted Assets –Restricted assets are held by the Agency's agent in the Agency's name. Investments are generally held until maturity. The bond resolutions limit investments to certain types of securities, which meet defined standards. At September 30, 2006, \$3,736 is restricted for debt service reserves and for expenditure on certain capital asset acquisitions.

Due From Other Governmental Units

Amounts due from other agencies and units of government are as follows:

Ada County Capital Lease	\$ 52,075
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The following represents the minimum future payments on the capital lease from Ada County.

2007	\$ 4,058
2008	4,166
2009	4,278
2010	4,394
2011	4,877
Thereafter	<u>63,225</u>
	84,998
Less amount representing interest	<u>(32,923)</u>
	<u>\$ 52,075</u>

Long-term Debt

The following is long-term debt for the agency for the year ended September 30,2006

Parking and Revenue and Revenue Allocation Bonds	
Series 1995 A	\$ 3,810
Series 1995 B	3,185
Series 1998	4,110
Series 1999	2,785
Series 2002 C	2,495
Series 2004 A	8,055
Series 2004 B	2,760
Series 2005 County Complex	56,425
Line of credit	880
Other	645
	<u>85,150</u>
Deferred interest cost	<u>(377)</u>
	<u>\$ 84,773</u>

At September 30, 2006, long term debt is classified on the Statement of Net Assets as:

Current portion	\$ 2,880
Long-term debt	<u>81,893</u>
	<u>\$ 84,773</u>

The 1995 Series bonds bear interest at rates between 4.5% and 6.125%. The Agency has the option to redeem bonds maturing on or after September 1, 2006 to March 1, 2007 at 102% of par value, from September 1, 2007 to March 1, 2008 at 101% of par value, and 100% of par value after September 1, 2008. Bond covenants place certain restrictions on the sale or encumbrance of the parking facilities.

The 1998 Series bonds bear interest at a variable rate and interest is paid monthly. The interest rate at September 30, 2003 was 3.50%. The Agency has the option to redeem bonds maturing at a time greater or equal to 12 years after the date of the bond issuance at 101% of par value and at 100% of par value on the bonds maturing 13 years after the issuance of the bond and thereafter. Bond covenants place certain restrictions on the sale or encumbrance of the parking facilities.

The 1999 Series bonds bear interest at rates between 3.7% and 5.15%. The agency has the option to redeem the bonds maturing on or after September 1, 2008 to September 1, 2009 at 101% of par value and 100% of par after March 1, 2010. Bond covenants place certain restriction on the sale or encumbrance of the parking facilities.

The 2002 Series C Bonds for the Civic Plaza parking Garage bear a variable interest rate determined annually by the remarketing agent. At September 30, 2005, the interest rate was 3.50%. The Agency has the option to redeem the bonds maturing on or after March 1, 2012, at 102% of par value if the redemption date is more than 9 years to maturity, and at 101% if the redemption date is less than 9 years to maturity. The bonds mature on September 1, 2033.

The 2004 Series A and B bonds for the Boise Downtown (BoDo) Project bear a variable interest rate determined annually remarketing agent. At September 30, 2005, the interest rates were

3.23% and 4.20%. The Agency has the option to redeem the bonds at a price equal to 100% plus accrued interest in whole or in part on any business day. The bonds mature on March 1, 2024.

The 2005 Series bonds bear interest at rates between 3% and 5%. The Agency does not have the option to redeem bonds maturing in years 2006 through 2015 prior to the maturity date, unless extraordinary events happen as prescribed in the debt agreement. Series that mature on or after August 15, 2016 are subject to redemption at the option of the Agency, which option shall be exercised upon the written direction of the County, in whole or in part at any time at a price equal to 100% plus accrued interest. The bonds mature on August 15, 2022.

The agency has the option to redeem the bonds maturing on or after September 1, 2008 to September 1, 2009 at 101% of par value and 100% of par after March 1, 2010. Bond covenants place certain restrictions on the sale or encumbrance of the parking facilities. The 2005 Series bonds for the County Complex bear interest rates between 4.2% and 6.25%. The Agency has the option to redeem the bonds maturing on or after August 15, 2009 to August 14, 2010 at 101% of par value. For the bonds maturing August 15, 2010 through August 14, 2011, the option is for 100.5% of par value and 100% thereafter.

The Agency executed an agreement with Christensen Corporation, an Idaho corporation, to exchange real property located at 10<sup>th</sup> Street and Bannock Street with property located at 14<sup>th</sup> Street and Idaho Street. In order to comply with the bond covenants, the Agency was required to provide a deposit of \$645,000, \$195,000 of which was used for an early redemption in 2004. Christensen Corporation loaned \$645,000 to the Agency in the form of a promissory note, bearing interest at prime plus 1%, not to exceed 7% per annum. The Agency is required to repay the note with excess revenue allocation funds received from the site.

Defeasance of Debt - In April, 2005 the Agency defeased 1999 general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt payments on the bonds retired. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At September 30, 2006, \$61,620 bonds outstanding are considered defeased. As a result of this refunding, the Corporation reduced its total debt service requirements by \$37,382, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$7,878.

The annual requirements to retire the debt as of September 30, 2006 are as follows:

	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2007 \$	1,415	\$ 2,853	\$ 1,315	\$ 1,052
2008	1,977	2,803	2,313	987
2009	1,868	2,742	1,667	904
2010	2,039	2,675	1,736	822
2011	2,600	2,586	1,835	738
2012-2016	17,622	10,734	9,333	2,191
2017-2021	28,227	5,459	2,308	846
2022-2026	5,264	227	1,911	470
2027-2031	-	-	1,000	247
2032-2035	-	-	720	37
	<u>61,012</u>	<u>30,079</u>	<u>24,138</u>	<u>8,294</u>
Deferred Charges	-	-	(377)	-
Total	<u>\$ 61,012</u>	<u>\$ 30,079</u>	<u>\$ 23,761</u>	<u>\$ 8,294</u>

The Agency incurred bond issuance costs and deferred interest costs relating to debt. These costs are amortized over the life of the bonds and reduce the carrying amount of the related debt. At September 30, 2006, the deferred costs netted against the bond liabilities are \$432.

The Agency has a line of credit of \$3,000 for the River Street/Myrtle Street project, with an annual limit based on projected revenue. There is an outstanding balance of \$880 at September 30, 2006. Line of credit advances are secured by the Agency's incremental tax revenues and lawful available resources. The line of credit agreements expire in December 2007.

Long-term liability activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Government</b>					
<b>Activities:</b>					
Line of Credit		\$ 280		\$ 280	
2004A&B Series	4,307			4,307	150
2005 Series	57,640		(1,215)	56,425	1,355
	<u>\$ 61,947</u>	<u>\$ 280</u>	<u>\$ (1,215)</u>	<u>\$ 61,012</u>	<u>\$ 1,505</u>
<b>Business- Type</b>					
<b>Activities:</b>					
1995 Series A	\$ 3,908		\$ (452)	\$ 3,456	\$ 330
1995 Series B	3,595		(410)	3,185	270
1998 Series	4,470		(360)	4,110	375
1999 Series	2,994		(232)	2,762	245
202C Series	2,500		(5)	2,495	5
2004A&B Series	6,508			6,508	150
Line of Credit		600		600	
Other	645			645	
	<u>\$ 24,620</u>	<u>\$ 600</u>	<u>\$ (1,459)</u>	<u>\$ 23,761</u>	<u>\$ 1,375</u>

#### Notes Receivable

The Omnibus Implementation Agreement between the Agency and FIC Associates (FIC) provides that FIC will make a capital contribution of \$517 to the Agency for the capital cost of office parking facilities. The terms of the agreement provide that FIC shall pay semi-annual installments of \$58 through January 1, 2009. The outstanding portion bears interest at 8%. At September 30, 2006 capital contribution receivable and interest receivable of \$258 and \$5, respectively, are included in the financial statements. As part of the agreement, FIC has an option to purchase the Ninth Street parking facility. The option is exercisable through July 2009. The purchase price under the option is the Agency's cost of the garage, net of direct operating losses and gains, less any principal payments received from FIC on the capital contribution.

The Agency earned a developer fee in the amount of \$1,760 for services rendered to the development of the Civic Plaza project in 2003. The Agency was compensated in the form of cash paid during the year in the amount of \$1,030 and a note receivable from Civic Plaza, LP for the remaining balance of \$730. The terms of the note are 5.25% interest compounded annually through 2042. No principal or interest payments are due until 2042, at which time the note may be exchanged for 83% ownership in the project, at which point the Agency will own 100% of the project. The note principal and interest balance was \$896 at September 30, 2006.

#### Commitment and Contingencies

The Parking Revenue and Revenue Allocation Bond Series 1999 Resolution provides that the Agency must fund a repair and replacement reserve of \$500. The fund may be used only for the repair and maintenance of the parking system properties. The balance as of September 30, 2006 was \$438 and \$92 was distributed during the year for repairs and maintenance of the parking system properties.

The Agency has entered into agreements to participate in strategic renewal projects which involve reimbursements to developers for certain qualifying costs incurred in renewal projects totaling approximately \$2,500 plus interest in some cases.

Leases

The Agency entered into leases for the following:

Rental of office facilities on July 1, 2004. The lease has a term of five years at \$8 per month.

Lease Other

The Agency has entered into an agreement with Ada County on the County Courthouse Project. The Agency has leased approximately 10.3 acres of land owned by Ada County under a master ground lease obligation that expires in 2098. The Agency issued bonds, Series 1999 for the County Courthouse Project in the amount of \$62,620 to finance the acquisition, construction and improvement of the courthouse and administration building for use by Ada County, and related parking facilities, integrated retail space and other public improvements. The Agency refunded the Series 1999 bonds and issued bonds, Series 2005, during the year. The bonds are the obligation of the Agency, payable from and secured solely by lease payments made by Ada County under the agreement. The agreement provides for lease payments equal to the amount necessary for the payment of annual debt service requirements for the Series 2005 bonds. The Agency plans to lease the Courthouse to Ada County over a thirty year term, with title reverting to Ada County at the end of the lease term. Upon satisfaction of the outstanding lease obligation, Ada County may purchase the facilities from the Agency for \$1.

The Agency has recorded the transaction as a capital lease receivable for \$52,075. This receivable has been discounted at 5.9% and will be received over the thirty year term.

Future minimum lease payments under the leases are as follows:

	Master Ground Lease	Civic Plaza Garage	Parking Office Facility	Total
2007	\$ 4,058	\$ 592	\$ 99	\$ 4,749
2008	4,166	630	153	4,949
2009	4,278	668	-	4,946
2010	4,394	713	-	5,107
2011	4,877	752	-	5,629
Thereafter	63,225	12,419	-	75,644
Total minimum lease Payments	<u>\$ 84,998</u>	<u>\$ 15,774</u>	<u>\$ 252</u>	<u>\$ 101,024</u>

Total lease expense for the year ended September 30, 2006, was \$4,611.

Grove Street Parking Garage

The Agency leases the Grove Street Parking Garage to Boise City. Pursuant to the lease agreement, the lease is until 2015 and provides for an annual rebate to Boise City equal to the net revenues of the garage less required debt service and repair and replacement reserve contributions. The Agency accrued a lease rebate related to the Grove Street Parking Garage of \$680 for the year ended September 30, 2006.

Prior Period Adjustment

There was a developer fee earned by an independent contractor during the construction phase of the County Courthouse and related developments. The developer fee was retained by the Agency as a security deposit for other projects to be performed. A liability was not recorded in the Statement of Net Assets of the Governmental Activities for the long-term payable. In addition, there was a sale of property held for resale in a prior year that was not reflected in the financial statements. The following represents the effects of the prior period adjustments to record the liability for the remaining balance of the deposit account and to record the effect of the land sale:

	Statement of Net Assets	Revenue Allocation
Net assets, September 30, 2005	\$ 2,994	\$ 4,887
Developer fee reclassified as a liability	(830)	
Investment in property held for resale	(435)	(435)
Net assets, as restated	<u>\$ 1,729</u>	<u>\$ 4,452</u>