

CITY OF QUINCY, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2012

CITY OF QUINCY, MASSACHUSETTS
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JUNE 30, 2012

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Independent Auditors' Report

To the Honorable 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 fiscal year ended June 30, 2012 (except for the Quincy Contributory Retirement System which is as of and for the year ended December 31, 2011), 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, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Quincy Contributory Retirement System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Quincy Contributory Retirement System is based solely on the report of the other auditors.

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 auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Quincy, Massachusetts, as of June 30, 2012 (except for the Quincy Contributory Retirement System which is as of December 31, 2011) and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2013 on our consideration of the City of Quincy, Massachusetts' internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "Bowers & Sullivan LLC". The signature is written in a cursive, flowing style.

May 22, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Quincy, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The assets of the City of Quincy exceeded its liabilities at the close of fiscal year 2012 by \$224.6 million.
- Unrestricted net assets of \$17.3 million may be used to meet the business-type on-going obligations to users and creditors.
- The accumulated governmental liability for postemployment benefits has risen to \$77 million since implementing GASB Statement #45 in fiscal year 2008. This has created a negative balance of (\$69) million for governmental activities unrestricted net assets.
- The recognition of current year expenses associated with required accounting transactions under GASB Statement #45 resulted in governmental activities recognizing an additional expense of \$18.7 million and the business-type activities recognizing an additional \$1.5 million in expenses.
- At the close of the current fiscal year, the City's general fund reported an ending fund balance of \$12.5 million, an increase of \$3 million in comparison with the prior year. Total fund balance represents 4.8% of total general fund expenditures.
- The City's total debt (short-term, long-term and capital leases combined) increased by \$30.1 million during the current fiscal year. This was due to the net effect of \$13.4 million in long term debt and capital lease principal payments, \$40.5 million of long-term debt issuances and a net increase of \$3 million in outstanding bond anticipation notes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Quincy's basic financial statements. These basic financial statements comprise three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to 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, education, public works, human services, community preservation, culture and recreation, claims and judgments and interest. The business-type activities include the activities of the sewer, water and Quincy College operations.

The government-wide financial statements include not only the City of Quincy itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Quincy is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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 statements focus on *near-term inflows 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 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*.

The City of Quincy adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and Quincy College activities.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Quincy's assets exceeded liabilities by \$224.6 million at the close of fiscal year 2012.

Net assets of \$256.5 million reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its 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 \$19.8 million of the net assets represents resources that are subject to external restrictions on how they may be used. The remaining *unrestricted net asset* deficit balance of (\$51.7) million is not available to meet the government's ongoing obligations to citizens and creditors because the related non-capital liabilities exceed non-capital assets. The *unrestricted net asset* deficit balance, which represents amounts that will need to be raised over the course of time, is mostly the result of recognizing total OPEB liabilities of \$83 million.

The discussion and comparison of governmental and business-type activities of the City are presented on the pages that follow.

The governmental activities expenses totaled \$314 million of which \$89.7 million, or 29% of total governmental activities expenses, was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$203.8 million, primarily coming from property taxes, motor vehicle excise and non-restricted grants and contributions.

Capital grant revenue increased \$3 million and this increase is mainly due to the receipt of reimbursements relating to the construction of the new Central Middle School. Operating grant revenues increased \$1 million. This is due to the renewal of and expirations of various public safety, public works and education related state and federal grants.

Real estate revenues increased \$11.6 million. This was primarily the result of an increased tax levy over the prior year, the City's ability to levy taxes on property converted from non-profit status to for-profit status, and better than expected collections on past due accounts.

	FY 2012 Governmental Activities	FY 2011 Governmental Activities
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 7,486,200	\$ 8,315,465
Operating grants and contributions.....	77,353,118	76,358,083
Capital grants and contributions.....	4,849,121	1,875,637
General Revenues:		
Real estate and personal property taxes.....	171,709,428	160,075,879
Motor vehicle and other excise taxes.....	8,183,469	7,886,751
Penalties and interest on taxes.....	1,329,954	705,998
Meals tax.....	1,378,812	1,044,124
Community preservation surtax.....	1,275,874	1,198,191
Payments in lieu of taxes.....	861,940	841,345
Grants and contributions not restricted to specific programs.....	16,913,913	16,871,406
Unrestricted investment income.....	143,276	202,604
Other revenues.....	1,965,160	3,750,821
Total revenues.....	<u>293,450,265</u>	<u>279,126,304</u>
Expenses:		
General government.....	22,344,532	21,261,706
Public safety.....	78,886,288	74,753,067
Education.....	167,024,366	157,029,768
Public works.....	20,833,415	23,263,787
Human services.....	11,483,155	13,300,188
Community preservation.....	799,334	366,717
Culture and recreation.....	8,821,341	9,050,841
Claims and judgments.....	165,213	198,690
Interest.....	3,375,905	3,598,665
Total expenses.....	<u>313,733,549</u>	<u>302,823,429</u>
Increase in net assets before transfers.....	(20,283,284)	(23,697,125)
Transfers.....	<u>7,097,772</u>	<u>6,715,767</u>
Change in net assets.....	\$ <u>(13,185,512)</u>	\$ <u>(16,981,358)</u>

Business-type Activities

The City's business-type activities assets exceeded liabilities by \$64 million at the close of fiscal 2012.

	FY 2012 Business-type Activities	FY 2011 Business-type Activities
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 40,026,393	\$ 38,178,749
Noncurrent assets (excluding capital).....	1,404,510	1,612,201
Capital assets.....	<u>60,878,381</u>	<u>55,094,193</u>
Total assets.....	<u>102,309,284</u>	<u>94,885,143</u>
Liabilities:		
Current liabilities (excluding debt).....	3,764,876	4,189,436
Noncurrent liabilities (excluding debt).....	6,137,129	4,465,899
Current debt.....	3,346,267	3,718,913
Noncurrent debt.....	<u>25,103,546</u>	<u>21,469,619</u>
Total liabilities.....	<u>38,351,818</u>	<u>33,843,867</u>
Net Assets:		
Capital assets net of related debt.....	45,517,960	35,021,922
Restricted for capital purposes.....	1,133,000	1,133,000
Unrestricted.....	<u>17,306,506</u>	<u>24,886,354</u>
Total net assets.....	<u>\$ 63,957,466</u>	<u>\$ 61,041,276</u>
Program revenues:		
Charges for services.....	\$ 62,062,840	\$ 62,123,976
Operating grants and contributions.....	193,000	371,000
Capital grants and contributions.....	856,091	1,418,461
General Revenues:		
Unrestricted investment income.....	39,602	34,594
Penalties and interest.....	<u>301,202</u>	<u>378,396</u>
Total revenues.....	<u>63,452,735</u>	<u>64,326,427</u>
Expenses:		
Sewer.....	20,513,006	19,720,649
Water.....	13,189,562	13,390,886
Quincy College.....	<u>19,736,204</u>	<u>18,116,139</u>
Total expenses.....	<u>53,438,772</u>	<u>51,227,674</u>
Transfers.....	<u>(7,097,772)</u>	<u>(6,715,767)</u>
Change in net assets.....	<u>\$ 2,916,191</u>	<u>\$ 6,382,986</u>

Business-type net assets of \$45.5 million or 71% of total business-type activity net assets represent the investment in capital assets, \$1.1 million or 2% is restricted for capital purposes and \$17.3 million or 27% of total business-type activity net assets are unrestricted. The City's business-type activities net assets increased \$2.9 million in the current fiscal year.

The sewer enterprise fund balance experienced an increase of \$1.6 million which is primarily due the receipt of a \$788,000 capital grant used to rehabilitate the existing sewer infrastructure as well as charges for service

exceeding the total cost of operations and other financing uses. Principal payments on debt and capitalized infrastructure costs exceeding depreciation expense also factored into the increase.

The water enterprise fund balance experienced an increase of \$1.9 million which is primarily the result of charges for service exceeding the total cost of operations and other financing uses. Principal payments on debt and capitalized infrastructure costs exceeding depreciation expense also factored into the increase. Principal payments on debt and capitalized infrastructure costs exceeding depreciation expense also factored into the increase.

Ending fund balance of the Quincy College enterprise fund decreased (\$569,000). Contributing to the change in fund net assets was an OPEB expense of \$1.1 million offset by tuition and other fee income being greater than other, non-OPEB, expenses by \$656,000.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting 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, *unassigned 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 net ending fund balance deficits of (\$3.6) million, the main cause of the deficit is due to the Quincy Center Concourse fund and the Central Middle School Project fund which report deficits of (\$29.1) million and (\$1) million respectively. Offsetting these deficits are surpluses in the General Fund, the High School Project fund and nonmajor funds in the amounts of \$12.5 million, \$3.8 million and \$10.2 million respectively

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9.1 million and total fund balance was \$12.5 million. Assignments of fund balance for encumbrances and continuing appropriations totaled \$3.4 million. Unassigned fund balance represents 3.5% of total general fund expenditures, while total fund balance represents 4.8% of that same amount. The general fund experienced an increase of \$3 million. The increase is the result of an aggressive effort to collect on all current and past due real estate receivables, increases in state aid and other intergovernmental revenues, being offset by increased education expenditures.

Fund balance of the Quincy Center Concourse Fund decreased by \$5.8 million. The decrease was the result of current year expenditures exceeding revenues. Fund expenditures are currently being funded by \$33 million in bond anticipation notes. The current fund deficit balance will be eliminated through the issuance of long-term debt.

The High School Project fund reports activity associated with the construction of a new high school that has been funded by a combination of capital grants from the Massachusetts School Building Authority and amounts raised by the City through issuance of long term debt (local share). The maximum amount of capital grants allowed under the grant agreement with the MSBA was reached prior to fiscal year 2012. In fiscal year 2012, the City incurred \$1.4 million in capital expenditures that was necessary in order for the school to open timely for the 2011-2012 school year. The City also recognized \$26.1 million of bond proceeds relating to long term debt issued to fund constructions costs not covered by Massachusetts school construction grants. At June 30, 2012, the fund had a surplus of \$3.8 million.

The Central Middle School Project fund reports activity associated with the construction of a new central middle school that is being funded by a combination of capital grants from the Massachusetts School Building Authority (MSBA) and amounts raised by the City through issuance of long term debt (local share). In fiscal year 2012, the City incurred \$3.1 million in capital expenditures that relates to initial construction start-up costs. The City also recognized \$3.4 million in grant reimbursements from the MSBA. At June 30, 2012, a fund deficit of (\$1) million existed which will be covered by future grant reimbursements and bond proceeds.

General Fund Budgetary Highlights

The final budget increased from the original budget by approximately \$172,000.

The increase is reflective of City Council votes resulting in a collective \$5.74 million appropriation decrease to the debt service interest payments, employee benefits, public works, and health and human services functions that was offset by \$5.76 million appropriation increases to the general government, public safety, education, and the culture and recreation functions. Also affecting the overall appropriation increase is the City Council vote to use \$149,000 of free cash to eliminate various special revenue and capital project fund deficits.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$421.4 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, machinery, vehicles and equipment, and infrastructure. The total increase in the City's investment in capital assets for the current year was \$17.4 million.

The major reason for the increase in governmental capital asset activity includes the capitalization of final construction costs associated with the new Quincy High School building, construction costs for the new Central Middle School, land acquisition costs associated with the down-town redevelopment project, equipment and vehicle acquisition for the police and fire departments, as well as various roadway infrastructure upgrades and improvements.

The major reason for the increase in water and sewer fund capital assets is infrastructure upgrades and improvements related to the sewer system as well as the installation of a new water meter system that will allow for more efficient usage calculations. The capital asset balance of the Quincy College enterprise fund increased due to leasehold improvements incurred as a result of leasing additional administrative and instructional space in an effort to increase its presence within the downtown redevelopment area of Quincy.

Debt Administration. The City of Quincy maintains an Aa3 Bond Rating with Moody's Investors Service. The City continues to maintain strong market access for both note and bond sales. Outstanding long-term debt of the general government, as of June 30, 2012, totaled approximately \$95.1 million, of which approximately \$72.5 million is related to school projects, \$6.9 million is related to land acquisitions, \$6.6 million is related to building remodeling and renovation projects, \$3.5 million is related to paving and traffic projects, \$2.6 million is related to library construction and renovation projects, \$2 million is related to the purchase of computer hardware, \$246 thousand is related to general governmental use, and \$803 thousand is related to the purchase of departmental equipment.

The water enterprise fund has \$14.3 million in long-term debt. The sewer enterprise fund has \$12.6 million in long-term debt. All of the debt carried by the water and sewer enterprise funds is supported by the user rates with no subsidy from the general fund.

At June 30, 2012 the City carried \$69.3 million of bond anticipation notes relating to the Downtown redevelopment project and for land acquisition and other capital costs relating to the new Central Middle School and new High School projects.

Please refer to notes 4, 6, 7, and 8 in the financial statements for further discussion of the major capital and debt activity.

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 the Director of Municipal Finance, City Hall, 1305 Hancock St., Quincy, Massachusetts 02169.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents..... \$	79,616,138	\$ 22,615,332	\$ 102,231,470
Investments.....	2,518,211	2,423,183	4,941,394
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	7,403,469	-	7,403,469
Tax liens.....	4,269,634	-	4,269,634
Motor vehicle and other excise taxes.....	991,220	-	991,220
User fees.....	-	11,028,343	11,028,343
Student accounts and other.....	-	1,648,924	1,648,924
Departmental.....	161,606	-	161,606
Community preservation fund surtax.....	38,406	-	38,406
Intergovernmental.....	5,909,454	2,310,611	8,220,065
Loans.....	1,246,802	-	1,246,802
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	1,471,706	-	1,471,706
Intergovernmental.....	5,144,081	271,510	5,415,591
Deposit on purchase of property.....	-	1,133,000	1,133,000
Tax foreclosures.....	995,058	-	995,058
Capital assets, non depreciable.....	75,106,421	1,118,650	76,225,071
Capital assets, net of accumulated depreciation.....	285,383,249	59,759,731	345,142,980
TOTAL ASSETS.....	470,255,455	102,309,284	572,564,739
LIABILITIES			
CURRENT:			
Warrants payable.....	4,159,174	998,055	5,157,229
Accrued payroll.....	11,208,990	381,493	11,590,483
Tax refunds payable.....	1,262,774	-	1,262,774
Accrued interest.....	768,119	173,650	941,769
Abandoned property.....	762,328	-	762,328
Other liabilities.....	682,561	349,662	1,032,223
Deferred revenue.....	-	1,591,955	1,591,955
Capital lease obligations.....	1,628,209	83,384	1,711,593
Compensated absences.....	7,011,000	270,061	7,281,061
Workers' compensation.....	597,000	-	597,000
Notes payable.....	69,270,000	-	69,270,000
Bonds payable.....	10,218,545	3,262,883	13,481,428
NONCURRENT:			
Capital lease obligations.....	23,931,418	1,442,198	25,373,616
Other postemployment benefit obligation.....	77,264,000	5,868,000	83,132,000
Compensated absences.....	2,554,000	269,129	2,823,129
Workers' compensation.....	4,882,000	-	4,882,000
Bonds payable.....	93,398,412	23,661,348	117,059,760
TOTAL LIABILITIES.....	309,598,530	38,351,818	347,950,348
NET ASSETS			
Invested in capital assets, net of related debt.....	210,963,872	45,517,960	256,481,832
Restricted for:			
Capital purposes.....	-	1,133,000	1,133,000
Loans.....	1,246,802	-	1,246,802
Permanent funds:			
Expendable.....	367,422	-	367,422
Nonexpendable.....	2,583,569	-	2,583,569
Grants and gifts.....	14,457,925	-	14,457,925
Unrestricted.....	(68,962,665)	17,306,506	(51,656,159)
TOTAL NET ASSETS..... \$	160,656,925	\$ 63,957,466	\$ 224,614,391

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 22,344,532	\$ 2,411,766	\$ 4,888,895	\$ -	\$ (15,043,871)
Public safety.....	78,886,288	1,962,595	1,036,552	-	(75,887,141)
Education.....	167,024,366	2,133,364	58,404,331	3,663,214	(102,823,457)
Public works.....	20,833,415	404,268	3,421,572	846,290	(16,161,285)
Human services.....	11,483,155	183,534	9,029,780	-	(2,269,841)
Community preservation.....	799,334	-	-	339,617	(459,717)
Culture and recreation.....	8,821,341	390,673	395,653	-	(8,035,015)
Claims and judgments.....	165,213	-	-	-	(165,213)
Interest.....	3,375,905	-	176,335	-	(3,199,570)
Total Governmental Activities....	313,733,549	7,486,200	77,353,118	4,849,121	(224,045,110)
<i>Business-Type Activities:</i>					
Sewer.....	20,513,006	24,186,312	25,000	788,400	4,486,706
Water.....	13,189,562	16,414,597	168,000	-	3,393,035
Quincy College.....	19,736,204	21,461,931	-	67,691	1,793,418
Total Business-Type Activities...	53,438,772	62,062,840	193,000	856,091	9,673,159
Total Primary Government.....	\$ 367,172,321	\$ 69,549,040	\$ 77,546,118	\$ 5,705,212	\$ (214,371,951)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (224,045,110)	\$ 9,673,159	\$ (214,371,951)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	171,709,428	-	171,709,428
Tax liens.....	437,256	-	437,256
Motor vehicle and other excise taxes.....	8,183,469	-	8,183,469
Urban redevelopment corporations tax.....	386,029	-	386,029
Hotel/motel tax.....	1,141,875	-	1,141,875
Meals tax.....	1,378,812	-	1,378,812
Community preservation surtax.....	1,275,874	-	1,275,874
Penalties and interest on taxes.....	1,329,954	301,202	1,631,156
Payments in lieu of taxes.....	861,940	-	861,940
Grants and contributions not restricted to specific programs.....	16,913,913	-	16,913,913
Unrestricted investment income.....	143,276	39,602	182,878
<i>Transfers, net</i>	<u>7,097,772</u>	<u>(7,097,772)</u>	<u>-</u>
Total general revenues.....	<u>210,859,598</u>	<u>(6,756,968)</u>	<u>204,102,630</u>
Change in net assets.....	(13,185,512)	2,916,191	(10,269,321)
<i>Net Assets:</i>			
Beginning of year.....	<u>173,842,437</u>	<u>61,041,275</u>	<u>234,883,712</u>
End of year.....	\$ <u><u>160,656,925</u></u>	\$ <u><u>63,957,466</u></u>	\$ <u><u>224,614,391</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	General	Quincy Center Concourse Fund	High School Project	Central Middle School Project	Nonmajor Governmental Funds	Total Governmental Funds
Cash and equivalents.....	\$ 27,280,508	\$ 4,896,494	\$ 3,829,131	\$ 8,355,785	\$ 35,254,220	\$ 79,616,138
Investments.....	-	-	-	-	2,518,211	2,518,211
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	7,403,469	-	-	-	-	7,403,469
Real estate tax deferrals.....	1,471,706	-	-	-	-	1,471,706
Tax liens.....	4,248,901	-	-	-	20,733	4,269,634
Motor vehicle and other excise taxes.....	991,220	-	-	-	-	991,220
Departmental.....	161,606	-	-	-	-	161,606
Community preservation fund surtax.....	-	-	-	-	38,406	38,406
Intergovernmental.....	6,935,181	-	-	399,478	3,718,876	11,053,535
Loans.....	-	-	-	-	1,246,802	1,246,802
Tax foreclosures.....	995,058	-	-	-	-	995,058
TOTAL ASSETS.....	\$ 49,487,649	\$ 4,896,494	\$ 3,829,131	\$ 8,755,263	\$ 42,797,248	\$ 109,765,785
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 2,108,612	\$ 971,224	\$ 56,659	-	\$ 1,022,679	\$ 4,159,174
Accrued payroll.....	11,192,765	-	-	-	16,225	11,208,990
Tax refunds payable.....	1,262,774	-	-	-	-	1,262,774
Abandoned property.....	757,917	-	-	-	4,411	762,328
Other liabilities.....	682,561	-	-	-	-	682,561
Deferred revenues.....	20,975,141	-	-	-	5,024,817	25,999,958
Notes payable.....	-	33,000,000	-	9,785,000	26,485,000	69,270,000
TOTAL LIABILITIES.....	36,979,770	33,971,224	56,659	9,785,000	32,553,132	113,345,785
FUND BALANCES:						
Nonspendable.....	-	-	-	-	2,583,569	2,583,569
Restricted.....	-	-	3,772,472	-	17,121,008	20,893,480
Assigned.....	3,404,823	-	-	-	-	3,404,823
Unassigned.....	9,103,056	(29,074,730)	-	(1,029,737)	(9,460,461)	(30,461,872)
TOTAL FUND BALANCES (DEFICITS).....	12,507,879	(29,074,730)	3,772,472	(1,029,737)	10,244,116	(3,580,000)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 49,487,649	\$ 4,896,494	\$ 3,829,131	\$ 8,755,263	\$ 42,797,248	\$ 109,765,785

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2012

Total governmental fund balances.....	\$	(3,580,000)
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		360,489,670
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		25,999,958
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(768,119)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(103,616,957)	
Capital lease obligations.....	(25,559,627)	
Other postemployment benefit obligations.....	(77,264,000)	
Workers compensation.....	(5,479,000)	
Compensated absences.....	<u>(9,565,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(221,484,584)</u>
Net assets of governmental activities.....	\$	<u><u>160,656,925</u></u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2012

	General	Quincy Center Concourse Fund	High School Project	Central Middle School Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 170,318,144	\$ -	\$ -	\$ -	\$ -	170,318,144
Tax liens.....	1,764,036	-	-	-	-	1,764,036
Motor vehicle and other excise taxes.....	7,840,580	-	-	-	-	7,840,580
Hotel/motel tax.....	-	-	-	-	1,141,875	1,141,875
Charges for services.....	-	-	-	-	2,072,508	2,072,508
Urban redevelopment corporations tax.....	386,029	-	-	-	-	386,029
Penalties and interest on taxes.....	1,752,242	-	-	-	-	1,752,242
Fees and rentals.....	1,667,426	-	-	-	-	1,667,426
Payments in lieu of taxes.....	861,940	-	-	-	-	861,940
Licenses and permits.....	1,740,933	-	-	-	-	1,740,933
Fines and forfeitures.....	286,023	-	-	-	-	286,023
Intergovernmental.....	64,691,425	202,980	-	3,363,714	30,135,534	98,393,653
Departmental and other.....	2,198,973	-	-	-	2,067,869	4,266,842
Meals tax.....	1,378,812	-	-	-	-	1,378,812
Community preservation surtax.....	-	-	-	-	1,272,370	1,272,370
Contributions.....	-	-	-	-	358,207	358,207
Investment income.....	65,540	8,383	-	-	69,353	143,276
TOTAL REVENUES.....	254,952,103	211,363	-	3,363,714	37,117,716	295,644,896
EXPENDITURES:						
Current:						
General government.....	10,668,978	-	-	-	3,858,780	14,527,758
Public safety.....	42,510,999	-	-	-	2,648,820	45,159,819
Education.....	84,627,050	-	1,356,057	3,073,642	14,992,807	104,049,556
Public works.....	13,893,710	6,016,447	-	-	9,176,159	29,086,316
Human services.....	2,597,446	-	-	-	7,897,307	10,494,753
Community preservation.....	-	-	-	-	799,334	799,334
Culture and recreation.....	4,951,530	-	-	-	433,970	5,385,500
Pension benefits.....	43,632,326	-	-	-	-	43,632,326
Employee benefits.....	43,509,313	-	-	-	-	43,509,313
Claims and judgments.....	165,213	-	-	-	-	165,213
State and county charges.....	3,097,041	-	-	-	-	3,097,041
Debt service:						
Principal.....	4,718,246	-	-	-	1,380,000	6,098,246
Interest.....	3,709,904	-	-	-	184,517	3,894,421
Capital lease expenditures.....	2,524,065	-	-	-	-	2,524,065
TOTAL EXPENDITURES.....	260,605,821	6,016,447	1,356,057	3,073,642	41,371,694	312,423,661
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(5,653,718)	(5,805,084)	(1,356,057)	290,072	(4,253,978)	(16,778,765)
OTHER FINANCING SOURCES (USES):						
Premiums from issuance of long-term debt.....	1,694,063	-	-	-	-	1,694,063
Proceeds from issuance of bonds and notes.....	-	-	26,053,000	7,465,000	-	33,518,000
Proceeds from refunding bonds.....	5,030,000	-	-	-	-	5,030,000
Payments of current refunded debt.....	(6,970,000)	-	-	-	-	(6,970,000)
Transfers in.....	9,029,673	-	-	-	304,929	9,334,602
Transfers out.....	(149,424)	-	-	-	(2,087,406)	(2,236,830)
TOTAL OTHER FINANCING SOURCES (USES)....	8,634,312	-	26,053,000	7,465,000	(1,782,477)	40,369,835
NET CHANGE IN FUND BALANCES.....	2,980,594	(5,805,084)	24,696,943	7,755,072	(6,036,455)	23,591,070
FUND BALANCES (DEFICITS) AT BEGINNING OF YEAR.....	9,527,285	(23,269,646)	(20,924,471)	(8,784,809)	16,280,571	(27,171,070)
FUND BALANCES (DEFICITS) AT END OF YEAR.....	\$ 12,507,879	\$ (29,074,730)	\$ 3,772,472	\$ (1,029,737)	\$ 10,244,116	\$ (3,580,000)

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds..... \$ 23,591,070

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.....	21,276,909	
Depreciation expense.....	<u>(9,645,225)</u>	
Net effect of reporting capital assets.....		11,631,684

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..... (2,194,631)

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from bonds and notes.....	(33,518,000)	
Proceeds from refunding bonds.....	(5,030,000)	
Payments of current refunded debt.....	6,970,000	
Principal payments on capital lease obligations.....	1,649,681	
Debt service principal payments.....	<u>6,098,246</u>	
Net effect of reporting long-term debt.....		(23,830,073)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(425,000)	
Net change in accrued interest on long-term debt.....	(65,562)	
Net change in workers compensation accrual.....	(3,221,000)	
Net change in other postemployment benefit obligations.....	<u>(18,672,000)</u>	
Net effect of recording long-term liabilities.....		<u>(22,383,562)</u>

Change in net assets of governmental activities..... \$ (13,185,512)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Sewer Enterprise	Water Enterprise	Quincy College	Total
ASSETS				
CURRENT:				
Cash and short-term investments..... \$	5,286,116	\$ 5,949,110	\$ 11,380,106	\$ 22,615,332
Investments.....	-	-	2,423,183	2,423,183
Receivables, net of allowance for uncollectibles:				
Water fees.....	-	4,500,754	-	4,500,754
Sewer fees.....	6,527,589	-	-	6,527,589
Student accounts and other.....	-	-	1,648,924	1,648,924
Intergovernmental.....	1,448,413	862,198	-	2,310,611
Total current assets.....	<u>13,262,118</u>	<u>11,312,062</u>	<u>15,452,213</u>	<u>40,026,393</u>
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	271,510	-	-	271,510
Deposit on purchase of property.....	-	-	1,133,000	1,133,000
Capital assets, non depreciable.....	282,530	79,474	756,646	1,118,650
Capital assets, net of accumulated depreciation.....	<u>24,073,435</u>	<u>34,326,698</u>	<u>1,359,598</u>	<u>59,759,731</u>
Total noncurrent assets.....	<u>24,627,475</u>	<u>34,406,172</u>	<u>3,249,244</u>	<u>62,282,891</u>
TOTAL ASSETS.....	<u>37,889,593</u>	<u>45,718,234</u>	<u>18,701,457</u>	<u>102,309,284</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	519,109	333,421	145,525	998,055
Accrued payroll.....	25,983	22,029	333,481	381,493
Accrued interest.....	140,485	33,165	-	173,650
Abandoned property.....	-	-	234,515	234,515
Deferred revenue.....	-	-	1,591,955	1,591,955
Capital lease obligations.....	41,692	41,692	-	83,384
Other liability.....	-	-	115,147	115,147
Compensated absences.....	74,000	172,000	24,061	270,061
Bonds payable.....	<u>1,311,613</u>	<u>1,951,270</u>	<u>-</u>	<u>3,262,883</u>
Total current liabilities.....	<u>2,112,882</u>	<u>2,553,577</u>	<u>2,444,684</u>	<u>7,111,143</u>
NONCURRENT:				
Capital lease obligations.....	721,099	721,099	-	1,442,198
Other postemployment benefit obligation.....	840,000	840,000	4,188,000	5,868,000
Compensated absences.....	12,000	27,000	230,129	269,129
Bonds payable.....	<u>11,318,164</u>	<u>12,343,184</u>	<u>-</u>	<u>23,661,348</u>
Total noncurrent liabilities.....	<u>12,891,263</u>	<u>13,931,283</u>	<u>4,418,129</u>	<u>31,240,675</u>
TOTAL LIABILITIES.....	<u>15,004,145</u>	<u>16,484,860</u>	<u>6,862,813</u>	<u>38,351,818</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	17,780,713	25,621,003	2,116,244	45,517,960
Restricted for:				
Capital purposes.....	-	-	1,133,000	1,133,000
Unrestricted.....	<u>5,104,735</u>	<u>3,612,371</u>	<u>8,589,400</u>	<u>17,306,506</u>
TOTAL NET ASSETS..... \$	<u>22,885,448</u>	<u>\$ 29,233,374</u>	<u>\$ 11,838,644</u>	<u>\$ 63,957,466</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Sewer Enterprise	Water Enterprise	Quincy College	Total
OPERATING REVENUES:				
Charges for services	\$ 24,186,312	\$ 16,414,597	\$ 21,402,867	\$ 62,003,776
OPERATING EXPENSES:				
Cost of services and administration	19,429,796	11,891,410	18,993,745	50,314,951
Depreciation.....	760,059	967,154	602,552	2,329,765
TOTAL OPERATING EXPENSES	20,189,855	12,858,564	19,596,297	52,644,716
OPERATING INCOME (LOSS).....	3,996,457	3,556,033	1,806,570	9,359,060
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	1,385	16,561	21,656	39,602
Penalties and interest.....	175,575	125,627	-	301,202
Interest expense.....	(323,151)	(330,998)	-	(654,149)
Intergovernmental.....	813,400	168,000	-	981,400
Vending commission and other revenue.....	-	-	59,064	59,064
Credit card fees.....	-	-	(139,907)	(139,907)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	667,209	(20,810)	(59,187)	587,212
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	4,663,666	3,535,223	1,747,383	9,946,272
OPERATING TRANSFERS:				
Transfers in.....	-	291,915	-	291,915
Transfers out.....	(3,068,352)	(1,937,378)	(2,383,957)	(7,389,687)
TOTAL OPERATING TRANSFERS.....	(3,068,352)	(1,645,463)	(2,383,957)	(7,097,772)
CAPITAL CONTRIBUTIONS:				
Capital contributions from Quincy College Trust, Inc.....	-	-	67,691	67,691
CHANGE IN NET ASSETS.....	1,595,314	1,889,760	(568,883)	2,916,191
NET ASSETS AT BEGINNING OF YEAR, (as restated)....	21,290,134	27,343,614	12,407,527	61,041,275
NET ASSETS AT END OF YEAR.....	\$ 22,885,448	\$ 29,233,374	\$ 11,838,644	\$ 63,957,466

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds			
	Sewer Enterprise	Water Enterprise	Quincy College	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 23,846,424	\$ 16,178,546	\$ 21,236,122	\$ 61,261,092
Payments to vendors.....	(18,232,635)	(10,397,046)	(5,084,167)	(33,713,848)
Payments to employees.....	(943,126)	(1,558,054)	(10,388,026)	(12,889,206)
Payments for interfund services used.....	-	-	(2,268,028)	(2,268,028)
NET CASH FROM OPERATING ACTIVITIES.....	4,670,663	4,223,446	3,495,901	12,390,010
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in.....	-	291,915	-	291,915
Transfers out.....	(3,068,352)	(1,937,378)	(2,383,957)	(7,389,687)
Vending commission and other revenues.....	-	-	59,064	59,064
Credit card fees.....	-	-	(139,907)	(139,907)
Penalties and interest.....	175,575	125,627	-	301,202
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(2,892,777)	(1,519,836)	(2,464,800)	(6,877,413)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	3,252,186	2,991,374	-	6,243,560
Capital contributions.....	788,400	-	67,691	856,091
Acquisition and construction of capital assets.....	(3,970,790)	(3,257,641)	(843,885)	(8,072,316)
Principal payments on bonds and notes.....	(1,281,170)	(2,145,381)	-	(3,426,551)
Principal payments on capital lease obligations.....	(42,610)	(42,610)	-	(85,220)
Interest payments on capital lease obligations.....	(54,057)	(21,834)	-	(75,891)
Interest expense.....	(250,702)	(298,361)	-	(549,063)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,558,743)	(2,774,453)	(776,194)	(5,109,390)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds/disbursements from sales and maturities of investments.....	-	-	(308)	(308)
Investment income.....	1,385	16,561	21,656	39,602
NET CASH FROM INVESTING ACTIVITIES.....	1,385	16,561	21,348	39,294
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	220,528	(54,282)	276,255	442,501
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	5,065,588	6,003,392	11,103,851	22,172,831
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,286,116	\$ 5,949,110	\$ 11,380,106	\$ 22,615,332
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 3,996,457	\$ 3,556,033	\$ 1,806,570	\$ 9,359,060
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	760,059	967,154	602,552	2,329,765
Changes in assets and liabilities:				
Accounts receivable.....	(339,888)	(236,051)	(91,713)	(667,652)
Warrants payable.....	44,866	(248,414)	37,124	(166,424)
Accrued payroll.....	12,169	1,724	(212,448)	(198,555)
Deferred revenue.....	-	-	(75,032)	(75,032)
Compensated absences.....	(10,000)	(24,000)	152,230	118,230
Other postemployment benefits.....	207,000	207,000	1,118,000	1,532,000
Other liabilities.....	-	-	158,618	158,618
Total adjustments.....	674,206	667,413	1,689,331	3,030,950
NET CASH FROM OPERATING ACTIVITIES.....	\$ 4,670,663	\$ 4,223,446	\$ 3,495,901	\$ 12,390,010
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Debt service intergovernmental subsidy.....	\$ 232,142	\$ 168,000	-	\$ 400,142

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,990,063	\$ 735,433	\$ 325,574
Investments.....	258,864,603	-	-
Interest and dividends.....	-	-	-
Receivables.....	3,931,777	-	-
Departmental and other.....	-	-	603,967
TOTAL ASSETS.....	264,786,443	735,433	929,541
LIABILITIES			
Warrants payable.....	67,156	-	50,667
Accrued liabilities.....	-	-	55,248
Liabilities due depositors.....	-	-	219,659
Deferred revenue.....	-	-	603,967
TOTAL LIABILITIES.....	67,156	-	929,541
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 264,719,287	\$ 735,433	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 21,136,477	\$ -
Employee.....	7,050,763	-
Private donations.....	-	4,011
Total contributions.....	<u>28,187,240</u>	<u>4,011</u>
Net investment income (loss):		
Net change in fair value of investments.....	1,307,364	-
Interest.....	<u>1,233,396</u>	<u>11,086</u>
Total investment income (loss).....	2,540,760	11,086
Less: investment expense.....	<u>(821,750)</u>	<u>-</u>
Net investment income (loss).....	<u>1,719,010</u>	<u>11,086</u>
Intergovernmental.....	<u>658,605</u>	<u>-</u>
Transfers from other systems.....	<u>1,320,977</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>31,885,832</u>	<u>15,097</u>
DEDUCTIONS:		
Administration.....	452,308	-
Transfers to other systems.....	1,065,375	-
Retirement benefits and refunds.....	40,416,374	-
Transfer of beneficial interest.....	-	1,000
Educational scholarships.....	<u>-</u>	<u>9,508</u>
TOTAL DEDUCTIONS.....	<u>41,934,057</u>	<u>10,508</u>
CHANGE IN NET ASSETS.....	(10,048,225)	4,589
NET ASSETS AT BEGINNING OF YEAR.....	<u>274,767,512</u>	<u>730,844</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 264,719,287</u>	<u>\$ 735,433</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Quincy, Massachusetts (City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and City Council. For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Quincy College is not a separate legal entity and therefore the condensed financial statements are presented as an Enterprise Fund. The College's financial statements present only the financial activity and position of the of enterprise fund department and do not include the financial activity or position of the Quincy College Trust, Inc. which a separate legal entity but considered a component unit. The activity and ending balances of the Quincy College Trust, Inc are not material to the City and are not presented in these financial statements. Trust funds held by the City for the benefit of students attending Quincy College are presented as part of the private purposes trust funds. The College prepares stand-alone audited financial statements for the fiscal year ended June 30, 2012, and they can be obtained directly from their Chief Fiscal Officer, 24 Saville Avenue, Quincy, Massachusetts 02169.

Blended Component Units – Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City. The Quincy Contributory Retirement System (System) is blended within the primary government in the fiduciary funds.

The System was established to provide retirement benefits to City employees, the Quincy Housing Authority employees and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the City Council and one member appointed by the Retirement Board's members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System issued a separate audited financial statement along with a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Commission (PERAC). That report may be obtained by contacting the System located at 1250 Hancock St., Suite 506, Quincy, Massachusetts 02169.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds 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. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and the water, sewer and Quincy College enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *General Fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

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

The *High School Project* fund is a capital project fund that is used to accumulate costs and funding for the construction of the new high school.

The *Central Middle School Project* fund is a capital project fund that is used to accumulate costs and funding for the construction of the Central Middle School.

The nonmajor governmental funds consist of other special revenue, debt service, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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 the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

The *Quincy College enterprise fund* is used to account for the Quincy College activities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allows the trustees to authorize spending of the realized investment earnings. The City's educational scholarship trusts are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities in the over-the-counter market.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

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 August 1st, November 1st, February 1st and May 1st 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 of the levy.

Real estate tax liens are processed on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectible accounts is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees and Liens

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed on delinquent accounts and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectible accounts.

Community Preservation Fund Surcharge

The City has adopted the Community Preservation Act and the provisions of the Act allow the City to assess property owners, and additional 1% - 3% of the total real estate commitment. The City has opted to a surcharge of 1% added to each real estate tax bill. Revenues from this surcharge are credited to the Community Preservation Fund, a component of the nonmajor governmental funds to fund open space acquisitions, affordable housing initiatives, historic preservation and recreational uses.

Since the surcharges are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectible accounts.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectible accounts.

Real Estate Tax Deferrals

Real estate tax deferrals are receivables from owners of real property that have entered into a tax deferral and recovery agreement with the Board of Assessors (M.G.L. Ch 59, §5).

Real estate tax deferrals are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings and building improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements.

Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20
Leasehold improvements.....	5
Buildings and building improvements.....	7-40
Machinery and equipment.....	3-20
Vehicles.....	5
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"Permanent funds – nonexpendable" represents the endowment portion of donor restricted trusts that support governmental programs.

"Permanent funds – expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

"Capital purposes" represents funds paid on deposit for the acquisition of land and building.

"Loans" represents various community development loans to individuals and businesses in the City.

"Grants and gifts" represents assets that have restrictions placed on them from outside parties.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

"Nonspendable" fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. The City Council is the highest level of decision making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Massachusetts General Law authorizes the Director of Municipal Finance, at his or her discretion, to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City will, from time to time, fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the City’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

L. Capital Lease Obligations

The City leases various assets under capital lease agreements. In the government-wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net assets.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Q. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

R. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2012, within the special revenue and agency funds. These deficits will be funded through grant proceeds and other available funds in fiscal 2013.

S. Prior Period Restatement

During the current fiscal year the City has reclassified \$6,115,466 of previously reported fund balance of the Sewer Enterprise Fund into the Water Enterprise Fund. The grid below outlines the specific components affecting the total reclassified amount:

	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>
Net assets as previously reported.....	\$ 27,405,600	\$ 21,228,148
Reclassification of net book value of capital assets reported at 6/30/2011.....	(5,845,946)	5,845,946
Reclassification of long term reported at 6/30/2011.....	(383,384)	383,384
Adjustment for previously reported warrants payable.....	(356,053)	356,053
Adjustment for previously reported MWPAT receivable.....	806,108	(806,108)
Reclassification of existing fund balance.....	<u>(336,191)</u>	<u>336,191</u>
Net assets at beginning of year - as restated.....	<u>\$ 21,290,134</u>	<u>\$ 27,343,614</u>

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$89,697,385 and the bank balance totaled \$97,368,729. Of the bank balance, \$2,519,071 was covered by Federal Depository Insurance, \$5,164,118 was covered by the Depositors Insurance Fund and \$89,685,540 exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2011, carrying amount (book value) of deposits for the Retirement System’s deposits totaled \$1,990,063. The bank balance of \$1,461,411 was covered by Federal Depository Insurance.

Investments

As of June 30, 2012, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less Than 1	1 to 5	6 to 10	More Than 10	
<u>Debt Securities:</u>						
Corporate Bonds.....	118,488	78,488	40,000	-	-	AA+
Corporate Bonds.....	151,642	-	151,642	-	-	A-
**Black Rock Inflation Protection Portfolio Bond Fund.....	46,790	-	-	-	46,790	AAA
**Federated Government Ultrashort Duration Institutional.....	108,000	108,000	-	-	-	AAA
**Western Asset Inflation Index Plus Bond Fund.....	110,000	-	-	110,000	-	AAA
Government Sponsored Enterprises.....	1,738,670	-	1,738,670	-	-	AAA
Total Debt Securities.....	2,273,590	\$ 186,488	\$ 1,930,312	\$ 110,000	\$ 46,790	
<u>Other Investments</u>						
Equity Securities.....	244,621					
Equity Mutual Funds.....	2,423,183					
Money Market Mutual Funds.....	2,822,344					
MMDT.....	10,772,748					
Total Investments.....	\$ 18,536,486					

** = The Black Rock Inflation Protection Portfolio Bond Fund, Federated Government Ultrashort Duration Institutional and the Western Asset Inflation Index Plus Bond Fund mainly invest in inflation protected bonds that are issued by the United States Treasury. The average rating of the underlying securities is AAA. The funds have an average duration of 8.29, 0.54 and 7.56 years and an average maturity of 10.23, less than 1 year and 8.7 years, respectively.

As of December 31, 2011, the System had the following investments:

Investment Type	Fair Value
Equity Securities.....	\$ 683,969
Pooled Equity Mutual Funds.....	123,905,303
Pooled Real Estate Funds.....	25,655,414
Pooled Alternative Investments.....	20,903,785
Pooled Domestic Fixed Income Mutual Funds.....	66,351,746
Pooled International Fixed Income Mutual Funds.....	9,601,326
PRIT.....	11,763,060
Total Investments.....	\$ 258,864,603

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the total investments the City has custodial credit risk exposure equal to its investments of \$1,738,670 in government sponsored enterprises, \$264,790 in fixed income mutual funds, \$270,130 in corporate bonds and \$244,621 in

equity securities because the related securities are uninsured, unregistered and held by the counterparty. The City does not have a formal investment policy for custodial credit risk.

The System does not have a formal investment policy for custodial credit risk.

Interest Rate Risk

The City 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.

The 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.

Credit Risk

The City has not adopted a formal policy related to credit risk.

The System has not adopted a formal policy related to credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Of the total investment balance, the City did not maintain any investments that were more than 5% in any one issuer.

The System places no limit on the amount the System may invest in any one issuer. The System does not currently have any investments that are subject to concentration of credit risk.

NOTE 3 – RECEIVABLES

At June 30, 2012, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 7,403,469	\$ -	\$ 7,403,469
Motor vehicle excise taxes.....	4,104,096	(3,112,876)	991,220
Community preservation fund surtax.....	38,406	-	38,406
Tax liens.....	4,269,634	-	4,269,634
Real estate tax deferrals.....	1,471,706	-	1,471,706
Intergovernmental.....	11,053,535	-	11,053,535
Departmental.....	161,606	-	161,606
Loans.....	1,246,802	-	1,246,802
Total.....	<u>\$ 29,749,254</u>	<u>\$ (3,112,876)</u>	<u>\$ 26,636,378</u>

At June 30, 2012, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Student accounts and other.....	\$ 1,977,086	\$ (328,162)	\$ 1,648,924
Intergovernmental.....	2,582,121	-	2,582,121
Water fees.....	4,500,754	-	4,500,754
Sewer fees.....	6,527,589	-	6,527,589
Total.....	<u>\$ 15,587,550</u>	<u>\$ (328,162)</u>	<u>\$ 15,259,388</u>

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 6,171,469	\$ -	\$ 6,171,469
Motor vehicle and vessel excise taxes.....	991,220	-	991,220
Community preservation fund surtax.....	-	38,406	38,406
Tax liens.....	4,248,901	20,733	4,269,634
Real estate tax deferrals.....	1,471,706	-	1,471,706
Intergovernmental.....	6,935,181	3,718,876	10,654,057
Loans.....	-	1,246,802	1,246,802
Departmental and other.....	161,606	-	161,606
Tax foreclosures.....	995,058	-	995,058
Total.....	<u>\$ 20,975,141</u>	<u>\$ 5,024,817</u>	<u>\$ 25,999,958</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 69,146,362	\$ 1,388,093	\$ -	\$ 70,534,455
Construction in progress.....	29,028,103	3,326,338	(27,782,475)	4,571,966
Total capital assets not being depreciated.....	<u>98,174,465</u>	<u>4,714,431</u>	<u>(27,782,475)</u>	<u>75,106,421</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	11,067,835	169,722	-	11,237,557
Buildings and building improvements.....	212,796,098	2,202,487	-	214,998,585
Machinery, vehicles and equipment.....	28,833,752	2,018,375	(475,640)	30,376,487
Infrastructure.....	54,250,388	39,954,369	-	94,204,757
Total capital assets being depreciated.....	<u>306,948,073</u>	<u>44,344,953</u>	<u>(475,640)</u>	<u>350,817,386</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(957,168)	(254,245)	-	(1,211,413)
Buildings and building improvements.....	(29,753,958)	(6,351,825)	-	(36,105,783)
Machinery, vehicles and equipment.....	(15,166,480)	(1,609,879)	475,640	(16,300,719)
Infrastructure.....	(10,386,946)	(1,429,276)	-	(11,816,222)
Total accumulated depreciation.....	<u>(56,264,552)</u>	<u>(9,645,225)</u>	<u>475,640</u>	<u>(65,434,137)</u>
Total capital assets being depreciated, net.....	<u>250,683,521</u>	<u>34,699,728</u>	<u>-</u>	<u>285,383,249</u>
Total governmental activities capital assets, net.....	<u>\$ 348,857,986</u>	<u>\$ 39,414,159</u>	<u>\$ (27,782,475)</u>	<u>\$ 360,489,670</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 79,474	\$ -	\$ -	\$ 79,474
<u>Capital assets being depreciated:</u>				
Land improvements.....	25,464	-	-	25,464
Machinery, vehicles and equipment.....	1,891,651	15,625	-	1,907,276
Infrastructure.....	38,775,279	3,397,954	-	42,173,233
Total capital assets being depreciated.....	40,692,394	3,413,579	-	44,105,973
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(3,501)	(1,274)	-	(4,775)
Machinery, vehicles and equipment.....	(404,126)	(154,109)	-	(558,235)
Infrastructure.....	(8,404,494)	(811,771)	-	(9,216,265)
Total accumulated depreciation.....	(8,812,121)	(967,154)	-	(9,779,275)
Total capital assets being depreciated, net.....	31,880,273	2,446,425	-	34,326,698
Total water activities capital assets, net.....	\$ 31,959,747	\$ 2,446,425	\$ -	\$ 34,406,172
	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 282,530	\$ -	\$ -	\$ 282,530
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	13,935	-	-	13,935
Machinery, vehicles and equipment.....	1,461,241	241,248	-	1,702,489
Infrastructure.....	30,290,855	3,615,242	-	33,906,097
Total capital assets being depreciated.....	31,766,031	3,856,490	-	35,622,521
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(13,819)	(116)	-	(13,935)
Machinery, vehicles and equipment.....	(503,592)	(117,781)	-	(621,373)
Infrastructure.....	(10,271,616)	(642,162)	-	(10,913,778)
Total accumulated depreciation.....	(10,789,027)	(760,059)	-	(11,549,086)
Total capital assets being depreciated, net.....	20,977,004	3,096,431	-	24,073,435
Total sewer activities capital assets, net.....	\$ 21,259,534	\$ 3,096,431	\$ -	\$ 24,355,965

	Beginning Balance	Increases	Decreases	Ending Balance
Quincy College Activities:				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ -	\$ 756,646	\$ -	\$ 756,646
<u>Capital assets being depreciated:</u>				
Leasehold improvements.....	4,464,867	66,294	-	4,531,161
Machinery and equipment.....	2,296,119	20,945	-	2,317,064
Total capital assets being depreciated.....	6,760,986	87,239	-	6,848,225
<u>Less accumulated depreciation for:</u>				
Leasehold improvements.....	(3,200,783)	(468,678)	-	(3,669,461)
Machinery and equipment.....	(1,685,292)	(133,874)	-	(1,819,166)
Total accumulated depreciation.....	(4,886,075)	(602,552)	-	(5,488,627)
Total capital assets being depreciated, net.....	1,874,911	(515,313)	-	1,359,598
Total college activities capital assets, net.....	\$ 1,874,911	\$ 241,333	\$ -	\$ 2,116,244

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government.....	\$ 630,642
Public safety.....	1,023,592
Education.....	5,327,590
Public works.....	1,853,928
Human services.....	9,789
Culture and recreation.....	799,684
Total depreciation expense - governmental activities.....	\$ 9,645,225
Business-Type Activities:	
Sewer.....	\$ 967,154
Water.....	760,059
Quincy College.....	602,552
Total depreciation expense - business-type activities.....	\$ 2,329,765

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	
General Fund.....	\$ -	\$ 149,424	\$ -	\$ 149,424 (1)
Nonmajor Governmental Funds.....	1,931,901	155,505	-	2,087,406 (2)
Sewer Enterprise Fund.....	2,776,437	-	291,915	3,068,352 (3)
Water Enterprise Fund.....	1,937,378	-	-	1,937,378 (3)
Quincy College Enterprise Fund.....	2,383,957	-	-	2,383,957 (4)
Total.....	\$ 9,029,673	\$ 304,929	\$ 291,915	\$ 9,626,517

- 1) Represents voted budgetary transfers to support the close-out of old Special Revenue Grant accounts.
- 2) Represents voted transfers from various Special Revenue funds to support costs incurred by the General Fund and to support the Pump-out Boat program.
- 3) Represents transfers from the Water and Sewer Enterprise Funds based on the voted budget. These costs represent a transfer to the General Fund for shared services, fringe benefits and indirect costs incurred by the General Fund on behalf of the Water and Sewer Enterprise funds. Also included are transfers from old Sewer and Water funds to the 2012 Water Main Improvement Project
- 4) Represents a transfer from the Quincy College Fund for legislatively mandated indirect costs incurred by the General Fund on behalf of the Quincy College Enterprise Funds. Also included is a transfer for health insurance costs relating to employees of Quincy College.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively. Details related to the short-term debt activity for the fiscal year ended June 30, 2012 is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012
<u>Governmental</u>							
BAN	Municipal Purpose.....	1.25%	7/29/2011	\$ 19,425,261	\$ -	\$ 19,425,261	\$ -
BAN	Municipal Purpose.....	1.00%	9/15/2011	9,000,000	-	9,000,000	-
BAN	Municipal Purpose.....	1.60%	1/27/2012	37,869,000	-	37,869,000	-
BAN	Municipal Purpose.....	1.50%	7/27/2012	-	18,184,869	18,184,869	-
BAN	Municipal Purpose.....	1.25%	9/14/2012	-	17,250,000	7,465,000	9,785,000
BAN	Municipal Purpose.....	2.00%	1/25/2013	-	30,000,000	-	30,000,000
BAN	Municipal Purpose.....	2.50%	6/21/2013	-	29,485,000	-	29,485,000
Total Notes Payable.....				<u>\$ 66,294,261</u>	<u>\$ 94,919,869</u>	<u>\$ 91,944,130</u>	<u>\$ 69,270,000</u>

On July 26, 2012 the City paid down BANS totaling \$18,184,869 and issued \$18,184,000 of long-debt for the design and construction of the new Quincy High School. The long-term debt will be presented in the financial statements as of June 30, 2012. \$869 was paid down with available funds.

On July 27, 2012 the City paid down BANS totaling \$5,030,000 and issued a new BAN of \$3,020,000 which will mature on July 26, 2013 with an interest rate of 1.25%. The BANS relate to notes issued for the Quincy Medical Center which is further discussed in Note 8.

On September 14, 2012, BANS of \$1,240,392 and \$7,009,608 relating to the new central middle school design and construction were rolled into a new BAN totaling \$26,250,000 that will mature on September 13, 2013 with an interest rate of 1.25%. Of the new issue, \$18,000,000 is in anticipation of the issuance of long-term debt relating to City Hall and Coddington School renovations.

NOTE 7 – CAPITAL LEASE OBLIGATIONS

The City has entered into several non-cancelable long-term leases for certain energy conservation improvements and vehicle purchases utilized by departments and operating divisions of the City. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
<u>Asset:</u>		
Fire trucks.....	\$ 1,136,562	\$ -
Energy conservation improvements.....	29,764,673	1,860,846
Less: accumulated depreciation.....	(7,032,728)	(426,444)
 Total.....	 \$ 23,868,507	 \$ 1,434,402

The following is a schedule of the future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments, as of June 30, 2012:

Fiscal Year	Governmental Activities	Business-Type Activities
2013.....	\$ 2,697,197	\$ 147,248
2014.....	2,443,398	147,248
2015.....	2,443,398	147,248
2016.....	2,443,398	147,248
2017 through 2021.....	11,876,485	715,720
2022 through 2026.....	11,181,768	673,858
2027.....	1,110,878	66,946
 Total minimum lease payments.....	 34,196,522	 2,045,516
 Less: amounts representing interest.....	 (8,636,895)	 (519,934)
 Present value of minimum lease payments.....	 \$ 25,559,627	 \$ 1,525,582

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as listed on the following page.

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose Bonds of 2002.....	2012	4,800,000	3.5 - 4.9	\$ 230,000	\$ -	\$ 230,000	\$ -
Municipal Purpose Bonds of 2003.....	2015	5,992,778	2.5 - 5.0	1,623,286	-	515,805	1,107,481
Municipal Purpose Bonds of 2004.....	2021	4,060,000	2.125 - 4.25	2,380,000	-	240,000	2,140,000
Municipal Purpose Bonds of 2005.....	2025	14,020,700	2.0 - 5.0	9,246,587	-	967,900	8,278,687
Municipal Purpose Bonds of 2006.....	2019	13,050,305	3.25 - 5.0	9,651,405	-	1,339,300	8,312,105
Municipal Purpose Bonds of 2007.....	2020	10,000,000	4.0 - 6.0	7,470,000	-	700,000	6,770,000
Municipal Purpose Bonds of 2008.....	2027	6,470,000	3.0 - 6.0	3,495,000	-	1,065,000	2,430,000
Municipal Purpose Bonds of 2011 - Refunding Debt.....	2022	1,118,500	2.0 - 5.0	1,957,925	-	-	1,957,925
Municipal Purpose Bonds of 2011.....	2040	31,088,000	2.0 - 5.25	31,088,000	-	540,241	30,547,759
Municipal Purpose Bonds of 2012.....	2040	33,518,000	2.5 - 4.0	-	33,518,000	-	33,518,000
Total governmental bonds payable.....				\$ 67,142,203	\$ 33,518,000	\$ 5,598,246	\$ 95,061,957

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 4,668,545	\$ 3,344,067	\$ 8,012,612
2014.....	4,728,400	3,287,439	8,015,839
2015.....	5,273,731	3,113,099	8,386,830
2016.....	5,628,461	2,905,268	8,533,729
2017.....	5,644,551	2,694,542	8,339,093
2018.....	5,521,281	2,480,192	8,001,473
2019.....	5,251,901	2,258,303	7,510,204
2020.....	4,142,256	2,036,367	6,178,623
2021.....	2,927,241	1,879,148	4,806,389
2022.....	2,640,241	1,750,869	4,391,110
2023.....	2,617,241	1,664,677	4,281,918
2024.....	2,672,241	1,583,353	4,255,594
2025.....	2,617,241	1,499,980	4,117,221
2026.....	2,527,241	1,416,028	3,943,269
2027.....	2,592,241	1,331,518	3,923,759
2028.....	2,302,241	1,248,320	3,550,561
2029.....	2,372,241	1,221,061	3,593,302
2030.....	2,442,241	1,093,967	3,536,208
2031.....	2,512,241	1,001,429	3,513,670
2032.....	2,587,241	914,543	3,501,784
2033.....	2,667,241	834,172	3,501,413
2034.....	2,752,241	713,371	3,465,612
2035.....	2,842,241	641,810	3,484,051
2036.....	2,937,241	537,313	3,474,554
2037.....	3,032,241	427,285	3,459,526
2038.....	3,132,241	312,657	3,444,898
2039.....	3,252,241	187,859	3,440,100
2040.....	2,377,252	82,897	2,460,149
2041.....	400,000	8,000	408,000
Totals.....	\$ 95,061,957	\$ 42,469,534	\$ 137,531,491

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Proceeds	Payments	Outstanding at June 30, 2012
Sewer Bonds of 2002.....	2022	6,349,668	3.5 - 6.0	\$ 1,448,824	\$ -	\$ 535,662	\$ 913,162
Sewer Bonds of 2003.....	2014	1,345,200	2.5 - 5.0	317,833	-	119,028	198,805
Sewer Bonds of 2005.....	2020	1,146,428	2.0 - 5.25	730,610	-	105,000	625,610
Sewer Bonds of 2006.....	2018	156,200	3.25 - 5.0	106,500	-	15,700	90,800
Sewer Bonds of 2007.....	2024	4,657,129	0.0 - 2.0	2,650,416	-	509,814	2,140,602
Sewer Bonds of 2008.....	2028	3,753,319	0.0 - 6.0	3,138,222	-	152,665	2,985,557
Sewer Bonds of 2010.....	2031	2,065,000	2.0	1,228,108	-	50,443	1,177,665
Sewer Bonds of 2011 - Refunding Debt.....	2022	810,775	2.0 - 5.0	810,775	-	-	810,775
Sewer Bonds of 2012.....	2017	3,686,801	0.0	-	3,686,801	-	3,686,801
Total sewer bonds payable.....				\$ 10,431,288	\$ 3,686,801	\$ 1,488,312	\$ 12,629,777

Debt service requirements for principal and interest for sewer enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 1,311,613	\$ 358,511	\$ 1,670,124
2014.....	1,218,876	311,590	1,530,466
2015.....	929,578	281,118	1,210,696
2016.....	961,477	255,319	1,216,796
2017.....	941,920	228,270	1,170,190
2018.....	705,778	199,755	905,533
2019.....	705,209	175,507	880,716
2020.....	673,393	152,245	825,638
2021.....	663,300	128,558	791,858
2022.....	665,428	105,811	771,239
2023.....	609,434	83,823	693,257
2024.....	615,579	63,659	679,238
2025.....	409,605	53,995	463,600
2026.....	416,780	44,186	460,966
2027.....	424,106	34,150	458,256
2028.....	366,584	23,888	390,472
2029.....	222,952	17,993	240,945
2030.....	227,689	13,488	241,177
2031.....	232,525	8,886	241,411
2032.....	162,214	4,938	167,152
2033.....	165,737	1,658	167,395
Total.....	\$ 12,629,777	\$ 2,547,348	\$ 15,177,125

Bonds and Notes Payable Schedule – Water Enterprise Fund

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Proceeds	Payments	Outstanding at June 30, 2012
MWRA Water Loans.....	2021	16,535,600	0.0	\$ 9,012,133	\$ -	\$ 1,653,560	\$ 7,358,573
Water Bonds of 2002.....	2012	1,800,000	3.5 - 4.9	95,000	-	95,000	-
Water Bonds of 2003.....	2014	312,021	2.5 - 5.0	88,877	-	30,167	58,710
Water Bonds of 2005.....	2020	2,113,520	2.0 - 5.0	1,673,605	-	226,600	1,447,005
Water Bonds of 2006.....	2017	798,495	3.25 - 5.0	567,095	-	105,000	462,095
Water Bonds of 2010.....	2031	1,435,000	2.0	853,431	-	35,054	818,377
Water Bonds of 2011 - Refunding Debt.....	2031	856,300	2.0 - 5.0	856,300	-	-	856,300
Water Bonds of 2012.....	2033	3,293,394	0.0 - 2.0	-	3,293,394	-	3,293,394
Total water bonds payable.....				\$ 13,146,441	\$ 3,293,394	\$ 2,145,381	\$ 14,294,454

Debt service requirements for principal and interest for water enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 1,951,270	\$ 147,757	\$ 2,099,027
2014.....	2,017,627	147,006	2,164,633
2015.....	1,669,095	132,285	1,801,380
2016.....	1,667,187	116,730	1,783,917
2017.....	1,596,440	99,271	1,695,711
2018.....	1,067,475	84,096	1,151,571
2019.....	1,021,066	70,463	1,091,529
2020.....	873,294	54,908	928,202
2021.....	590,314	39,571	629,885
2022.....	273,832	32,674	306,506
2023.....	136,572	29,971	166,543
2024.....	139,474	27,211	166,685
2025.....	142,437	24,391	166,828
2026.....	145,463	21,512	166,975
2027.....	148,553	18,572	167,125
2028.....	151,709	15,570	167,279
2029.....	154,932	12,505	167,437
2030.....	158,224	9,373	167,597
2031.....	161,589	6,174	167,763
2032.....	112,725	3,430	116,155
2033.....	115,176	1,152	116,328
Total.....	\$ 14,294,454	\$ 1,094,622	\$ 15,389,076

Massachusetts Water Pollution Abatement Trust funded debt

The City has entered into various long term debt agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT), an agency of the Commonwealth of Massachusetts that requires the City to be subsidized by the MWPAT on a periodic basis for principal in the amount of \$479,201 and interest costs for \$848,751. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$5,792,668. The principal subsidies are guaranteed and therefore a \$479,201 intergovernmental receivable has been reported in the sewer enterprise fund financial statements. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2012 principal and interest subsidies totaled \$207,142 and \$163,255 respectively.

Massachusetts Water Resources Authority funded debt

The City has entered into various long term debt transactions with the Massachusetts Water Resources Authority. The debt balances are associated with a zero percent interest rate. Future imputed interest payments total approximately \$695,000 in the water fund and \$107,000 the sewer fund. Fiscal year 2012 imputed interest was \$168,000 and \$25,000 in the water and sewer funds, respectively. Accordingly, interest expense and corresponding intergovernmental revenue have been reported, equal to these amounts, in the respective proprietary funds financial statements.

Massachusetts School Building Authority funded debt

The Commonwealth of Massachusetts has approved school construction assistance in accordance with two funding programs offered by the Massachusetts School Building Authority which administers the programs.

The first program provides grants for construction and interest expenditures on City debt that is paid over the life of the future debt service. During fiscal year 2012, approximately \$1,214,000 of such assistance was received and approximately \$8,462,000 will be received in future fiscal years. Of this amount, approximately \$2,320,000 represents reimbursement of long-term interest costs, and approximately \$6,142,000 represents reimbursement of approved construction costs. Accordingly, a \$6,142,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The second program offers a construction grant program whereby the MSBA reimburses the City a share of actual construction expenditures on a "pay as you go" basis. The construction of the new Central Middle School project is being funded by this grant program. The City has been approved for a grant of up to 80% or \$33,000,000 of eligible construction costs towards the new Central School. During the fiscal year the City received \$2.9 million and recorded a \$400,000 receivable in relation to this project. The MSBA's policy is to reimburse the City for costs incurred less a holdback of 5% pending a final project audit that will be conducted by the MSBA.

Community Development Block Grant – Section 108

In 1996, a loan guarantee of \$55,000,000 was made by the United States Maritime Administration to Massachusetts Heavy Industries (MHI) to revitalize the Fore River Shipyard which is located in the City. In connection with the loan guarantee, the City provided a \$7,800,000 loan to MHI under the United States Department of Housing and Urban Development's (HUD) Section 108 Loan Guarantee Program. The purpose of the Section 108 loan program is to enable local governments to provide financing to urban renewal projects operated by either the government or third party developers. Debt issued under this program is secured by future entitlement allocations to the City under HUD's Community Development Block Grant (CDBG) Program.

During fiscal year 2000, MHI failed to make its required debt service payments on the primary loan to the Maritime Administration. As a result of the default the lender exercised its guarantee rights by demanding payments from the guarantor. In fiscal year 2000, acting as guarantor, the Maritime Administrator paid off the remaining loan balance and accrued interest on the \$55,000,000 loan.

In conjunction with the default on the primary loan, MHI also defaulted on its repayments to the City for fiscal years 2001 through fiscal year 2004. Since the City’s loan with HUD is guaranteed by future funds received under the CDBG program, the City was able to meet its obligation to repay the Section 108 loan. The Section 108 loan issued to the City will mature on August 1, 2017 and its payable according to the schedule below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 520,000	\$ 139,585	\$ 659,585
2014.....	550,000	118,653	668,653
2015.....	575,000	95,750	670,750
2016.....	600,000	70,858	670,858
2017.....	625,000	43,868	668,868
2018.....	655,000	14,934	669,934
Total.....	\$ <u>3,525,000</u>	\$ <u>483,648</u>	\$ <u>4,008,648</u>

Quincy Medical Center

In August 2002 the City Council accepted special State Legislation to allow the City to borrow up to \$15,000,000 of long term notes to finance remaining amounts due to Quincy Medical Center. Under the terms of the special legislation, each borrowing is treated as a separate note issuance that must be repaid within 10 years. Through June 30, 2012, the City has paid down \$9,970,000 of the \$15,000,000 issued. The amount outstanding at June 30, 2012 will be either permanently bonded or will be paid down through the roll-over of existing notes. Any bonding or note pay-downs will be structured so that the note issuances will be paid down within 10 years of their respective issuance. All scheduled payments have been made to Quincy Medical Center. This transaction has been recorded as a current refunding and did not have an economic gain or loss.

Details relating to the outstanding indebtedness associated with Quincy Medical Center are as follows:

<u>Project</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2011</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2012</u>
Municipal Purpose Loan...	1.25%	7/29/2012	\$ <u>6,970,000</u>	\$ <u>5,030,000</u>	\$ <u>6,970,000</u>	\$ <u>5,030,000</u>

On July 27, 2012, the City paid down \$2,010,000 of the outstanding note and the balance was rolled over into a new note carrying an interest rate of 1.25% and maturing on July 26, 2013.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the City had the following authorized and unissued debt:

Purpose	Amount
High School.....	\$ 3,020,000
Health Care Funding.....	3,020,000
Water & Sewer.....	21,229,710
District Improvement Financing.....	30,000,000
Quincy Center Redevelopment.....	289,350,000
Other Capital Purposes.....	36,485,000
Central Middle School.....	<u>51,486,419</u>
 Total.....	 <u>\$ 434,591,129</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital lease obligations.....	\$ 27,209,308	\$ -	\$ (1,649,681)	\$ 25,559,627	\$ 1,628,209
Compensated absences.....	9,140,000	7,024,000	(6,599,000)	9,565,000	7,011,000
Bonds payable.....	74,112,203	33,518,000	(7,538,246)	100,091,957	9,698,545
Other postemployment benefit obligations.....	58,592,000	33,186,000	(14,514,000)	77,264,000	-
Workers' compensation.....	2,258,000	4,442,000	(1,221,000)	5,479,000	597,000
Due to HUD.....	<u>4,025,000</u>	<u>-</u>	<u>(500,000)</u>	<u>3,525,000</u>	<u>520,000</u>
Total governmental activities.....	<u>175,336,511</u>	<u>78,170,000</u>	<u>(32,021,927)</u>	<u>221,484,584</u>	<u>19,454,754</u>
Business-Type Activities:					
Capital lease obligations.....	1,610,802	-	(85,220)	1,525,582	83,384
Compensated absences.....	420,960	118,230	-	539,190	270,061
Other postemployment benefit obligations.....	4,336,000	1,917,000	(385,000)	5,868,000	-
Bonds payable.....	<u>23,577,729</u>	<u>6,980,195</u>	<u>(3,633,693)</u>	<u>26,924,231</u>	<u>3,262,883</u>
Total business-type activities.....	<u>29,945,491</u>	<u>9,015,425</u>	<u>(4,103,913)</u>	<u>34,857,003</u>	<u>3,616,328</u>
Total.....	<u>\$ 205,282,002</u>	<u>\$ 87,185,425</u>	<u>\$ (36,125,840)</u>	<u>\$ 256,341,587</u>	<u>\$ 23,071,082</u>

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City presents its governmental fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the Statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

At June 30, 2012, \$4,503,164 has been set aside in a stabilization fund that has been classified as part of the general fund in the governmental fund financial statements. Municipal finance laws of the Commonwealth of Massachusetts authorize municipalities to establish stabilization funds on an as needed basis. The number of and exact purpose of the stabilization funds of the City are dependent upon authorization and approval of the City Council. During fiscal year 2012, the funds received aggregate interest and investment earnings of \$12,690. The actual use of this fund is contingent upon City Council approval. Additions to the fund can only be made upon City Council approval.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The highest level of decision making authority is the City Council.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2012, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS					Total Governmental Funds
	General	Quincy Center Concourse Fund	High School Project	Central Middle School Project	Nonmajor Governmental Funds	
FUND BALANCES						
Nonspendable:						
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ -	\$ 2,583,569	\$ 2,583,569
Restricted for:						
High school project.....	-	-	3,772,472	-	-	3,772,472
Energy efficiency capital upgrades.....	-	-	-	-	578,727	578,727
School federal and state grant funds.....	-	-	-	-	1,460,464	1,460,464
City federal and state grant funds.....	-	-	-	-	493,635	493,635
CDBG grant funds.....	-	-	-	-	922,252	922,252
JTPA funds.....	-	-	-	-	479,109	479,109
Highway funds.....	-	-	-	-	17,611	17,611
School revolving funds.....	-	-	-	-	4,089,142	4,089,142
Receipts reserved for appropriations.....	-	-	-	-	2,340,233	2,340,233
Quarry hills.....	-	-	-	-	32,564	32,564
Other special revenue.....	-	-	-	-	407,180	407,180
Community preservation fund.....	-	-	-	-	2,122,807	2,122,807
Expendable trust funds.....	-	-	-	-	476,946	476,946
City trust funds.....	-	-	-	-	2,956,809	2,956,809
Mitigation trust funds.....	-	-	-	-	400,519	400,519
Capital project funds (not bonded).....	-	-	-	-	167,235	167,235
Library trust funds.....	-	-	-	-	175,775	175,775
Assigned to:						
General government.....	501,796	-	-	-	-	501,796
Public safety.....	137,982	-	-	-	-	137,982
Education.....	1,601,003	-	-	-	-	1,601,003
Public works.....	1,071,220	-	-	-	-	1,071,220
Human services.....	2,733	-	-	-	-	2,733
Culture and recreation.....	3,156	-	-	-	-	3,156
Employee benefits.....	52,146	-	-	-	-	52,146
Claims and judgments.....	34,787	-	-	-	-	34,787
Unassigned.....	9,103,056	(29,074,730)	-	(1,029,737)	(9,460,461)	(30,461,872)
TOTAL FUND BALANCES (DEFICIT).....	\$ 12,507,879	\$ (29,074,730)	\$ 3,772,472	\$ (1,029,737)	\$ 10,244,116	\$ (3,580,000)

NOTE 10 – OPERATING LEASES

Quincy College leases certain premises and equipment under operating leases with various expiration dates that extend through 2021. The leases generally provide that the College pay certain maintenance costs and include various renewal provisions. Rent expense in fiscal year 2012 amounted to \$2,054,240. The College's minimum future obligations under non-cancelable leases are as follows:

Fiscal Years Ending June 30	Business-Type Activities
2013.....	\$ 2,023,397
2014.....	1,925,864
2015.....	1,920,992
2016.....	1,918,556
2017 - 2021.....	7,761,086
Total.....	\$ <u>15,549,895</u>

NOTE 11 – RISK FINANCING

The City is self-insured for its workers compensation claims which are accounted for in the government entity-wide financial statements where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors. The amount of claims settlements has not exceeded insurance coverage in any of the previous three years.

a) *Workers' Compensation*

Workers compensation claims are administered by a contracted consultant and are funded on a pay-as-you-go basis from annual appropriations. The City recorded a liability of \$5,479,000 at June 30, 2012, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2010 are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2011.....	\$ 2,990,000	\$	365,317	\$	(1,097,317)	\$	2,258,000
Fiscal Year 2012.....	\$ 2,258,000	\$	4,442,000	\$	(1,221,000)	\$	5,479,000

NOTE 12 - PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Quincy Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$23,316,000 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Quincy Contributory Retirement Board and are borne by the System. Cost of living adjustments are based on 3% of the first \$12,000 of the members’ retirement allowance. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the System located at 1305 Hancock St., Quincy, Massachusetts 02169.

At December 31, 2011, the System’s membership consists of the following:

Active members.....	1,350
Inactive members.....	272
Retirees and beneficiaries currently receiving benefits.....	<u>1,541</u>
Total.....	<u><u>3,163</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute 98% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City contributions to the System for the fiscal years ended June 30, 2012, 2011 and 2010 were \$20,285,053, \$19,892,044, and \$19,758,637, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.125% investment rate of return and projected salary increases at 4% per year. The actuarial value of the System’s assets was determined using the fair value of the assets. The System’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, was 28 years.

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)
1/1/10	\$ 257,135,000	\$ 539,914,000	\$ 282,779,000	48%	\$ 76,888,000	368%
1/1/07	307,082,000	472,269,000	165,187,000	65%	66,710,000	248%
1/1/05	276,793,988	474,568,932	197,774,944	58%	59,492,900	332%
1/1/03	231,277,798	436,352,345	205,074,547	53%	58,949,749	348%
1/1/01	264,401,826	369,363,953	104,962,127	72%	56,824,746	185%
1/1/99	241,890,839	354,342,249	112,451,410	68%	83,911,350	134%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The City is responsible for approximately 98% of the unfunded liability.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The City of Quincy administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the City’s health insurance plan, which covers both active and retired members, including teachers. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy - The contribution requirements of plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 90 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10 percent of their premium costs.

Annual OPEB Cost and Net OPEB Obligation - The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 33,989,000
Interest on net OPEB obligation.....	2,202,000
Adjustments to annual required contribution.....	<u>(1,088,000)</u>
Annual OPEB cost (expense).....	35,103,000
Contributions made.....	<u>(14,899,000)</u>
Increase/(decrease) in net OPEB obligation.....	20,204,000
Net OPEB obligation - beginning of year.....	<u>62,928,000</u>
Net OPEB obligation - end of year.....	<u>\$ 83,132,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 35,103,000	42%	\$ 83,132,000
6/30/2011	29,178,000	52%	62,928,000
6/30/2010	27,989,000	52%	49,040,000

Funded Status and Funding Progress - As of June 30, 2012, the most recent actuarial valuation date, the funded status is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
06/30/12	\$ -	\$ 562,689,000	\$ 562,689,000	-	\$ 159,531,000	352.7%
06/30/10	-	478,217,000	478,217,000	-	150,501,000	317.8%
07/01/07	-	435,548,000	435,548,000	-	138,044,000	315.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that

are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, actuarial liabilities were determined using the projected unit cost method. The actuarial methods and assumptions included a 3.5% investment rate of return and an annual health care cost rate trend of 8.5% initially, graded to 4.5% after eight years. Both rates included a 3.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was thirty years.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The City is committed to fund a variety of construction and design contracts relating to the construction of a new middle school, ongoing improvements to the downtown business district and various governmental, water and sewer enterprise infrastructure improvements. The City is also subject to various funding agreements relating to the disposition of the former Quincy Hospital. The extent of the City's obligation to the former Quincy Hospital is explained further in Note 8.

Federal Grant Participation

The City participates in a number of federal financial assistance programs. Although the City grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996, through June 30, 2012, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Adams Temple Trust

On February 18, 2011 the Norfolk Division of Commonwealth of Massachusetts' Probate and Family Court Department rendered a judgment whereby the City of Quincy, acting as trustee of the Adams Temple and School Fund and the Charles Francis Adam Fund, was negligent in carrying out its fiduciary duties under each of the trust agreements. Under the terms of the court judgment, the City is liable for the sum of approximately \$3 million to the Trusts. The court found that the breach of fiduciary duty related to employing inappropriate investment strategies and ignoring competent professional investment advice from 1973 through 2008. The professional advice recommended that the Board of Supervisors and Board of Managers of the Trusts allocate its investment portfolio into a split of 60% equities, 35% fixed income and 5% savings. The actual investment portfolio split maintained from 1973 to 2008 ranged from 90% - 100% fixed income and 0% - 10% equities. The court found that the Trusts were harmed by not maximizing the potential investment earnings based on the professional advice received. The City has the right to appeal this ruling and intends to exercise such appeal. In doing so, the City intends to vigorously and thoroughly challenge the verdict. Citing a recent ruling by a higher court, management and legal counsel of City anticipate a positive outcome on appeal. The financial statements have not provided for any potential liability.

Quincy Contributory Retirement System

On April 28, 2010, the Massachusetts Appeals Court issued its decision related to a dispute with respect to allocation of the Quincy Contributory Retirement System ("the System) for the annual appropriation of the employer's annual contribution between the two component units of the System, the City of Quincy and the Quincy Housing Authority. The dispute centered around the allocation method used by the System after the City privatized its Hospital and the effect it had by raising the allocation of the Housing Authority since 2002. The court agreed with the Housing Authority that its share of the allocated annual employer contribution was too high. The

court ordered that System change its allocation method that will make the City 100% responsible for any accrued pension benefit liability remaining for the privatized Hospital. The judgment did not specify any monetary damages. This judgment cannot be appealed. The City had paid in full its actual required contribution for each of the fiscal years from 2002 to present as billed by the System. The actual future financial effect on the City is currently not known except for the fact that the City expects that its annual appropriation will increase in the future along with its share of the unfunded liability of System. The System is currently working with the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission to determine a new allocation methodology that will be in compliance with the court order for 2012 and beyond.

Downtown Redevelopment

The City has entered into a Land Disposition Agreement (LDA) with a third party redeveloper. This redevelopment project will greatly enhance the City's downtown shopping district. Under the terms of LDA, funding has been provided for project costs equal to \$269,000,000 in City and third party contributions. The \$269,000,000 will be used to complete the public infrastructure component. In addition to the LDA, the Commonwealth of Massachusetts had provided a \$10,000,000 grant and a \$40,000,000 loan that has been earmarked as additional funding for the public infrastructure component of the project. This public infrastructure component includes restoration of the Town Brook waterway, improvements to and replacement of the existing traffic network and the construction of new parking facilities.

The third party redeveloper has assumed all construction period risk for the public improvements and all occupancy risk for the non-public components. The City has authorized indebtedness of \$289,350,000 to fund the ultimate repurchase of all public infrastructure projects that are completed by the redeveloper. The City has the right to final acceptance sign-off before it is required to repurchase the infrastructure. The repayment of the outstanding debt has been guaranteed through the use of specific lease agreements signed between the redeveloper, retail / office space tenants and the City. The language in the lease agreements guarantees that the City will be made whole for the debt service that it will carry and this will be accomplished by way of net parking revenues from the new parking facilities plus additional language contained within Massachusetts General Law, Chapter 121A.

Currently, the City is carrying a \$30,000,000 BAN that funded a portion of the project that is complete. The BAN is presented in the Quincy Center Concourse Fund, which is presented as a major governmental fund. As part of the overall consideration for this project, the redeveloper has committed to providing funds to the City equal to the BAN amount that will be repaid by the City.

The \$40,000,000 loan from the Commonwealth of Massachusetts will be repaid from anticipated state sales tax revenues, remitted to the state by business within the newly redeveloped businesses district, that are anticipated to exceed amounts currently collected from existing businesses in the project area. If sales tax receipts in the new business district do not exceed current collections, the City is responsible for the difference between currently forecasted sales tax revenues and current sales tax revenues.

Other

Various other legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2012 cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2012.

NOTE 15 – SUBSEQUENT EVENT

In February 2013 the City advance refunded \$5,495,000 of debt outstanding at June 30, 2012. The refunded debt had an average interest rate of 4% while the refunding bonds carry an average interest rate of 2.4%. The refunded and refunding bonds have an average maturity period of 5.5 years. The effect of this transaction will result in a net present value savings of \$398,000.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 171,144,247	\$ 171,147,888	\$ 169,772,908	\$ -	(1,374,980)
Tax liens and foreclosures.....	-	-	1,764,036	-	1,764,036
Motor vehicle and other excise taxes.....	7,488,000	7,488,000	7,840,580	-	352,580
Meals tax.....	1,485,000	1,485,000	1,378,812	-	(106,188)
Urban redevelopment corporations tax.....	524,000	524,000	386,029	-	(137,971)
Penalties and interest on taxes.....	1,160,000	1,160,000	1,752,242	-	592,242
Fees and rentals.....	1,277,000	1,920,030	1,667,426	-	(252,604)
Payments in lieu of taxes.....	935,000	931,358	861,940	-	(69,418)
Licenses and permits.....	2,201,000	2,201,000	1,740,933	-	(460,067)
Fines and forfeitures.....	968,000	324,970	286,023	-	(38,947)
Intergovernmental.....	41,228,088	41,228,088	41,375,426	-	147,338
Departmental and other.....	2,640,000	2,640,000	2,198,973	-	(441,027)
Investment income.....	113,557	113,557	52,850	-	(60,707)
TOTAL REVENUES.....	231,163,892	231,163,891	231,078,178	-	(85,713)
EXPENDITURES:					
Current:					
General government.....	7,882,671	11,029,865	10,430,168	501,796	97,901
Public safety.....	41,790,565	42,574,775	42,510,999	137,982	(74,206)
Education.....	86,926,805	86,938,028	84,627,050	1,601,003	709,975
Public works.....	19,855,478	15,227,513	13,893,710	1,071,220	262,583
Public works - prior year snow and ice deficit raised....	137,316	137,316	-	-	137,316
Human services.....	2,712,424	2,601,673	2,597,446	2,733	1,494
Culture and recreation.....	3,165,446	4,983,812	4,951,530	3,156	29,126
Pension benefits.....	20,358,094	20,346,094	20,316,326	-	29,768
Employee benefits.....	44,323,146	43,390,015	43,509,313	52,146	(171,444)
Claims and judgments.....	200,000	200,000	165,213	34,787	-
State and county charges.....	3,092,956	3,092,956	3,097,041	-	(4,085)
Debt service:					
Principal.....	6,658,246	6,658,246	6,658,246	-	-
Interest.....	3,765,144	3,710,300	3,709,904	-	396
Capital lease expenditures.....	2,524,066	2,524,065	2,524,065	-	-
TOTAL EXPENDITURES.....	243,392,357	243,414,658	238,991,011	3,404,823	1,018,824
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(12,228,465)	(12,250,767)	(7,912,833)	(3,404,823)	933,111
OTHER FINANCING SOURCES (USES):					
Premiums from issuance of long-term debt.....	613,443	613,443	1,455,253	-	841,810
Use of prior year fund balance to fund carryovers.....	2,164,692	2,164,692	-	-	(2,164,692)
Transfers in.....	6,905,815	8,813,065	9,029,673	-	216,608
Transfers out.....	-	(149,424)	(149,424)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	9,683,950	11,441,776	10,335,502	-	(1,106,274)
NET CHANGE IN FUND BALANCE.....	(2,544,515)	(808,991)	2,422,669	(3,404,823)	(173,163)
BUDGETARY FUND BALANCE, Beginning of year.....	5,612,820	5,612,820	5,612,820	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 3,068,305	\$ 4,803,829	\$ 8,035,489	\$ (3,404,823)	\$ (173,163)

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

JUNE 30, 2012

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)
06/30/12	\$ -	\$ 562,689,000	\$ 562,689,000	0%	\$ 159,531,000	353%
06/30/10	-	478,217,000	478,217,000	0%	150,501,000	318%
07/01/07	-	435,548,000	435,548,000	0%	138,044,000	316%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2012	\$ 33,989,000	\$ 14,899,000	44%
2011	28,261,000	15,290,000	54%
2010	27,772,000	14,513,000	52%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

JUNE 30, 2012

Actuarial Methods:

Valuation date.....	June 30, 2012
Actuarial cost method.....	Projected Unit Credit, open
Amortization method.....	Level dollar, open
Remaining amortization period.....	30 years as of June 30, 2012
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	3.5%, pay-as-you-go scenario
Medical care cost trend rate.....	8.5% graded to 4.5% over 8 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	2,146
Current active members.....	<u>2,565</u>
Total.....	<u><u>4,711</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by a majority vote at the Annual City Meeting. The Mayor presents an annual operating and capital budget at the City Council which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The City Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases or transfers between departments subsequent to the approval of the annual budget require majority approval via the City Council.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year’s original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of a City Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget authorized approximately \$243.4 million in appropriations inclusive of \$2.2 million of encumbrances carried forward from fiscal year 2011. During fiscal year 2012, the Council also approved supplemental appropriations totaling approximately \$172,000.

The Municipal Finance Office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented below:

Net change in fund balance - budgetary basis.....	\$ 2,422,669
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	12,690
<u>Basis of accounting differences:</u>	
Net change in recording 60 day receipts.....	424,000
Net change in recording accrued expenditures.....	121,235
Recognition of revenues for on-behalf payments.....	23,316,000
Recognition of expenditures for on-behalf payments.....	<u>(23,316,000)</u>
Net change in fund balance - gaap basis.....	<u>\$ 2,980,594</u>

3. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2012, actual expenditures exceeded appropriations for public safety and state and county charges.

Public safety expenditures and employee benefits exceeded appropriations due to higher than anticipated payroll costs and Medicare contribution costs.

State and county charges exceeded appropriations due to higher than anticipated education costs and lower than anticipated general government costs.

These over-expenditures will be raised during fiscal 2013 through the tax rate.

NOTE B – OTHER POSTEMPLOYMENT BENEFITS

The City of Quincy administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the City’s health insurance plan, which covers both active and retired members, including teachers.

The City currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions present multi-year trend information which compares the actuarial required contribution to the actual amount contributed.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.