CITY OF QUINCY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2006

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to the Financial Statements	22
SUPPLEMENTARY INFORMATION:	
Contributory Retirement System Information	49

MH&Co

MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Center Drive • Suite 112
Andover, MA 01810-1096
Tel (978) 749-0005 • Fax (978) 749-0006
melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Quincy, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quincy, Massachusetts, as of and for the year ended June 30, 2006 (except for the Quincy Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Quincy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Quincy, as of June 30, 2006 (except the Quincy Contributory Retirement System which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:
Nashua, NH • Greenfield, MA • Ellsworth, ME

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
November 11, 2006 except Contributory Retirement Fund,
which is dated August 11, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Quincy, we offer readers this narrative overview and analysis of the financial activities of the City of Quincy for the fiscal year ended June 30, 2006.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include Quincy College activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for Quincy College operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for self-insured employee health program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Quincy College operations, which is considered to be a major fund.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by $ 136,549,165 (i.e., net assets), a change of $ 10,251,251 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of $ 43,242,596, a change of $ 5,418,581 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $ 9,903,854, a change of $ (3,275,117) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was $ 64,622,505, a change of $ (6,655,398) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 78,414	$ 89,124	$ 14,308	$ 16,735	$ 92,722	$ 105,859
Capital assets	175,096	156,095	271	355	175,367	156,450
Total assets	253,510	245,219	14,579	17,090	268,089	262,309
Long-term liabilities outstanding	85,925	99,132	153	211	86,078	99,343
Other liabilities	41,374	46,065	4,088	3,905	45,462	49,970
Total liabilities	127,299	145,197	4,241	4,116	131,540	149,313
Net assets:						
Invested in capital assets, net	106,130	84,727	216	245	106,346	84,972
Restricted	12,552	12,639	-	-	12,552	12,639
Unrestricted	7,529	2,656	10,122	12,729	17,651	15,385
Total net assets	$ 126,211	$ 100,022	$ 10,338	$ 12,974	$ 136,549	$ 112,996

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services	$ 38,149	$ 34,894	$ 15,181	$ 15,358	$ 53,330	$ 50,252
Operating grants and contributions	50,845	49,262	78	289	50,923	49,551
Capital grants and contributions	3,142	3,446	-	-	3,142	3,446
General revenues:						
Property taxes	135,660	131,368	-	-	135,660	131,368
Excises	8,229	8,434	-	-	8,229	8,434
Grants and contributions not restricted to specific programs	25,266	25,853	-	-	25,266	25,853
Other	12,501	7,374	474	293	12,975	7,667
Total revenues	273,792	260,631	15,733	15,940	289,525	276,571
Expenses:						
General government	8,885	8,017	-	-	8,885	8,017
Public safety	37,549	36,089	-	-	37,549	36,089
Education	103,842	98,654	-	-	103,842	98,654
Public works	40,166	39,449	-	-	40,166	39,449
Human services	7,240	5,615	-	-	7,240	5,615
Culture and recreation	7,409	6,489	-	-	7,409	6,489
Employee benefits	49,903	45,939	-	-	49,903	45,939
Interest on long-term debt	3,541	3,053	-	-	3,541	3,053
Intergovernmental	2,519	2,808	-	-	2,519	2,808
Quincy College	-	-	18,369	15,079	18,369	15,079
Total expenses	261,054	246,113	18,369	15,079	279,423	261,192
Change in net asset before transfers and permanent fund contributions	12,738	14,518	(2,636)	861	10,102	15,379
Transfers in (out)	103	-	-	-	103	-
Permanent fund contributions	46	26	-	-	46	26
Increase in net assets	12,887	14,544	(2,636)	861	10,251	15,405
Net assets - beginning of year, as restated	113,324	85,478	12,974	12,113	126,298	97,591
Net assets - end of year	$ 126,211	$ 100,022	$ 10,338	$ 12,974	$ 136,549	$ 112,996

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were $ 136,549,165, a change of $ 10,251,251 from the prior year.

The largest portion of net assets $ 106,346,821 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net

of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets $ 12,551,770 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $ 17,650,574, is available to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of $ 12,887,474. Key elements of this change are as follows:

	Governmental Activities
General fund operating results	$ (4,838,380)
Stabilization fund operating results	4,750,000
Nonmajor funds operating results	5,506,961
Internal service fund deficit	295,256
Excess principal maturities, which are a budgeted expense, over depreciation, net of refunding	3,010,648
Other GAAP accruals	4,162,989
Total	$ 12,887,474

Business-type activities. Quincy College business-type activities for the year resulted in a change in net assets of $ (2,636,223) as a result of a one-time payment to the City of $ 3,886,537 for prior year pension expenditures that were not previously accrued by the College.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of $ 43,242,596, a change of $ 5,418,581 in comparison with the prior year. Key elements of this change are as follows:

	Fund Balance Governmental Funds
General fund deficit, after transfer to stabilization	$ (4,838,380)
Stabilization fund surplus	4,750,000
Nonmajor fund surplus	5,506,961
Total	$ 5,418,581

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was $ 9,903,854, while total fund balance was $ 12,669,121. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.1 percent of total general fund expenditures, while total fund balance represents 5.3 percent of that same amount.

The fund balance of the general fund changed by $ (4,838,380) during the current fiscal year. Key factors in this change are as follows:

	Fund Balance General Fund
Excess budget over actual state and local revenues	$ (1,792,176)
Budgetary appropriation underspent by departments	4,533,749
Excess (shortfall) of tax collections over budget	(1,084,122)
Use of free cash (fund balance) as a funding source	(7,250,000)
Excess of prior year encumbered appropriations spent in the current year over current year encumbrances to be spent in subsequent year	(717,682)
Prior year snow and ice deficit raised	2,287,782
Other accruals	(815,931)
Total	$ (4,838,380)

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to $ 10,121,457, a change of $ (2,607,322) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of $ 9,903,868. These supplemental appropriations were funded by transfers from other funds of $ 2,653,868 and

use of fund balance, $ 7,250,000. The additional appropriations were used to offset departmental budget needs of $ 2,703,868, and to transfer $ 5,000,000 and $ 2,200,000 to Stabilization and Capital Projects.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to $ 175,367,442 net of accumulated depreciation), a change of $ 18,917,697 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following (in thousands):

Acquisition of vehicles	$ 710
Building improvements and repairs	$ 1,302
Increase in infrastructure relating to sewer and water lines	$ 2,862
Recording of infrastructure not previously recorded	$ 13,302

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was $ 64,622,505, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Quincy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Auditor's Office

City of Quincy

1305 Hancock Street

Quincy, Massachusetts 02169

CITY OF QUINCY, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	$ 58,395,192	$ 11,458,598	$ 69,853,790
Investments	4,398,136	2,204,894	6,603,030
Receivables, net of allowance for uncollectibles:			
Property taxes	3,133,268	-	3,133,268
Excises	1,335,580	-	1,335,580
User fees	4,080,325	854,996	4,935,321
Departmental and other	1,324,350	-	1,324,350
Intergovernmental	311,605	-	311,605
Internal balances	210,598	(210,598)	-
Other assets	358,987	-	358,987
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	3,430,712	-	3,430,712
Other assets	1,435,745	-	1,435,745
Capital assets:			
Land and construction in progress	72,159,557	-	72,159,557
Other capital assets, net of accumulated depreciation	102,936,574	271,311	103,207,885
TOTAL ASSETS	253,510,629	14,579,201	268,089,830
LIABILITIES			
Current:			
Warrants payable	2,223,014	-	2,223,014
Accounts payable	1,222,848	728,900	1,951,748
Accrued liabilities	14,516,120	407,616	14,923,736
Deferred revenues	-	1,425,092	1,425,092
Tax refunds payable	1,088,753	-	1,088,753
Notes payable	14,328,707	-	14,328,707
Other current liabilities	538,682	1,463,669	2,002,351
Current portion of long-term liabilities:			
Bonds payable	6,628,132	55,000	6,683,132
Compensated absences	427,364	8,060	435,424
Other liabilities	400,000	-	400,000
Noncurrent:			
Bonds payable, net of current portion	57,939,373	-	57,939,373
Compensated absences	8,119,907	153,095	8,273,002
Other liabilities, net of current portion	19,866,333	-	19,866,333
TOTAL LIABILITIES	127,299,233	4,241,432	131,540,665
NET ASSETS			
Invested in capital assets, net of related debt	106,130,509	216,312	106,346,821
Restricted for:			
Grants and other statutory restrictions	9,250,874	-	9,250,874
Permanent funds:			
Nonexpendable	2,473,313	-	2,473,313
Expendable	827,583	-	827,583
Unrestricted	7,529,117	10,121,457	17,650,574
TOTAL NET ASSETS	$ 126,211,396	$ 10,337,769	$ 136,549,165

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	$ 8,884,979	$ 2,505,804	$ 671,934	$ -	$ (5,707,241)	$ -	$ (5,707,241)
Public safety	37,548,585	4,060,317	1,051,366	-	(32,436,902)	-	(32,436,902)
Education	103,842,247	3,758,968	41,430,166	1,266,415	(57,386,698)	-	(57,386,698)
Public works	40,165,716	27,374,832	272,279	1,875,570	(10,643,035)	-	(10,643,035)
Health and human services	7,240,387	196,153	6,791,784	-	(252,450)	-	(252,450)
Culture and recreation	7,408,780	253,123	627,482	-	(6,528,175)	-	(6,528,175)
Employee benefits	49,903,193	-	-	-	(49,903,193)	-	(49,903,193)
Interest	3,540,637	-	-	-	(3,540,637)	-	(3,540,637)
Intergovernmental	2,518,612	-	-	-	(2,518,612)	-	(2,518,612)
Total Governmental Activities	261,053,136	38,149,197	50,845,011	3,141,985	(168,916,943)	-	(168,916,943)
Business-Type Activities:							
Quincy College	18,368,985	15,180,890	77,749	-	-	(3,110,346)	(3,110,346)
Total	$ 279,422,121	$ 53,330,087	$ 50,922,760	$ 3,141,985	(168,916,943)	(3,110,346)	(172,027,289)
		General Revenues:					
		Property taxes			135,659,964	-	135,659,964
		Excise taxes			8,228,671	-	8,228,671
		Penalties, interest and other taxes			1,498,353	-	1,498,353
		Grants and contributions not restricted to specific programs			25,266,129	-	25,266,129
		Investment income			2,190,152	474,123	2,664,275
		Miscellaneous			8,812,663	-	8,812,663
		Transfers, net			102,585	-	102,585
		Permanent fund contributions			45,900	-	45,900
		Total general revenues and contributions			181,804,417	474,123	182,278,540
		Change in Net Assets			12,887,474	(2,636,223)	10,251,251
		Net Assets:					
		Beginning of year, as restated			113,323,922	12,973,992	126,297,914
		End of year			$ 126,211,396	$ 10,337,769	$ 136,549,165

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

	General	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	$ 23,596,501	$ 10,109,795	$ 21,595,504	$ 55,301,800
Investments	1,489,840	-	2,908,296	4,398,136
Receivables:				
Property taxes	9,410,539	-	-	9,410,539
Excises	4,367,568	-	-	4,367,568
User fees	4,800,382	-	-	4,800,382
Departmental and other	30,781	-	1,293,569	1,324,350
Intergovernmental	-	-	311,605	311,605
Due from others	157,477	-	73,004	230,481
TOTAL ASSETS	$ 43,853,088	$ 10,109,795	$ 26,181,978	$ 80,144,861
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	$ 2,223,014	$ -	$ -	$ 2,223,014
Accrued liabilities	8,894,008	-	-	8,894,008
Deferred revenues	17,907,186	-	1,293,569	19,200,755
Due to other funds	535,332	-	93,014	628,346
Tax refunds payable	1,088,753	-	-	1,088,753
Notes payable	-	-	4,328,707	4,328,707
Other liabilities	535,674	-	3,008	538,682
TOTAL LIABILITIES	31,183,967	-	5,718,298	36,902,265
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	2,765,267	-	-	2,765,267
Perpetual (nonexpendable) permanent funds	-	-	2,473,313	2,473,313
Unreserved:				
Undesignated, reported in:				
General fund	9,903,854	-	-	9,903,854
Special revenue funds	-	10,109,795	11,037,418	21,147,213
Capital project funds	-	-	6,125,366	6,125,366
Permanent funds	-	-	827,583	827,583
TOTAL FUND BALANCES	12,669,121	10,109,795	20,463,680	43,242,596
TOTAL LIABILITIES AND FUND BALANCES	$ 43,853,088	$ 10,109,795	$ 26,181,978	$ 80,144,861

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total governmental fund balances	$ 43,242,596
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	175,096,131
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	12,602,152
• Internal service funds are used by management to account for health insurance activities. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets.	(590,512)
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(585,543)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(103,553,428)
Net assets of governmental activities	$ 126,211,396

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	General	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 135,389,503	$ -	$ -	$ 135,389,503
Excises	8,095,141	-	-	8,095,141
Penalties, interest and other taxes	1,498,353	-	-	1,498,353
Charges for services	28,441,081	-	5,010,161	33,451,242
Intergovernmental	54,999,166	-	21,977,617	76,976,783
Licenses and permits	2,073,627	-	-	2,073,627
Investment income	2,007,904	-	182,248	2,190,152
Miscellaneous	7,643,564	-	3,224,215	10,867,779
Total Revenues	240,148,339	-	30,394,241	270,542,580
Expenditures:				
Current:				
General government	6,915,207	-	5,037,353	11,952,560
Public safety	36,352,753	-	645,595	36,998,348
Education	87,412,113	-	17,192,239	104,604,352
Public works	38,743,209	-	4,390,256	43,133,465
Health and human services	1,647,703	-	5,985,522	7,633,225
Culture and recreation	5,444,770	-	1,208,787	6,653,557
Employee benefits	51,527,982	-	-	51,527,982
Debt service	10,204,483	-	-	10,204,483
Intergovernmental	2,518,612	-	-	2,518,612
Total Expenditures	240,766,832	-	34,459,752	275,226,584
Excess (deficiency) of revenues over expenditures	(618,493)	-	(4,065,511)	(4,684,004)
Other Financing Sources (Uses):				
Proceeds from bond refunding	14,005,000	-	-	14,005,000
Payment to fiscal agent	(14,005,000)	-	-	(14,005,000)
Proceeds of bond anticipation notes	-	-	10,000,000	10,000,000
Operating transfers in	3,058,932	5,000,000	3,909,050	11,967,982
Operating transfers out	(7,278,819)	(250,000)	(4,336,578)	(11,865,397)
Total Other Financing Sources (Uses)	(4,219,887)	4,750,000	9,572,472	10,102,585
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,838,380)	4,750,000	5,506,961	5,418,581
Fund Equity, at Beginning of Year, as restated	17,507,501	5,359,795	14,956,719	37,824,015
Fund Equity, at End of Year	$ 12,669,121	$ 10,109,795	$ 20,463,680	$ 43,242,596

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ 5,418,581
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases	10,094,719
Depreciation	(4,394,750)
• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(9,746,460)
• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:	
Repayment of debt	20,605,398
Issuance of debt	(14,005,000)
Repayment of long-term other liabilities	27,865,233
Issue of new long-term other liabilities	(14,491,333)
Current year amortization of bond premium	(66,583)
Current bond premium	805,000
Issue of notes payable	(10,000,000)
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(28,319)
• Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	535,732
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.	295,256
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 12,887,474

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues and Other Sources:				
Taxes	$ 136,473,625	$ 136,473,625	$ 136,473,625	$ -
Excise	8,549,068	8,549,068	8,095,141	(453,927)
Penalties, interest and other taxes	1,600,492	1,600,492	1,498,353	(102,139)
Charges for services	31,531,302	31,531,302	27,541,081	(3,990,221)
Intergovernmental	37,276,833	37,276,833	39,378,064	2,101,231
Licenses and permits	2,644,352	2,644,352	2,073,627	(570,725)
Investment income	952,041	952,041	2,007,904	1,055,863
Miscellaneous	7,454,885	7,475,821	7,643,563	167,742
Use of fund balance (free cash)	-	7,250,000	7,250,000	-
Transfers in	426,000	3,058,932	3,058,932	-
Total Revenues and Other Sources	226,908,598	236,812,466	235,020,290	(1,792,176)
Expenditures and Other Uses:				
Current:				
General government	6,892,409	7,044,845	7,008,880	35,965
Public safety	35,544,857	36,512,091	36,194,090	318,001
Education	69,962,233	69,964,378	69,957,825	6,553
Public works	39,176,899	39,389,114	38,970,406	418,708
Health and human services	1,677,276	1,677,276	1,632,134	45,142
Culture and recreation	5,286,948	5,624,817	5,429,242	195,575
Debt service	8,974,345	10,006,314	9,555,645	450,669
Intergovernmental	2,461,753	2,461,753	2,518,612	(56,859)
Employee benefits	54,644,096	54,644,096	51,445,282	3,198,814
Transfers out	-	7,200,000	7,278,819	(78,819)
Other uses (snow & ice/overlay deficits)	2,287,782	2,287,782	2,287,782	-
Total Expenditures and Other Uses	226,908,598	236,812,466	232,278,717	4,533,749
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ -	$ -	$ 2,741,573	$ 2,741,573

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities Enterprise Fund Quincy College Fund	Governmental Activities Internal Service Fund
ASSETS		
Current:		
Cash and short-term investments	$ 11,458,598	$ 3,093,392
Investments	2,204,894	-
User fees, net of allowance for uncollectibles	854,996	-
Due from (to) other funds	(210,598)	838,944
Total current assets	14,307,890	3,932,336
Noncurrent:		
Capital assets:		
Other capital assets, net of accumulated depreciation	271,311	-
Total noncurrent assets	271,311	-
TOTAL ASSETS	14,579,201	3,932,336
LIABILITIES		
Current:		
Accounts payable	728,900	1,222,848
Accrued liabilities	407,616	3,300,000
Deferred revenues	1,425,092	-
Other current liabilities	1,463,669	-
Current portion of long-term liabilities:		
Bonds payable	55,000	-
Compensated absences	8,060	-
Total current liabilities	4,088,337	4,522,848
Noncurrent:		
Compensated absences	153,095	-
Total noncurrent liabilities	153,095	-
TOTAL LIABILITIES	4,241,432	4,522,848
NET ASSETS		
Invested in capital assets, net of related debt	216,312	-
Unrestricted	10,121,457	(590,512)
TOTAL NET ASSETS	$ 10,337,769	$ (590,512)

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Fund Quincy College Fund	Governmental Activities Internal Service Fund
Operating Revenues:		
Charges for services	$ 15,180,890	$ 38,907,746
Operating grants and contributions	77,749	-
Total Operating Revenues	15,258,639	38,907,746
Operating Expenses:		
Operating expenses	14,393,022	38,612,490
Depreciation	83,902	-
Total Operating Expenses	14,476,924	38,612,490
Operating Income (Loss)	781,715	295,256
Nonoperating Revenues (Expenses):		
Investment income	474,123	-
Prior years pension expense	(3,886,537)	-
Interest expense	(5,524)	-
Total Nonoperating Revenues (Expenses), Net	(3,417,938)	-
Change in Net Assets	(2,636,223)	295,256
Net Assets at Beginning of Year	12,973,992	(885,768)
Net Assets at End of Year	$ 10,337,769	$ (590,512)

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Fund Quincy College Fund	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities:		
Receipts from customers and users	$ 15,010,501	$ -
Payments to vendors and employees	(15,314,496)	(37,822,333)
Receipts from employees and employer	-	38,623,956
Net Cash Provided By (Used For) Operating Activities	(303,995)	801,623
Cash Flows From Capital and Related Financing Activities:		
Principal payments on bonds and notes	(55,000)	-
Capital lease obligations	(8,390)	-
Interest expense	(5,524)	-
Net Cash (Used For) Capital and Related Financing Activities	(68,914)	-
Cash Flows From Non Capital and Related Financing Activities:		
Prior years pension expense	(3,886,537)	-
Net Cash (Used For) Non Capital and Related Financing Activities	(3,886,537)	-
Cash Flows From Investing Activities:		
Investment income	474,123	-
Investment sales	(80,963)	-
Net Cash Provided By Investing Activities	393,160	-
Net Change in Cash and Short-Term Investments	(3,866,286)	801,623
Cash and Short-Term Investments, Beginning of Year	15,324,884	2,291,769
Cash and Short-Term Investments, End of Year	$ 11,458,598	$ 3,093,392
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating income	$ 781,715	$ 295,256
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	83,902	-
Changes in assets and liabilities:		
Accounts receivable	(248,138)	-
Due from other funds	-	(283,790)
Warrants and accounts payable	223,776	290,157
Accrued liabilities	104,114	500,000
Due to other funds	(1,110,511)	-
Other liabilities	(402,995)	-
Deferred revenues	264,142	-
Net Cash Provided By (Used For) Operating Activities	$ (303,995)	$ 801,623

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Private Purpose Trust Fund	Agency Fund	Pension Trust Fund (As of December 31, 2005)
ASSETS			
Cash and short-term investments	$ 612,162	$ (241,300)	$ 3,692,382
Investments	375,958	-	275,789,266
Accounts receivable and other	-	-	20,906,130
Other assets	-	523,948	-
Total Assets	988,120	282,648	300,387,778
LIABILITIES AND NET ASSETS			
Accounts payable	-	-	15,728,082
Escrow deposits	-	282,648	-
Deferred revenue	-	-	9,104,922
Total Liabilities	-	282,648	24,833,004
NET ASSETS			
Total net assets held in trust for pension benefits and other purposes	$ 988,120	$ -	$ 275,554,774

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Fund	Pension Trust Fund (For the Year Ended December 31, 2005)
Additions:		
Contributions:		
Employers	$ -	$ 17,924,180
Other systems and Commonwealth of Massachusetts	-	1,674,679
Plan members	-	5,309,420
Other	1,326	669,669
Total contributions	1,326	25,577,948
Investment Income (Loss):		
Interest income	21,111	20,920,546
Increase (decrease) in fair value of investments	(16,339)	-
Less: management fees	-	(820,633)
Net investment income (loss)	4,772	20,099,913
Total additions	6,098	45,677,861
Deductions:		
Benefit payments to plan members and beneficiaries	-	36,569,245
Refunds to plan members	-	1,026,927
Administrative expenses	-	553,040
Other expenses	8,505	-
Total deductions	8,505	38,149,212
Net increase	(2,407)	7,528,649
Net assets:		
Beginning of year	990,527	268,026,125
End of year	$ 988,120	$ 275,554,774

See notes to financial statements.

1. Summary of Significant Accounting Policies

The accounting policies of the City of Quincy (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. *Reporting Entity*

The government is a municipal corporation governed by an elected Mayor and City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component units are blended within the primary government:

In the Proprietary Funds: The Quincy College Fund. The College is presented using the accrual basis of accounting and is reported as an enterprise fund in the proprietary fund financial statements. Additional financial information of the College can be obtained by contacting the College located at 34 Coddington Street, Quincy, Massachusetts 02169.

In the Fiduciary Funds: The Quincy Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 1250 Hancock Street, Suite 506S, Quincy, Massachusetts 02169.

B. *Government-Wide and Fund Financial Statements*

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by

taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

Government-Wide Financial Statements
The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are 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 government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. 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 and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

- 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.
- *Stabilization Trust Fund* is used to accumulate funds for future needs, in accordance with Massachusetts General Law Chapter 40, section 5B.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise 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 nonoperating revenues and expenses.

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

The government reports the following major proprietary fund:

- Quincy College Enterprise Fund

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. *Cash and Short-Term Investments*

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. *Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. *Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2006 tax levy reflected an excess capacity of $ 6,350,114.

G. *Interfund Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

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

H. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $ 15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements	20
Infrastructure	30-75
Vehicles	5
Office equipment	5
Computer equipment	5

I. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and

fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

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

K. 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.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for

the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. *Budgetary Basis*

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. *Budget/GAAP Reconciliation*

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Revenues/Expenditures (GAAP basis)	$ 240,148,339	$ 240,766,832
Other financing sources/uses (GAAP basis)	17,063,932	21,283,819
Subtotal (GAAP Basis)	257,212,271	262,050,651
Adjust tax revenue to accrual basis	1,084,122	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(3,482,949)
Add end of year appropriation carryforwards to expenditures	-	2,765,267

(continued)

(continued) General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
To record use of free cash	7,250,000	-
To record overlay deficit	-	11,261
To reverse the effect of non-budgeted State contributions for teachers retirement	(15,621,103)	(15,621,103)
To record teacher deferral	-	100,000
To record raising of prior year snow and ice deficit	-	2,276,521
To record timing difference	-	(915,931)
To reclassify revenues/expenditures	(900,000)	(900,000)
Reverse bond refinancing	(14,005,000)	(14,005,000)
Budgetary basis	$ 235,020,290	$ 232,278,717

D. *Deficit Fund Equity*

The City's internal service fund reflects a deficit retained earnings balance of $ (590,512) at June 30, 2006. This was caused by recording the IBNR (incurred, but not recorded) liability for health claims as of June 30, 2006. In accordance with Massachusetts Department of Revenue guidelines, this deficit is being raised over a two-year period of 2007 - 2008.

Also, the City reflects several special revenue and capital project fund deficits primarily caused by grant expenses occurring in advance of grant reimbursements.

The deficits in these funds will be eliminated through future departmental revenues and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System (the System) deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." *Massachusetts General Law Chapter 32, section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company."* The City and System do(es) not have a deposit policy for custodial credit risk. The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2006 and December 31, 2005, $ 62,163,361 and $ 4,109,588 of the City's and System's bank balances of $ 72,231,474 and $ 4,309,588, respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's and System's name. All of the City's $ 3,121,837 deposit in repurchase agreements are held by the investment's counterparty, not in the name of the City.

4. Investments

A. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts general law, chapter 44, section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment of the City (in thousands):

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End AAA	Aa	Not Rated
U.S. Treasury notes	$ 564	N/A	$ 564	$ -	$ -	$ -
Corporate equities	703	N/A	703	-	-	-
Certificates of deposit	99	N/A	99	-	-	-
Mutual funds	4,067	N/A	4,067	-	-	-
Federal agency securities	1,546	N/A	-	1,546	-	-
Total investments	$ 6,979		$ 5,433	$ 1,546	$ -	$ -

Massachusetts General Law, Chapter 32, section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

Presented below is the actual rating as of year end of the Contributory Retirement System (in thousands):

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End AAA	Aa	Not Rated
Corporate equities	$ 39,384	N/A	$ 39,384	$ -	$ -	$ -
State investment pool	2,969	N/A	2,969	-	-	-
Pooled funds	233,436 *	N/A	233,436	-	-	-
Total investments	$ 275,789		$ 275,789	$ -	$ -	$ -

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

B. *Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and System does not have policies for custodial credit risk.

C. *Concentration of Credit Risk*

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Federal Home Loan Mortgage Corporation	17%

Massachusetts General Law Chapter 32, section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System does not have an investment in one issuer greater than 5% of total investments.

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Debt Related Securities:					
U.S. Treasury notes	$ 564	$ 464	$ 100	$ -	$ -
Certificates of deposit	99	99	-	-	-
Federal agency securities	1,546	296	1,250	-	-
Total	$ 2,209	$ 859	$ 1,350	$	$ -

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2006 consist of the following (in thousands):

Real Estate		
2006	$ 2,825	
2005	75	
2004	102	
Prior	24	
		3,026
Personal Property		
2006	298	
2005	212	
2004	232	
2003	179	
2002	172	
Prior	1,479	
		2,572
Tax Liens		3,041
Deferred Taxes		772
Total		$ 9,411

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	Governmental
Property taxes	$ 2,847
Excises	3,032
Utilities	720
Quincy College	-

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2006 balances in interfund receivable and payable accounts:

Fund	Due From Other Funds	Due To Other Funds
General Fund:		
Quincy College	$ 303,612	$ -
Internal Service Fund	-	838,944
Capital Project Funds:		
Quincy College Projects	-	93,014
Internal Service Fund	838,944	-
Enterprise Funds:		
Quincy College	93,014	303,612
Total	$ 1,235,570	$ 1,235,570

9. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	Beginning Balance*	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 70,716	$ 1,303	$ -	$ 72,019
Machinery, equipment, and furnishings	21,313	1,434	-	22,747
Infrastructure	41,750	5,888	-	47,638
Total capital assets, being depreciated	133,779	8,625	-	142,404
Less accumulated depreciation for:				
Buildings and improvements	(17,102)	(1,922)	-	(19,024)
Machinery, equipment, and furnishings	(13,450)	(1,630)	-	(15,080)
Infrastructure	(4,521)	(842)	-	(5,363)
Total accumulated depreciation	(35,073)	(4,394)	-	(39,467)
Total capital assets, being depreciated, net	98,706	4,231	-	102,937
Capital assets, not being depreciated:				
Land	53,801	1,000	-	54,801
Construction in progress	16,889	470	-	17,359
Total capital assets, not being depreciated	70,690	1,470	-	72,160
Governmental activities capital assets, net	$ 169,396	$ 5,701	$ -	$ 175,097

* The beginning balance was restated with relation to footnote # 27.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 1,835	$ -	$ -	$ 1,835
Machinery, equipment, and furnishings	1,637	-	-	1,637
Total capital assets, being depreciated	3,472	-	-	3,472
Less accumulated depreciation for:				
Buildings and improvements	(1,596)	(63)	-	(1,659)
Machinery, equipment, and furnishings	(1,521)	(20)	-	(1,541)
Total accumulated depreciation	(3,117)	(83)	-	(3,200)
Business-type activities capital assets, net	$ 355	$ (83)	$ -	$ 272

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

Governmental Activities:	
General government	$ 707
Public safety	735
Education	890
Public works	1,158
Health and human services	17
Culture and recreation	887
Total depreciation expense - governmental activities	$ 4,394

Business-Type Activities:	
Quincy College	$ 83

10. Accounts Payable

Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

11. Deferred Revenue

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.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2006 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. Many of these cases are currently pending with the state Appellate Tax Board.

13. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2006:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2006
Bond anticipation	2.90%	08/05/05	08/04/06	$ 1,000,000
Bond anticipation	2.90%	08/05/05	08/04/06	3,000,000
Bond anticipation	2.90%	08/05/05	08/04/06	5,000,000
Bond anticipation	2.90%	08/05/05	08/04/06	2,000,000
Bond anticipation	2.90%	08/05/05	08/04/06	195,992
Bond anticipation	3.14%	11/10/05	08/04/06	2,000,000
Bond anticipation	3.39%	02/03/06	02/02/07	1,132,715
Total				$ 14,328,707

The following summarizes activity in notes payable during fiscal year 2006:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	$ 12,000,000	$ 14,328,707	$ (12,000,000)	$ 14,328,707

14. Long-Term Debt

A. *General Obligation Bonds*

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

Governmental Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2006
Water mains	05/01/07	5.52%	$ 50,000
Sewer	05/01/07	5.33%	35,000
School remodeling	05/01/07	4.94%	275,000
School - net of Quincy College	05/01/07	4.90%	185,000
Repair remodeling	03/01/08	4.51%	250,000
Park construction	03/01/08	4.64%	100,000
Sewer	03/01/08	4.84%	30,000
Library construction	03/01/08	4.84%	720,000
School - Marshall	06/01/09	4.90%	1,500,000
School pointwebster	06/01/09	4.91%	1,050,000
Water mains	06/17/09	4.91%	300,000
Repair remodeling	06/01/10	5.41%	500,000
Library	06/01/10	5.42%	100,000
Sewer 1999	06/01/10	5.42%	80,000
Water	06/01/10	5.42%	680,000
School remodeling	06/01/10	5.42%	140,000
Land purchase	06/30/10	5.41%	740,000
Sewer	02/01/17	-	564,199
Sewer	08/01/14	-	454,619
Sewer	08/01/14	-	2,253,070
Water	11/15/11	-	1,900,272
School remodeling (I)	03/01/21	4.46%	1,575,000
Water	03/01/21	4.46%	1,420,000
School remodeling (II)	03/01/22	4.46%	800,000
Streets & sidewalk	03/01/07	3.81%	190,000
Sewer (I)	03/01/21	4.86%	675,000
Sewer (II)	03/01/22	4.48%	590,000
Dept. equipment (I)	03/01/16	4.19%	420,000
Washington St. (I)	03/01/11	3.96%	275,000
Library	03/01/21	4.45%	300,000
Marshall school remodeling (I)	03/01/22	4.50%	240,000
Dept. equipment (II)	03/01/07	3.82%	50,000
Sewer (III)	03/01/22	4.50%	80,000
Sewer - MWRA	11/15/07	-	360,140
1993 School 1 (I) - refunding	05/01/13	3.72%	697,422
1993 School 2 (I) - refunding	05/01/13	3.72%	313,840
1993 Sewer (O) - refunding	05/01/13	3.62%	268,738
1993 Water (O) - refunding	05/01/14	3.67%	206,875
1994 Sewer (I) - refunding	05/01/14	3.67%	703,375
1994 General (I) - refunding	05/01/14	3.67%	744,750

(continued)

(continued) Governmental Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2006
1995 Water main (O) - refunding	05/01/14	3.71%	42,473
1995 School (I) - refunding	05/01/15	3.66%	2,270,058
1995 School (II) I - refunding	05/01/15	3.66%	137,281
1995 Park (I) - refunding	05/01/10	3.57%	439,313
1995 Public building (I) - refunding	05/01/15	3.66%	250,875
Water - MWRA	08/15/13	-	2,533,696
Water - MWRA	11/15/08	-	37,290
School Bonds - Quincy H.S.	03/01/21	3.55%	3,580,000
Land acq./recreational facilities	09/01/24	3.88%	9,305,000
Sewer	08/01/18	-	507,119
5/1/97 Water (O) - refunding	05/01/16	3.21%	282,050
5/1/97 Sewer (I) - refunding	05/01/16	3.40%	333,950
5/1/97 Other (I) - refunding	05/01/12	2.86%	324,000
6/1/00 Remodeling (I) - refunding	05/01/20	4.26%	1,264,360
6/1/00 Library (I) - refunding	05/01/20	4.28%	268,945
6/1/00 Sewer (I) - refunding	05/01/20	4.28%	268,830
6/1/00 Water (O) - refunding	05/01/20	4.27%	1,828,720
6/1/00 School (I) - refunding	05/01/20	4.26%	375,910
6/1/00 Land acq.- refunding	05/01/19	4.15%	1,778,235
1998 Park (I) - refunding	03/01/12	3.56%	207,000
1998 Sewer (I) - refunding	03/01/18	3.78%	156,200
1998 Library (I) - refunding	03/01/18	3.78%	3,750,300
1999 School (O) - refunding	03/01/19	3.82%	5,349,000
1999 School remodel - refunding	03/01/19	3.82%	3,744,005
1999 Water mains (O) - refunding	03/01/17	3.76%	798,495
Sewer - MPAT	08/01/23	1.45%	2,917,100
Total Governmental Activities			$ 64,567,505

Business-Type Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2006
Quincy College	05/01/16	4.90%	$ 55,000
Total All Funds			$ 64,622,505

B. *Future Debt Service*

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

Governmental	Principal	Interest	Total
2007	$ 6,628,132	$ 2,405,638	$ 9,033,770
2008	5,984,740	2,178,115	8,162,855
2009	5,675,414	1,977,834	7,653,248
2010	5,562,029	1,769,142	7,331,171
2011	5,427,981	1,573,641	7,001,622
2012 - 2016	21,777,948	4,589,959	26,367,907
2017 - 2021	11,795,035	1,617,244	13,412,279
Thereafter	1,716,226	128,811	1,845,037
Total	$ 64,567,505	$ 16,240,384	$ 80,807,889

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2006.

Business-Type	Principal	Interest	Total
2007	$ 55,000	$ 2,762	$ 57,762
Total	$ 55,000	$ 2,762	$ 57,762

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2006, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/05	Additions	Reductions	Total Balance 6/30/06	Less Current Portion	Equals Long-Term Portion 6/30/06
Governmental Activities						
Bonds payable	$ 71,168	$ 14,005	$ (20,605)	$ 64,568	$ (6,628)	$ 57,940
Accrued employee benefit	8,278	269	-	8,547	(427)	8,120
Other:						
Due to Quincy Medical Ctr.	5,393	-	(5,393)	-	-	-
Notes payable (QMC)	9,177	14,491	(9,177)	14,491	-	14,491
Due to Commonwealth	12,100	-	(12,100)	-	-	-
Due to HUD	6,150	-	(375)	5,775	(400)	5,375
Note payable (HPHC)	820	-	(820)	-	-	-
Totals	$ 113,086	$ 28,765	$ (48,470)	$ 93,381	$ (7,455)	$ 85,926

	Total Balance 7/1/05	Additions	Reductions	Total Balance 6/30/06	Less Current Portion	Equals Long-Term Portion 6/30/06
Business Activities						
Bonds payable	$ 110	$ -	$ (55)	$ 55	$ (55)	$ -
Accrued employee benefits	195	-	(34)	161	(8)	153
Other:						
Capital lease obligation	8	-	(8)	-	-	-
Totals	$ 313	$ -	$ (97)	$ 216	$ (63)	$ 153

D. *Advance Refunding of March 1, 1998*

Current Year

On September 1, 2005, the City issued general obligation bonds in the amount of $ 4,113,500 with interest rates ranging from 3.250% to 5.000% to advance refund $ 3,950,000 serial bonds with interest rates ranging from 4.625% to 5.125%. The serial bonds mature March 1, 2009 through March 1, 2018 and are callable on March 1, 2008. The general obligation bonds were issued at a true interest cost of 3.7373% and, after paying issuance costs of $ 29,251, the net proceeds were $ 4,107,229.
$ 4,107,228 of the net proceeds from the issuance of the general obliga-

tion bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on March 1, 2008. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by $ 191,973, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $ 155,420.

Defeased debt still outstanding at June 30, 2006 is $ 3,950,000.

D. *Advance Refunding of June 1, 1999*

Current Year

On September 1, 2005, the City issued general obligation bonds in the amount of $ 9,891,500 with interest rates ranging from 3.250% to 5.000% to advance refund $ 7,550,000 serial bonds with interest rates ranging from 4.700% to 5.000% and a $ 1,700,000 term bond with an interest rate of 5.125%. The serial bonds mature June 1, 2010 through June 1, 2017 and the term bond matures on June 1, 2019; both are callable on June 1, 2009. The general obligation bonds were issued at a true interest cost of 3.7373% and, after paying issuance costs of $ 65,380, the net proceeds were $ 9,869,401. $ 9,869,400 of the net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until both the serial and term bonds are called on June 1, 2009. The advance refunding met the requirements of an in-substance debt defeasance and both the serial and term bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by $ 427,270, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $ 299,876.

Defeased debt still outstanding at June 30, 2006 is $ 9,250,000.

15. Other Long-Term Liabilities

Due to Quincy Medical Center

The liability due to Quincy Medical Center was established in fiscal year 2001 as part of the conversion to private status of Quincy Hospital.

Final payment was scheduled for June 30, 2005, however, per request of Quincy Medical Center, the payment was rescheduled to fiscal year 2006.

Note Payable (QMC)

In August, 2002 the City Council accepted special State legislation to allow the City to borrow up to $ 15,000,000 to finance remaining amounts due to Quincy Medical Center. Amounts borrowed are to be repaid within 10 years of issuance. In fiscal years 2004 and 2005, the City borrowed $ 4,588,667 ($ 9,177,334 in all) under the provisions of this special legislation. In 2006 the City borrowed $ 5,822,666, refinanced $ 8,668,667, and paid down $ 508,667 of prior year notes outstanding. All scheduled payments have been made to Quincy Medical Center. The City will seek to permanently bond and/or paydown notes in future periods and have maturities arranged to be within the required compliance of 10 years.

Conversion of QMC Loan to Grant (Due to Commonwealth)

For the past few years, the City's financial statements reflected a $ 12.1 million loan payable to the Commonwealth, and offsetting receivable due from Quincy Medical Center (QMC), relating to a loan provided by the Commonwealth to the City, and passed through to QMC to cover costs associated with the privatization of Quincy Hospital. The loan was originally due to be paid in four equal annual installments, beginning on June 30, 2007. In fiscal year 2006, however, the original special legislation was amended, converting the loan to a one-time grant, thereby voiding the repayment provisions. As a result, the accompanying June 30, 2006 financial statements no longer include the loan receivable from QMC, or the loan payable to the Commonwealth.

Due to U.S. Department of Housing and Urban Development

In 1996, the U.S. Department of Transportation Maritime Administration provided Massachusetts Heavy Industries, Inc. ("MHI") with a $ 55 million loan guarantee to modernize and revitalize the Fore River Shipyard, which is located in the City. In connection with this modernization project, the City provided a $ 7.8 million loan to MHI. The City, in effect received a loan from the U.S. Department of Housing and Urban Development ("HUD"), administrator of the CDBG program, and passed the loan through to MHI under the same repayment terms.

During fiscal year 2000, MHI failed to make the scheduled debt service payments on its primary loan. As a result, the loan went into default and the lender exercised its guarantee rights by demanding payment from the guarantor. On February 25, 2000, the Maritime Administration, as guarantor, made a payment of $ 59.1 million to the lending institution, which included principal and accrued interest.

On March 13, 2000, MHI filed for bankruptcy protection and the Maritime Administration commenced foreclosure proceedings on the shipyard.

The City did not receive any payments on its loan to MHI during fiscal years 2001 - 2004. The City's loan with HUD is secured by the pledge of future CDBG funds, and as of June 30, 2005, the City has made all loan payments required under the terms of its loan arrangement with HUD. The loan, which bears interest at 6.5%, is payable in semiannual installments of interest and principal until August 1, 2016, the loan's maturity date.

At June 30, 2006, future principal payments due on the loan are as follows:

2007	$ 400,000
2008	425,000
2009	450,000
2010	475,000
2011	500,000
Thereafter	3,525,000
Total	$ 5,775,000

Note Payable (HPHC)

In September, 2002 the City Council accepted special State legislation to defer the funding of a delinquent accounts payable of $ 2.8 million, due to its health care provider, HPHC. Under the terms of the special legislation and agreement with HPHC, the City began making equal semi-annual payments, with interest not to exceed 2%, in 2002 and ended in 2006.

16. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

17. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2006:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

18. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to overexpend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The Massachusetts State Legislation also allowed municipalities to defer funding for a portion of the 1992 and 1993 teachers summer pay to future years. This must be funded within a 15 year period, beginning in 1997.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	$ 9,903,854
Tax refund estimate (ATB cases)	264,855
Accrued interest on BANs	748,838
Teacher pay deferral	400,000
Statutory (UMAS) Balance	$ 11,317,547

19. Subsequent Events

Debt

Subsequent to June 30, 2006, the City has incurred the following debt:

	Amount	Interest Rate	Issue Date	Maturity Date
General obligation bonds	$ 10,000,000	4.13%	08/01/06	06/01/19

The proceeds of the bonds were used to retire $ 10,000,000 of bond anticipation notes.

	Amount	Interest Rate	Issue Date	Maturity Date
Bond anticipation note	$ 16,652,666	3.70%	08/15/06	08/03/07

The proceeds of the notes were used to renew prior BANs and notes payable outstanding at June 30, 2006, $ 16,652,666.

20. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Pension Allocations - The method of calculating the Quincy Contributory Retirement System's (QCRS) annual appropriation allocation is currently under dispute between the City and the Quincy Housing Authority. The Public Employee Retirement Administration Commission (PERAC) has calculated the allocation based on the two alternative methods. Both the City and Housing Authority have paid assessments to the QCRS based on differing methods, both at the lesser amounts. The dispute is currently being appealed with the Superior Court. The differences in the two allocation methods total approximately $ 788,000 for calendar year 2004, and $ 630,000 for calendar 2005. Based on the outcome of the Superior Court decision, either the City or the Housing Authority will be responsible to reimburse the QCRS for these amounts.

21. Post-Employment Health Care and Life Insurance Benefits

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2006 was not available.

22. Contributory Retirement System

A. *Plan Description and Contribution Information*

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Quincy Contributory Retirement System QCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the QCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the QCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The QCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2005:

Retirees and beneficiaries receiving benefits	1,846
Terminated plan members entitled to but not yet receiving benefits	44
Inactive members	268
Active plan members	1,408
Total	3,566
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of $ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. *Summary of Significant Accounting Policies*

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to $ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of $ 30,000.

In fiscal year 2006, the Commonwealth of Massachusetts contributed $ 15,621,103 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

23. Self Insurance

The City self-insures against claims for property liability, workers compensation, unemployment and most employee health coverage. The City has not provided for any reserves or stop loss insurance coverage to fund potential future liabilities that could result from unanticipated major disasters, such as fires or other destructions to City-owned properties. Annual estimated requirements for claims are provided in the City's annual operating budget.

Workers' Compensation

The City contracts with an insurance consultant for claims processing of the City's workers compensation policy, which has no excess liability coverage for any employees. The Workers' Compensation claims liability represents an estimate of future costs based on a historical analysis of similar claims for all employees excluding public safety. This liability is reported in the governmental entity-wide financial statements.

Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to $ 150,000 per individual.

The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2006 are as follows (in thousands):

	Health Coverage
Claims liability, July 1, 2005	$ 2,800
Claims incurred/recognized in fiscal year 2006	34,153
Claims paid in fiscal year 2006	(33,653)
Claims liability, June 30, 2006	$ 3,300

24. Leases

Operating Leases - Quincy College leases certain premises and equipment under operating leases with various expiration dates that extend through 2037. The leases generally provide that the College pay certain maintenance costs and include various renewal provisions. Rent expense for 2006 amounted to $ 908,412. Included in this expense are water, sewer, and other associated costs along with rental costs of approximately $ 67,805 relating to the lease of classroom facilities in Plymouth, Massachusetts. The College's minimum future obligations under its noncancelable leases are as follows:

2007	$ 917,003
2008	180,063
2009	180,063
2010	180,063
2011	180,063
Total	$ 1,637,255

25. Quincy College Foundation

The Quincy College Foundation, Inc. was established in 1997 as a separate not-for-profit organization, the purpose of which is to solicit and accept gifts, grants, from individuals and corporations for the purpose of establishing endowment funds and scholarship funds in order to sponsor funding of any and all activities which are permitted by law that enhance the educational efforts of the College. Member of the Board of Governors and management of the College comprise the Board of Directors of the Quincy College Foundation. In fiscal 2006, as a result of an audit, the Foundation suspended operations, and it was later decided that a new trust would continue the operations. The College did not receive any funds from the Foundation in 2006.

26. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2006, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity June 30, 2005 (as previously reported)	Reclassification	Fund Equity June 30, 2005 (as restated)
Stabilization fund	$ -	$ 5,359,795	$ 5,359,795
Nonmajor funds	20,316,514	(5,359,795)	14,956,719
Total	$ 20,316,514	$ -	$ 20,316,514

27. Beginning Net Asset Restatements

In fiscal year 2006, the City is required to capitalize and record fixed assets pertaining to infrastructure to comply with tier one status for GASB 34 reporting. The following is a summary of restatements affecting the July 1, 2005 balances.

	Government-Wide Government Activities
Beginning Net Assets, as previously recorded	$ 100,022,292
Capital asset additions for infrastructure	17,504,593
Additional accumulated depreciation	(4,202,963)
Beginning Net Assets, as restated	$ 113,323,922

28. Resolution of Pension Allocation Between City and Quincy College

During fiscal year 2006, the City and Quincy College (QC) agreed to revise the methodology used to determine the annual reimbursement due from QC to the City for pension costs. As a result, in fiscal 2006, QC reimbursed the City $ 3,886,537, representing fiscal years 1995 - 2004 and $ 797,900, representing fiscal year 2006. These amounts are reflected in current operations in the fiscal 2006 financial statements, as expenses for QC enterprise fund, and revenues in the City's general fund.

CITY OF QUINCY, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
01/01/05	$ 276,793,988	$ 474,568,932	$ 197,774,945	58.3%	$ 59,492,900	332.4%
01/01/03	231,277,798	436,352,345	205,074,547	53.0%	58,949,749	347.9%
01/01/01	264,401,826	369,363,953	104,962,127	71.6%	56,824,746	184.7%
01/01/99	241,890,839	354,342,249	112,451,410	68.3%	83,911,305	134.0%
01/01/97	170,435,562	277,764,236	107,328,674	61.4%	78,452,786	136.8%
01/01/94	121,043,160	222,511,912	101,468,752	54.4%	60,909,772	166.6%
01/01/93	107,457,219	221,809,465	114,352,246	48.4%	58,728,113	194.7%

Schedule of Employer Contributions:

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	$ 17,924,180	100%
2005	16,082,161	100%
2003	15,779,928	100%
2002	15,745,060	100%
2001	14,966,883	100%
2000	14,644,700	100%
1999	14,298,853	100%
1998	13,627,560	100%
1997	13,220,045	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date January 1, 2003	
Actuarial cost method	Individual entry age normal cost method
Amortization method	Level amortization
Remaining amortization period	24 years
Asset valuation method	Valued at market value adjusted by payables and receivables
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increase	5.00%
Cost of living adjustments	3% of first $ 12,000 of a member's retirement allowance

See Independent Auditors' Report.