CITY OF QUINCY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2007

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	48

MH&Co

MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 112
Andover, MA 01810-1096
(978) 749-0005 • Fax (978) 749-0006
www.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, 2007 (except for the Quincy Contributory Retirement System which is as of and for the year ended December 31, 2006), 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 did not audit the City of Quincy, MA Contributory Retirement System Trust Fund at December 31, 2006 and for the year then ended (a component unit of the City of Quincy). Those statements and required supplementary information were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the Contributory Retirement System Trust Fund, is based on the report of the other auditor.

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, based on our audit and the report of the other auditor, 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, 2007 (except the Quincy Contributory Retirement System which is as of December 31, 2006), 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.

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 December 17, 2007 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
December 17, 2007

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, 2007.

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 $ 152,402,488 (i.e., net assets), a change of $ 15,853,723 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of $ 40,989,412, a change of $ (2,253,184) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $ 4,716,861, a change of $ (5,186,993) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was $ 74,553,453, a change of $ 9,930,948 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 95,607	$ 78,414	$ 14,499	$ 14,308	$ 110,106	$ 92,722
Capital assets	225,915	175,096	196	271	226,111	175,367
Total assets	321,522	253,510	14,695	14,579	336,217	268,089
Long-term liabilities outstanding	124,588	85,925	147	153	124,735	86,078
Other liabilities	55,903	41,374	3,176	4,088	59,079	45,462
Total liabilities	180,491	127,299	3,323	4,241	183,814	131,540
Net assets:						
Invested in capital assets, net	112,030	106,130	196	216	112,226	106,346
Restricted	17,021	12,552	-	-	17,021	12,552
Unrestricted	11,980	7,529	11,176	10,122	23,156	17,651
Total net assets	$ 141,031	$ 126,211	$ 11,372	$ 10,338	$ 152,403	$ 136,549

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	$ 38,930	$ 38,149	$ 15,131	$ 15,181	$ 54,061	$ 53,330
Operating grants and contributions	60,441	50,845	-	78	60,441	50,923
Capital grants and contributions	7,707	3,142	-	-	7,707	3,142
General revenues:						
Property taxes	142,771	135,660	-	-	142,771	135,660
Excises	7,774	8,229	-	-	7,774	8,229
Grants and contributions not restricted to specific programs	27,741	25,266	-	-	27,741	25,266
Other	4,453	12,501	1,231	474	5,684	12,975
Total revenues	289,817	273,792	16,362	15,733	306,179	289,525
Expenses:						
General government	9,690	8,885	-	-	9,690	8,885
Public safety	40,099	37,549	-	-	40,099	37,549
Education	106,058	103,842	-	-	106,058	103,842
Public works	42,055	40,166	-	-	42,055	40,166
Human services	6,390	7,240	-	-	6,390	7,240
Culture and recreation	7,026	7,409	-	-	7,026	7,409
Employee benefits	56,215	49,903	-	-	56,215	49,903
Interest on long-term debt	4,902	3,541	-	-	4,902	3,541
Intergovernmental	2,665	2,519	-	-	2,665	2,519
Quincy College	-	-	15,328	18,369	15,328	18,369
Total expenses	275,100	261,054	15,328	18,369	290,428	279,423
Change in net asset before transfers and permanent fund contributions	14,717	12,738	1,034	(2,636)	15,751	10,102
Transfers in (out)	103	103	-	-	103	103
Permanent fund contributions	-	46	-	-	-	46
Increase in net assets	14,820	12,887	1,034	(2,636)	15,854	10,251
Net assets - beginning of year, as restated	126,211	113,324	10,338	12,974	136,549	126,298
Net assets - end of year	$ 141,031	$ 126,211	$ 11,372	$ 10,338	$ 152,403	$ 136,549

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 $ 152,402,488, a change of $ 15,853,723 from the prior year.

The largest portion of net assets $ 112,226,713 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

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 $ 17,021,056 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $ 23,155,119, 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 $ 14,819,235. Key elements of this change are as follows:

	Governmental Activities
General fund - accrual basis	$ (3,313,539)
Stabilization fund - accrual basis	2,724,600
Nonmajor funds - accrual basis (1)	12,386,386
Internal Service fund	590,512
Excess principal maturities, a budgeted expense, over depreciation, which is not budgeted or funded	1,989,427
Other GAAP accruals	441,849
Total	$ 14,819,235

(1) The primary component of the $ 12,386,386 increase in fund balance is a result of a $ 5,000,000 state grant received by the City to offset cost associated with a downtown revitalization project. At year end there were no expenditures against this grant.

Business-type activities. Quincy College business-type activities for the year resulted in a change in net assets of $ 1,034,488. A primary component of this change was due to a legal settlement closing for less than the amount that had been accrued in prior year.

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 $ 40,989,412, a change of $ (2,253,184) in comparison with the prior year. Key elements of this change are as follows:

	Fund Balance Governmental Funds
General fund deficit	$ (4,474,906)
Stabilization fund surplus	2,724,600
Quincy Center Concourse	(8,014,212)
Nonmajor fund surplus	7,511,334
Total	$ (2,253,184)

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was $ 4,716,861, while total fund balance was $ 8,194,215. 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 1.8 percent of total general fund expenditures, while total fund balance represents 3.2 percent of that same amount.

The fund balance of the general fund changed by $ (4,474,906) during the current fiscal year. Key factors in this change are as follows:

	Fund Balance General Fund
Shortfall of state and local revenues compared to budget estimates	$ (1,912,813)
Budgetary appropriation underspent by departments	4,131,341
Shortfall of tax collections to net levy	(2,376,258)
Use of free cash (fund balance) as a funding source	(5,096,860)
Excess of current year encumbered appropriations to be spent in subsequent year over prior year encumbrances	712,087
Timing differences	67,597
Total	$ (4,474,906)

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 $ 11,176,114, a change of $ 1,034,488 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 $ 6,901,600. These supplemental appropriations were funded by transfers from other funds of $ 1,459,753, use

of fund balance, $ 5,096,860, and other sources, $ 344,987. The additional appropriations were used to offset departmental budget needs of $ 2,401,600, and to transfer $ 4,500,000 to Stabilization.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to $ 226,111,404 net of accumulated depreciation), a change of $ 50,743,962 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 and public safety equipment	$ 1,161
Building improvements and repairs	$ 46
Increase in infrastructure relating to sewer, water lines, and roads	$ 2,735
Construction in Progress:	
Quincy Center Concourse	$ 8,014
Quincy Shore Drive	$ 2,920
Quincy High School	$ 3,336
Building & equipment energy improvements	$ 32,739

Change in credit rating. During the fiscal year, the Moody's credit rating for the City changed from A2 to A1.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was $ 74,553,453, 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, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	$ 75,099,794	$ 10,529,147	$ 85,628,941
Investments	4,734,059	2,300,929	7,034,988
Receivables, net of allowance for uncollectibles:			
Property taxes	3,615,143	-	3,615,143
Excises	1,454,708	-	1,454,708
User fees	3,008,488	442,589	3,451,077
Departmental and other	1,633,542	-	1,633,542
Intergovernmental	1,889,852	-	1,889,852
Internal balances	(93,014)	93,014	-
Other assets	128,506	-	128,506
Noncurrent:			
Deposit on sale of property	(1,133,000)	1,133,000	-
Receivables, net of allowance for uncollectibles:			
Property taxes	3,961,225	-	3,961,225
Other assets	1,307,239	-	1,307,239
Capital assets:			
Land and construction in progress	123,674,229	-	123,674,229
Other capital assets, net of accumulated depreciation	102,241,033	196,142	102,437,175
TOTAL ASSETS	321,521,804	14,694,821	336,216,625
LIABILITIES			
Current:			
Warrants payable	5,837,785	-	5,837,785
Accounts payable	1,208,389	560,388	1,768,777
Accrued liabilities	13,093,922	385,393	13,479,315
Deferred revenues	-	1,418,502	1,418,502
Tax refunds payable	1,484,244	-	1,484,244
Notes payable	23,761,034	-	23,761,034
Other current liabilities	871,116	803,305	1,674,421
Current portion of long-term liabilities:			
Bonds payable	7,427,488	-	7,427,488
Compensated absences	405,484	7,750	413,234
Other liabilities	1,814,275	-	1,814,275
Noncurrent:			
Bonds payable, net of current portion	67,125,965	-	67,125,965
Compensated absences	7,704,188	147,226	7,851,414
Other liabilities, net of current portion	49,757,283	-	49,757,283
TOTAL LIABILITIES	180,491,173	3,322,564	183,813,737
NET ASSETS			
Invested in capital assets, net of related debt	112,030,570	196,143	112,226,713
Restricted for:			
Grants and other statutory restrictions	13,604,723	-	13,604,723
Permanent funds:			
Nonexpendable	2,469,203	-	2,469,203
Expendable	947,130	-	947,130
Unrestricted	11,979,005	11,176,114	23,155,119
TOTAL NET ASSETS	$ 141,030,631	$ 11,372,257	$ 152,402,888

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

		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	$ 9,689,843	$ 1,967,808	$ 7,177,183	$ -	$ (544,852)	$ -	$ (544,852)
Public safety	40,098,780	3,022,969	1,922,309	-	(35,153,502)	-	(35,153,502)
Education	106,057,882	2,710,194	44,966,041	1,266,415	(57,115,232)	-	(57,115,232)
Public works	42,055,081	30,762,619	88,222	6,440,854	(4,763,386)	-	(4,763,386)
Health and human services	6,390,165	198,760	5,631,566	-	(559,839)	-	(559,839)
Culture and recreation	7,025,984	267,603	655,509	-	(6,102,872)	-	(6,102,872)
Employee benefits	56,214,709	-	-	-	(56,214,709)	-	(56,214,709)
Interest	4,901,760	-	-	-	(4,901,760)	-	(4,901,760)
Intergovernmental	2,665,361	-	-	-	(2,665,361)	-	(2,665,361)
Total Governmental Activities	275,099,565	38,929,953	60,440,830	7,707,269	(168,021,513)	-	(168,021,513)
Business-Type Activities:							
Quincy College	15,328,057	15,131,136	-	-	-	(196,921)	(196,921)
Total	$ 290,427,622	$ 54,061,089	$ 60,440,830	$ 7,707,269	(168,021,513)	(196,921)	(168,218,434)
General Revenues and Transfers:							
Property taxes					142,771,242	-	142,771,242
Excise taxes					7,773,871	-	7,773,871
Penalties, interest and other taxes					1,782,293	-	1,782,293
Grants and contributions not restricted to specific programs					27,740,984	-	27,740,984
Investment income					2,663,583	534,042	3,197,625
Miscellaneous					6,189	697,367	703,556
Transfers, net					102,586	-	102,586
Total general revenues and transfers					182,840,748	1,231,409	184,072,157
Change in Net Assets					14,819,235	1,034,488	15,853,723
Net Assets:							
Beginning of year					126,211,396	10,337,769	136,549,165
End of year					$ 141,030,631	$ 11,372,257	$ 152,402,888

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	General	Stabilization Fund	Quincy Ctr Concourse Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	$ 19,682,994	$ 12,834,395	$ 1,985,788	$ 35,599,294	$ 70,102,471
Investments	1,567,889	-	-	3,166,170	4,734,059
Receivables:					
Property taxes	10,708,584	-	-	24,993	10,733,577
Excises	4,806,609	-	-	-	4,806,609
User fees	3,539,229	-	-	-	3,539,229
Departmental and other	60,219	-	-	1,504,710	1,564,929
Intergovernmental	-	-	-	1,260,767	1,260,767
Due from others	-	-	-	68,612	68,612
TOTAL ASSETS	$ 40,365,524	$ 12,834,395	$ 1,985,788	$ 41,624,546	$ 96,810,253
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	$ 4,892,072	$ -	$ -	$ 945,713	$ 5,837,785
Accrued liabilities	6,705,778	-	-	-	6,705,778
Deferred revenues	18,310,420	-	-	1,529,703	19,840,123
Due to other funds	-	-	-	93,014	93,014
Tax refunds payable	1,484,244	-	-	-	1,484,244
Notes payable	-	-	10,000,000	11,077,715	21,077,715
Other liabilities	778,795	-	-	3,387	782,182
TOTAL LIABILITIES	32,171,309	-	10,000,000	13,649,532	55,820,841
Fund Balances:					
Reserved for:					
Encumbrances and continuing appropriations	3,477,354	-	-	-	3,477,354
Perpetual (nonexpendable) permanent funds	-	-	-	2,469,203	2,469,203
Unreserved:					
Undesignated, reported in:					
General fund	4,716,861	-	-	-	4,716,861
Special revenue funds	-	12,834,395	-	18,026,882	30,861,277
Capital project funds	-	-	(8,014,212)	6,531,799	(1,482,413)
Permanent funds	-	-	-	947,130	947,130
TOTAL FUND BALANCES	8,194,215	12,834,395	(8,014,212)	27,975,014	40,989,412
TOTAL LIABILITIES AND FUND BALANCES	$ 40,365,524	$ 12,834,395	$ 1,985,788	$ 41,624,546	$ 96,810,253

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, 2007

Total governmental fund balances	$ 40,989,412
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	225,915,262
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	12,800,273
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(778,532)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(137,895,784)
Net assets of governmental activities	$ 141,030,631

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, 2007

	General	Stabilization Fund	Quincy Ctr Concourse Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	$ 140,763,256	$ -	$ -	$ 1,097,735	$ 141,860,991
Excises	7,654,743	-	-	-	7,654,743
Penalties, interest and other taxes	1,782,292	-	-	-	1,782,292
Charges for services	33,587,585	-	-	3,735,392	37,322,977
Intergovernmental	61,885,850	-	-	32,640,451	94,526,301
Licenses and permits	1,660,523	-	-	-	1,660,523
Investment income	1,737,295	442,165	-	484,123	2,663,583
Miscellaneous	4,406,719	-	-	186,494	4,593,213
Total Revenues	253,478,263	442,165	-	38,144,195	292,064,623
Expenditures:					
Current:					
General government	8,143,394	-	-	2,047,837	10,191,231
Public safety	38,250,630	-	-	752,984	39,003,614
Education	92,157,980	-	-	19,025,231	111,183,211
Public works	40,976,195	-	8,014,212	8,326,778	57,317,185
Health and human services	1,841,351	-	-	4,837,283	6,678,634
Culture and recreation	5,703,441	-	-	1,191,926	6,895,367
Employee benefits	56,041,665	-	-	-	56,041,665
Debt service	11,058,205	-	-	-	11,058,205
Intergovernmental	2,665,361	-	-	-	2,665,361
Total Expenditures	256,838,222	-	8,014,212	36,182,039	301,034,473
Excess (deficiency) of revenues over expenditures	(3,359,959)	442,165	(8,014,212)	1,962,156	(8,969,850)
Other Financing Sources (Uses):					
Proceeds from bonds	-	-	-	6,614,080	6,614,080
Transfers in	3,485,053	4,500,000	-	1,645,786	9,630,839
Transfers out	(4,600,000)	(2,217,565)	-	(2,710,688)	(9,528,253)
Total Other Financing Sources (Uses)	(1,114,947)	2,282,435	-	5,549,178	6,716,666
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4,474,906)	2,724,600	(8,014,212)	7,511,334	(2,253,184)
Fund Equity, at Beginning of Year	12,669,121	10,109,795	-	20,463,680	43,242,596
Fund Equity, at End of Year	$ 8,194,215	$ 12,834,395	$ (8,014,212)	$ 27,975,014	$ 40,989,412

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, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ (2,253,184)
• 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	55,457,836
Deposit on sale of property	(1,133,000)
Depreciation	(4,638,705)
• 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.	198,121
• 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	6,628,132
Issuance of debt	(16,614,080)
Repayment of long-term other liabilities	14,891,333
Issue of new long-term other liabilities	(46,196,558)
Current year amortization of bond premium	(128,506)
Repayment of notes through bonding	10,000,000
Issue of notes payable	(2,683,319)
Current intergovernmental drawdown	629,086
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(192,989)
• 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.	264,556
• 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.	590,512
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 14,819,235

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, 2007

	Budgeted Amounts			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues and Other Sources:				
Taxes	$ 143,139,514	$ 143,139,514	$ 143,139,514	$ -
Excise	8,117,182	8,117,182	7,654,743	(462,439)
Penalties, interest and other taxes	2,150,583	2,150,583	1,782,293	(368,290)
Charges for services	33,873,124	33,873,124	33,587,585	(285,539)
Intergovernmental	42,299,417	42,299,417	43,438,758	1,139,341
Licenses and permits	2,145,570	2,145,570	1,660,523	(485,047)
Investment income	1,773,305	1,773,305	1,737,295	(36,010)
Miscellaneous	5,821,548	5,821,548	4,406,719	(1,414,829)
Use of fund balance (free cash)	-	5,096,860	5,096,860	-
Transfers in	2,025,300	3,485,053	3,485,053	-
Other financing sources	138,978	483,965	483,965	-
Total Revenues and Other Sources	241,484,521	248,386,121	246,473,308	(1,912,813)
Expenditures and Other Uses:				
Current:				
General government	7,851,517	8,386,000	8,175,492	210,508
Public safety	37,609,924	38,627,592	38,233,515	394,077
Education	73,241,939	73,358,876	73,358,876	-
Public works	42,631,579	43,152,439	42,284,446	867,993
Health and human services	1,876,120	1,907,120	1,845,629	61,491
Culture and recreation	5,677,601	5,780,183	5,643,162	137,021
Debt service	11,126,278	11,126,278	11,124,258	2,020
Intergovernmental	2,629,435	2,629,435	2,665,361	(35,926)
Employee benefits	58,421,712	58,499,782	56,005,625	2,494,157
Transfers out	100,000	4,600,000	4,600,000	-
Other uses	318,416	318,416	318,416	-
Total Expenditures and Other Uses	241,484,521	248,386,121	244,254,780	4,131,341
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ -	$ -	$ 2,218,528	$ 2,218,528

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities Enterprise Fund Quincy College Fund	Governmental Activities Internal Service Fund
ASSETS		
Current:		
Cash and short-term investments	$ 10,529,147	$ 4,997,323
Investments	2,300,929	-
User fees, net of allowance for uncollectibles	442,589	-
Due from other funds	93,014	-
Total current assets	13,365,679	4,997,323
Noncurrent:		
Deposit on purchase of property	1,133,000	-
Capital assets:		
Other capital assets, net of accumulated depreciation	196,142	-
Total noncurrent assets	1,329,142	-
TOTAL ASSETS	14,694,821	4,997,323
LIABILITIES		
Current:		
Accounts payable	560,388	1,208,389
Accrued liabilities	365,393	3,700,000
Deferred revenues	1,418,502	-
Other current liabilities	803,305	88,934
Current portion of long-term liabilities:		
Compensated absences	7,750	-
Total current liabilities	3,175,338	4,997,323
Noncurrent:		
Compensated absences	147,226	-
Total noncurrent liabilities	147,226	-
TOTAL LIABILITIES	3,322,564	4,997,323
NET ASSETS		
Invested in capital assets, net of related debt	196,143	-
Unrestricted	11,176,114	-
TOTAL NET ASSETS	$ 11,372,257	$ -

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, 2007

	Business-Type Activities Enterprise Fund Quincy College Fund	Governmental Activities Internal Service Fund
Operating Revenues:		
Charges for services	$ 15,131,136	$ 43,468,916
Total Operating Revenues	15,131,136	43,468,916
Operating Expenses:		
Operating expenses	15,250,126	42,878,404
Depreciation	75,169	-
Total Operating Expenses	15,325,295	42,878,404
Operating Income (Loss)	(194,159)	590,512
Nonoperating Revenues (Expenses):		
Investment income	534,042	-
Gain on legal settlement	697,367	-
Interest expense	(2,762)	-
Total Nonoperating Revenues (Expenses), Net	1,228,647	-
Change in Net Assets	1,034,488	590,512
Net Assets at Beginning of Year	10,337,769	(590,512)
Net Assets at End of Year	$ 11,372,257	$ -

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Fund Quincy College Fund	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities:		
Receipts from customers and users	$ 15,239,932	$ 44,396,794
Payments to vendors and employees	(15,194,774)	-
Gain on sale of legal settlement	697,367	-
Pension expense	(919,221)	-
Receipts from employees and employer	-	(42,492,863)
Net Cash Provided By (Used For) Operating Activities	(176,696)	1,903,931
Cash Flows From Capital and Related Financing Activities:		
Principal payments on bonds and notes	(55,000)	-
Interest expense	(2,762)	-
Net Cash (Used For) Capital and Related Financing Activities	(57,762)	-
Cash Flows From Investing Activities:		
Investment income	534,042	-
Deposit on purchase of building	(1,133,000)	-
Investment sales	(96,035)	-
Net Cash (Used For) By Investing Activities	(694,993)	-
Net Change in Cash and Short-Term Investments	(929,451)	1,903,931
Cash and Short-Term Investments, Beginning of Year	11,458,598	3,093,392
Cash and Short-Term Investments, End of Year	$ 10,529,147	$ 4,997,323
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating income /(loss)	$ (194,159)	$ 590,512
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	75,169	-
Changes in assets and liabilities:		
Accounts receivable	412,407	-
Due from other funds	-	838,944
Warrants and accounts payable	(168,513)	(14,459)
Accrued liabilities	(22,223)	400,000
Due to other funds	(303,611)	-
Other liabilities	(666,543)	-
Gain on legal settlement	697,367	88,934
Deferred revenues	(6,590)	-
Net Cash Provided By (Used For) Operating Activities	$ (176,696)	$ 1,903,931

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Private Purpose Trust Fund	Agency Fund	Pension Trust Fund (As of December 31, 2006)
ASSETS			
Cash and short-term investments	$ 673,847	$ 785,955	$ 4,706,373
Investments	374,230	-	283,090,729
Accounts receivable and other	-	638,457	20,014,105
Total Assets	1,048,077	1,424,412	307,811,207
LIABILITIES AND NET ASSETS			
Accounts payable	-	54,858	-
Escrow deposits	-	1,094,978	-
Other liabilities	-	274,576	729,118
Total Liabilities	-	1,424,412	729,118
NET ASSETS			
Total net assets held in trust for pension benefits and other purposes	1,048,077	-	307,082,089
	$ 1,048,077	$ -	$ 307,082,089

See notes to financial statements.

CITY OF QUINCY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Fund	Pension Trust Fund (For the Year Ended December 31, 2006)
Additions:		
Contributions:		
Employers	$ -	$ 19,087,876
Other systems and Commonwealth of Massachusetts	-	988,467
Plan members	-	5,870,297
Other	1,770	1,011,609
Total contributions	1,770	26,958,249
Investment Income (Loss):		
Interest income	66,734	2,476,025
Increase (decrease) in fair value of investments	(2,682)	32,863,465
Less: management fees	-	(1,030,114)
Net investment income (loss)	64,052	34,309,376
Total additions	65,822	61,267,625
Deductions:		
Benefit payments to plan members and beneficiaries	-	36,691,916
Refunds to plan members	-	497,716
Administrative expenses	-	434,490
Other expenses	5,865	1,227,327
Total deductions	5,865	38,851,449
Net increase	59,957	22,416,176
Net assets:		
Beginning of year	988,120	284,665,913
End of year	$ 1,048,077	$ 307,082,089

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 or 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.
- *Quincy Center Concourse Fund* is used to accumulate costs and funding related to a major ongoing capital project to improve the downtown area.

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 2007 tax levy reflected an excess capacity of $ 8,696,104.

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)	$ 253,478,263	$ 256,838,222
Other financing sources/uses (GAAP basis)	3,485,053	4,600,000
Subtotal (GAAP Basis)	256,963,316	261,438,222

(continued)

(continued) General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Adjust tax revenue to accrual basis	2,376,258	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,765,267)
To book current year appropriation carryforwards	-	3,477,354
To record raising of prior years' overlay deficits	-	318,416
To record use of free cash	5,096,860	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(18,447,092)	(18,447,092)
To record other sources/uses	483,966	-
To record timing difference	-	133,147
To record teacher deferral	-	100,000
Budgetary basis	$ 246,473,308	$ 244,254,780

D. *Excess of Expenditures Over Appropriations*

Expenditures exceeding appropriations during the current fiscal year were as follows:

Snow and Ice	$ 546,924

This expenditure will be raised as part of the fiscal year 2008 property tax.

E. *Deficit Fund Equity*

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, transfers from other funds, and long-term bonding.

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, 2007 and December 31, 2006, $ 79,287,739 and $ 4,606,373 of the City's and System's bank balances of $ 92,199,794 and $ 4,706,373, 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 $ 2,329,293 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	$ 100	-	$ -	$ 100	$ -	$ -
Corporate equities	847	N/A	847	-	-	-
Mutual funds	4,226	N/A	4,226	-	-	-
Federal agency securities	2,236	-	-	2,236	-	-
Total investments	$ 7,409		$ 5,073	$ 2,336	$ -	$ -

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	$ 45,819	N/A	$ 45,819	$ -	$ -	$ -
State investment pool	4,099	N/A	4,099	-	-	-
Pooled funds	233,173 *	N/A	233,173	-	-	-
Total investments	$ 283,091		$ 283,091	$ -	$ -	$ -

**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:

Investment Issuer	Amount	Percent
Federal Home Loan Mortgage Corp.	$ 1,840,570	25%
Federal National Mortgage Assn.	395,227	5%
Total	$ 2,235,797	

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	$ 100	$ 100	$ -	$ -	$ -
Federal agency securities	2,236	265	1,506	465	-
Total	$ 2,336	$ 365	$ 1,506	$ 465	$ -

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, 2007 consist of the following (in thousands):

Real Estate		
2007	$ 3,163	
2006	351	
2005	28	
Prior	45	
		3,587
Personal Property		
2007	265	
2006	202	
2005	209	
2004	227	
2003	179	
Prior	1,639	
		2,721
Tax Liens		3,568
Deferred Taxes		833
Total		$ 10,709

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	$ 3,157
Excises	3,351
Utilities	531
Quincy College	25

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007.

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, 2007 balances in interfund receivable and payable accounts:

Fund	Due From Other Funds	Due To Other Funds
Capital Project Funds:		
Quincy College Projects	$ -	$ 93,014
Enterprise Funds:		
Quincy College	93,014	-
Total	$ 93,014	$ 93,014

9. Deposit on Sale of Property

The balance represents the sale of real property by the City to Quincy College, per an agreement dated March 24, 2004 for the property known as Saville Hall. The deed and title of the property cannot be transferred to the College until either the College becomes independent from the City or obtains a legal status that permits the College to own real property. As of June 30, 2007, the property is a component of the City's capital assets. The general fund recognized this as revenue in fiscal 2007.

10. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 72,019	$ 46	$ -	$ 72,065
Machinery, equipment, and furnishings	22,747	1,161	-	23,908
Infrastructure	47,638	2,735	-	50,373
Total capital assets, being depreciated	142,404	3,942	-	146,346
Less accumulated depreciation for:				
Buildings and improvements	(19,024)	(1,899)	-	(20,923)
Machinery, equipment, and furnishings	(15,080)	(1,764)	-	(16,844)
Infrastructure	(5,363)	(976)	-	(6,339)
Total accumulated depreciation	(39,467)	(4,639)	-	(44,106)
Total capital assets, being depreciated, net	102,937	(697)	-	102,240
Capital assets, not being depreciated:				
Land	54,801	-	-	54,801
Construction in progress	17,359	51,515	-	68,874
Total capital assets, not being depreciated	72,160	51,515	-	123,675
Governmental activities capital assets, net	$ 175,097	$ 50,818	$ -	$ 225,915

	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	(1,659)	(56)	-	(1,715)
Machinery, equipment, and furnishings	(1,541)	(20)	-	(1,561)
Total accumulated depreciation	(3,200)	(76)	-	(3,276)
Business-type activities capital assets, net	$ 272	$(76)	$ -	$ 196

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

Governmental Activities:	
General government	$ 813
Public safety	759
Education	864
Public works	1,296
Health and human services	20
Culture and recreation	887
Total depreciation expense - governmental activities	$ 4,639
Business-Type Activities:	
Quincy College	$ 76

11. Accounts Payable

Accounts payable represent additional 2007 expenditures paid after July 15, 2007.

12. 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, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

13. 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.

14. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2007:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2007
Bond anticipation	3.76%	08/04/06	08/03/07	$ 3,000,000
Bond anticipation	3.76%	08/04/06	08/03/07	195,000
Bond anticipation	3.71%	02/02/07	08/03/07	1,132,715
Bond anticipation	3.65%	02/02/05	02/01/08	10,000,000
Bond anticipation	3.70%	05/11/07	02/01/08	3,000,000
Bond anticipation	3.81%	06/29/07	02/01/08	3,750,000
Bond anticipation	1.73%	05/11/07	12/31/07	2,683,319
Total				$ 23,761,034

The following summarizes activity in notes payable during fiscal year 2007:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	$ 14,328,707	$ 23,761,034	$ (14,328,707)	$ 23,761,034

15. 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, 2007
Repair remodeling	03/01/08	4.51%	$ 125,000
Park construction	03/01/08	4.64%	50,000
Sewer	03/01/08	4.84%	15,000
Library construction	03/01/08	4.84%	360,000
School - Marshall	06/01/09	4.90%	1,000,000
School pointwebster	06/01/09	4.91%	700,000
Water mains	06/17/09	4.91%	200,000
Repair remodeling	06/01/10	5.41%	375,000
Library	06/01/10	5.42%	75,000
Sewer 1999	06/01/10	5.42%	60,000
Water	06/01/10	5.42%	510,000
School remodeling	06/01/10	5.42%	105,000
Land purchase	06/30/10	5.41%	555,000

(continued)

(continued)

Governmental Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
Sewer	02/01/17	-	520,047
Sewer	08/01/14	-	404,196
Sewer	08/01/14	-	2,003,175
Water	11/15/11	-	1,583,560
School remodeling (I)	03/01/21	4.46%	1,470,000
Water	03/01/21	4.46%	1,325,000
School remodeling (II)	03/01/22	4.46%	750,000
Sewer (I)	03/01/21	4.86%	630,000
Sewer (II)	03/01/22	4.48%	550,000
Dept. equipment (I)	03/01/16	4.19%	375,000
Washington St. (I)	03/01/11	3.96%	220,000
Library	03/01/21	4.45%	280,000
Marshall school remodeling (I)	03/01/22	4.50%	225,000
Sewer (III)	03/01/22	4.50%	75,000
Sewer - MWRA	11/15/07	-	180,070
1993 School 1 (I) - refunding	05/01/13	3.72%	591,745
1993 School 2 (I) - refunding	05/01/13	3.72%	266,285
1993 Sewer (O) - refunding	05/01/13	3.62%	211,970
1993 Water (O) - refunding	05/01/14	3.67%	179,375
1994 Sewer (I) - refunding	05/01/14	3.67%	609,875
1994 General (I) - refunding	05/01/14	3.67%	645,750
1995 Water main (O) - refunding	05/01/14	3.71%	36,798
1995 School (I) - refunding	05/01/15	3.66%	1,995,170
1995 School (II) I - refunding	05/01/15	3.66%	114,963
1995 Park (I) - refunding	05/01/10	3.57%	326,203
1995 Public building (I) - refunding	05/01/15	3.66%	216,867
Water - MWRA	08/15/13	-	2,216,984
Water - MWRA	11/15/08	-	24,860
School Bonds - Quincy H.S.	03/01/21	3.55%	3,340,000
Land acq./recreational facilities	09/01/24	3.88%	8,615,000
Sewer	08/01/18	-	472,752
5/1/97 Water (O) - refunding	05/01/16	3.21%	279,450
5/1/97 Sewer (I) - refunding	05/01/16	3.40%	328,050
5/1/97 Other (I) - refunding	05/01/12	2.86%	317,500
6/1/00 Remodeling (I) - refunding	05/01/20	4.26%	1,251,760
6/1/00 Library (I) - refunding	05/01/20	4.28%	266,545
6/1/00 Sewer (I) - refunding	05/01/20	4.28%	266,110
6/1/00 Water (O) - refunding	05/01/20	4.27%	1,810,890
6/1/00 School (I) - refunding	05/01/20	4.26%	372,265
6/1/00 Land acq.- refunding	05/01/19	4.15%	1,762,430
1998 Park (I) - refunding	03/01/12	3.56%	205,000
1998 Sewer (I) - refunding	03/01/18	3.78%	155,200
1998 Library (I) - refunding	03/01/18	3.78%	3,724,800
1999 School (O) - refunding	03/01/19	3.82%	5,307,000
1999 School remodel - refunding	03/01/19	3.82%	3,721,300
1999 Water mains (O) - refunding	03/01/17	3.76%	791,700

(continued)

(continued)

Governmental Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
Sewer - MPAT	08/01/23	1.45%	2,793,728
Computer hardware	08/01/19	4.07%	3,000,000
Remodeling to City buildings	08/01/19	4.07%	2,000,000
Paving of streets	08/01/19	4.07%	5,000,000
MWRA	02/15/17	-	824,541
MWRA	05/15/12	-	1,863,400
MWRA	05/15/07	-	3,926,139
Total Governmental Activities			$ 74,553,453

B. *Future Debt Service*

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

Governmental	Principal	Interest	Total
2008	$ 7,427,488	$ 2,608,734	$ 10,036,222
2009	7,143,162	2,372,003	9,515,165
2010	7,054,777	2,125,361	9,180,138
2011	6,945,729	1,892,085	8,837,814
2012	6,843,468	1,676,380	8,519,848
2013 - 2017	26,097,659	5,400,133	31,497,792
2018 - 2022	11,939,426	1,283,614	13,223,040
Thereafter	1,101,744	60,621	1,162,365
Total	$ 74,553,453	$ 17,418,931	$ 91,972,384

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-Term Portion 6/30/07
Governmental Activities						
Bonds payable	$ 64,568	$ 16,614	$ (6,629)	$ 74,553	$ (7,427)	$ 67,126
Accrued employee benefit	8,547	-	(438)	8,109	(405)	7,704
Other:						
Notes payable (QMC)	14,491	13,458	(14,491)	13,458	-	13,458
Due to HUD	5,775	-	(400)	5,375	(425)	4,950
Capital lease	-	32,739	-	32,739	(1,389)	31,350
Totals	$ 93,381	$ 62,811	$ (21,958)	$ 134,234	$ (9,646)	$ 124,588

	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Equals Less Current Portion	Long-Term Portion 6/30/07
Business Activities						
Bonds payable	$ 55	$ -	$ (55)	$ -	$ -	$ -
Accrued employee benefits	161	-	(6)	155	(8)	147
Totals	$ 216	$ -	$ (61)	$ 155	$ (8)	$ 147

16. Other Long-Term Liabilities

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.

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, 2007, future principal payments due on the loan are as follows:

2008	$ 425,000
2009	450,000
2010	475,000
2011	500,000
2012	520,000
Thereafter	3,005,000
Total	$ 5,375,000

Capital Lease Obligations

In fiscal year 2007, the City entered into a lease/purchase agreement with Honeywell Global Finance LLC for energy conservation improvements and equipment for various schools and City buildings to be installed over a two-year period. The agreement states that Honeywell Global Finance LLC will act as both the vendor and financier to fund the principal contract sum of $ 32,738,892 with a stated interest rate of 4.24%, whereby funds will be deposited into an escrow account in both parties name and then drawn down by Honeywell Global Finance after the City has accepted the improvements and equipment installed. The City is required to remit semi-annual lease payments, with the first payment due in November of 2008 with an expected final payment in November of 2027 to execute the lease/purchase. Future minimum lease payments, subject to annual appropriation by City Council, under the capital lease consisted of the following as of June 30, 2007:

2008	$ 1,389,275
2009	2,779,706
2010	2,779,706
2011	2,779,706
2012	2,685,176
2013-2017	12,913,117
2018-2022	12,474,706
2023-2027	10,600,417
Total minimum lease payments	48,401,809
Less amount representing interest	(15,662,917)
Present Value of Minimum Lease Payments	$ 32,738,892

17. 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.

18. 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, 2007:

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.

19. 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	$ 4,716,861
Tax refund estimate (ATB cases)	698,409
Accrued interest on BANs	782,785
Teacher pay deferral	300,000
Snow and ice deficit	546,924
Statutory (UMAS) Balance	$ 7,044,979

20. Subsequent Events

Leases

In August of 2007, Quincy College entered into a five-year operating lease with Normandy Newport Holdings, LLC. Base rent is equal to $ 1,285,908 annually, payable in equal monthly installments of $ 107,159.

Debt

Subsequent to June 30, 2007, the City has incurred the following debt:

	Amount	Interest Rate	Issue Date	Maturity Date
General obligation bond	$ 500,000	0%	08/16/07	08/15/17

The proceeds of the bond were used to fund projects related to sewer infrastructure.

	Amount	Interest Rate	Issue Date	Maturity Date
Bond anticipation note	$ 12,392,666	4.00%	08/03/07	08/01/08

The proceeds of the note were used to renew a prior year note payable outstanding at June 30, 2007, $ 13,457,666.

	Amount	Rate	Date	Date
Bond anticipation note	$ 4,327,715	4.10%	08/03/07	02/01/08

The proceeds of the note were used to renew prior year bond anticipation notes outstanding at June 30, 2007, $ 4,327,715.

	Amount	Rate	Date	Date
Bond anticipation note	$ 3,000,000	4.40%	11/15/07	02/01/08

The proceeds of the note were used to fund new capital improvement projects started in 2008.

21. 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.

Quincy Contributory Retirement System - The System is currently the defendant in a lawsuit regarding the allocation of employer contributions between the City of Quincy and the Quincy Housing Authority. The case is currently with the Massachusetts Superior Court. Management of the System believe that the outcome of the case will not have a material affect on the financial statements of the Quincy Retirement System.

22. 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, 2007 was not available.

23. 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, 2006:

Retirees and beneficiaries receiving benefits	1,732
Terminated plan members entitled to but not yet receiving benefits	283
Fully vested, partially vested, and nonvested active employees covered by the plan	1,444
Total	3,459
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 2007, the Commonwealth of Massachusetts contributed $ 18,447,092 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

24. 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, 2007 are as follows (in thousands):

	Health Coverage
Claims liability, July 1, 2006	$ 3,300
Claims incurred/recognized in fiscal year 2007	42,878
Claims paid in fiscal year 2007	(42,478)
Claims liability, June 30, 2007	$ 3,700

25. Leases

Operating Leases - Quincy College leases certain premises and equipment under operating leases with various expiration dates that extend through 2012. The leases generally provide that the College pay certain maintenance costs and include various renewal provisions. Rent expense for 2007 amounted to $ 999,151. 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:

2008	$ 1,635,364
2009	1,440,402
2010	1,440,402
2011	1,440,402
2012	1,195,990
Total	$ 7,152,560

26. 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 2007, as a result of an audit, the Foundation suspended operations, and it was later decided that a new trust would continue the operations. In fiscal 2007, the College received $ 36,572 from the Quincy College Foundation and $ 16,500 from the Quincy College Trust, Inc.

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, 2005	
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.