

TOWN OF NEWBURY, MASSACHUSETTS

Financial Statements

June 30, 2008

(With Accountants' Report Thereon)

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*

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Town of Newbury, Massachusetts
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS –
TOWN OF NEWBURY

Board of Selectmen
Town of Newbury
Town Hall
25 High Road
Newbury, MA 01950

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Newbury, Massachusetts as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Newbury, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Newbury, Massachusetts as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 6, 2009 on our consideration of the Town of Newbury, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 6, 2009

**Town of Newbury, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2008**

As management of the Town of Newbury, Massachusetts, we offer readers of the Town of Newbury, Massachusetts' financial statements this narrative overview and analysis of the financial activities of the Town of Newbury, Massachusetts for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Town of Newbury, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$63,462,606 (*net assets*). Of this amount \$158,211 (*unrestricted net assets*) may be used to meet government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, undesignated fund balance for the general fund was \$885,022, or 5.2 percent of total general fund expenditures.
- The Town of Newbury, Massachusetts' total long term debt decreased by 5.4 percent during the current year. The decrease was the result of the issuance of \$451,487 of long term debt and the retirement of \$1,708,704 of general obligation bonds.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of Newbury, Massachusetts' basic financial statements. The Town of Newbury, Massachusetts' basic financial statements consists of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Newbury, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the Town of Newbury, Massachusetts' assets and liabilities, with the differences 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 of the Town of Newbury, Massachusetts 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 of 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).

Government-wide financial statements have a separate column for governmental activities and for business type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Newbury, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds of the Town of Newbury, Massachusetts are classified as governmental funds.

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

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included the following schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet – total fund balances to the statement of net assets.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of the governmental funds to the statement of activities.

Financial Analysis of the Government-wide Financial Statements

Net Assets

Net assets may serve over time as a useful indicator of a government’s financial position. The following table reflects the condensed net assets.

Town of Newbury, Massachusetts		
June 30, 2008		
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 20,859,455	\$ 24,281,537
Capital Assets	67,425,622	67,843,669
Total Assets	88,285,077	92,125,206
Current Liabilities	3,253,736	3,559,500
Long Term Liabilities	21,568,735	22,640,230
Total Liabilities	24,822,471	26,199,730

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Net Assets:		
Invested in Capital Assets		
net of Related Debt	60,737,402	61,354,570
Restricted	2,566,993	1,417,419
Unrestricted	158,211	3,153,487
Total Net Assets	<u>\$ 63,462,606</u>	<u>\$ 65,925,476</u>

The net assets of the Town (not including prior period adjustments) decreased by \$2,462,870.

Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net assets have changed during the fiscal year.

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 563,655	\$ 660,148
Operating Grants and Contributions	1,821,015	778,625
Capital Grants and Contributions	-	15,315,998
General Revenues:		
Property Taxes	9,116,619	12,044,196
Motor Vehicle and Other Excises	936,761	879,579
Intergovernmental Not Restricted to a Specific Program	1,049,059	800,261
Other	422,764	664,736
Total Revenues	<u>13,909,873</u>	<u>31,143,543</u>
Expenses		
General Government	1,110,392	1,105,885
Public Safety	2,002,823	2,056,783
Education	8,878,480	8,244,889
Intergovernmental	159,544	179,159
Highways and Public Works	1,550,121	1,319,389
Human Services	579,707	392,622
Culture and Recreation	518,654	543,623
Employee Benefits	936,717	857,963
Debt Service	776,321	849,777
Capital Outlay	-	4,381
Total Expenses	<u>16,512,759</u>	<u>15,554,471</u>
Increase (Decrease) in Net Assets		
Before Special items	(2,602,886)	15,589,072
Special Items	140,016	-
Increase (Decrease) in Net Assets	<u>\$ (2,462,870)</u>	<u>\$ 15,589,072</u>

Governmental Activities

In fiscal year 2008, property taxes accounted for approximately 65.5% of the Town's revenues.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund was \$385,410 more than the prior year's fund balance.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts Department of Revenue (DOR) determines the amount of general fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance and details the certified free cash.

Changes in Fund Balances Last Six Fiscal Years General Fund

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Snow & Ice Deficit</u>	<u>Reserved for Revenue Deficit and Other</u>	<u>Reserved for Revenue Year's Expenditure</u>	<u>Reserved for Subsequent Year's Expenditure</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2003	\$ 9,504	\$ -	\$ -	\$ 310,738	\$ 363,795	\$ 684,037	
2004	6,524	-	(163,348)	103,302	261,380	207,858	
2005	2,714	(67,401)	-	-	230,192	165,505	
2006	-	(43,206)	1,299	-	425,766	383,859	
2007	-	-	-	-	524,612	524,612	
2008	-	-	-	25,000	885,022	910,022	

<u>Fiscal Year</u>	<u>Free Cash</u>
2003	\$ 103,302
2004	173,111
2005	(102,619)
2006	85,976
2007	92,844
2008	350,297

Capital Asset and Debt Administration

Capital Assets. The Town of Newbury, Massachusetts' investments in capital assets for its governmental activities as of June 30, 2008, amounts to \$67,425,622 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Capital Assets at June 30, 2008 (Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 12,337,046	\$ 12,360,346
Buildings	18,555,899	19,068,215
Improvements Other Than Buildings	167,379	185,587
Infrastructure	35,502,421	35,502,573
Equipment	337,135	388,636
Vehicles	525,742	338,312
	<u>525,742</u>	<u>338,312</u>
Total	<u>\$ 67,425,622</u>	<u>\$ 67,843,669</u>

Debt

The Town had \$22,205,717 in bonds outstanding on June 30, 2008. This represents a \$1,257,217 decrease or 5.4% decrease from the previous year.

Outstanding Debt at June 30, 2008

<u>Governmental Activities</u>	<u>2008</u>	<u>2007</u>
General Obligation Bonds Payable	<u>\$22,205,717</u>	<u>\$ 23,462,934</u>

Fiscal Year 2009 Budget

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that the Town can assess in any one year. In general, the Town's property tax levy may increase by 2 ½ percent over the prior year's tax levy, plus any additional amount derived by new developments or other changes made to existing properties. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 ½", it is necessary to obtain the approval of a majority of the voters at an election.

A slight increase in state aid combined with an increase in the regional school assessments and an increase in health insurance premiums and other costs had to be considered in balancing the fiscal year 2008 budget. The Town utilized \$25,000 of "free cash" (general fund-undesignated fund balance) to fund the 2009 budget.

Town of Newbury, Massachusetts
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Current:	
Cash/Investments	\$ 3,407,158
Accounts Receivable:	
Property Taxes	571,307
Excises	150,183
Rollback Taxes	7,516
Intergovernmental	1,379,995
Special Assessments	30,153
Noncurrent:	
Accounts Receivable:	
Intergovernmental	3,291,070
Deferred Special Assessments	12,022,073
Capital Assets:	
Assets Not Being Depreciated	12,337,046
Assets Being Depreciated, Net	55,088,576
Total Assets	88,285,077
Liabilities	
Current:	
Warrants Payable	173,018
Employees' Withholding Payable	9,393
Other Liabilities	(11,229)
Guarantee Deposits Payable	29,240
Prepaid Taxes	13,819
Accrued Interest	169,720
Bonds Payable	1,729,817
Bond Anticipation Notes Payable	840,000
Grant Anticipation Notes Payable	299,958
Noncurrent:	
Bonds Payable	20,475,900
Compensated absences	13,350
Landfill Liabilities	1,079,485
Total Liabilities	24,822,471
Net Assets	
Invested in Capital Assets, Net of Related Debt	60,737,402
Restricted for:	
Debt Service	450,533
Special Revenue	1,968,976
Perpetual Funds:	
Expendable	140,651
Nonexpendable	6,833
Unrestricted	158,211
Total Net Assets	\$ 63,462,606

Town of Newbury, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<i>Governmental Activities:</i>					
General Government	\$ 1,110,392	\$ 102,314	\$ 65,112	\$ -	\$ (942,966)
Public Safety	2,002,823	268,653	144,565	-	(1,589,605)
Education	8,878,480	-	266,232	-	(8,612,248)
Intergovernmental	159,544	-	-	-	(159,544)
Highways and Public Works	1,550,121	2,275	1,291,964	-	(255,882)
Human Services	579,707	161,406	10,750	-	(407,551)
Culture and Recreation	518,654	29,007	42,392	-	(447,255)
Employee Benefits	936,717	-	-	-	(936,717)
Debt Service	776,321	-	-	-	(776,321)
Total Governmental Activities	\$ 16,512,759	\$ 563,655	\$ 1,821,015	\$ -	(14,128,089)
 <i>General Revenues:</i>					
Property Taxes					9,116,619
Motor Vehicle and Other Excise Taxes					936,761
Penalties and Interest on Taxes					115,145
Other Taxes, Assessments and In Lieu of Tax Payments					90,695
Intergovernmental					1,049,059
Interest and Investment Income					64,879
Other Revenue					17,586
Contributions to Permanent Funds					134,459
<i>Special Items:</i>					
Gain (Loss) on Sale of Assets					151,625
Transfer Out					(11,609)
Total General Revenues, Special Items and Transfers					11,665,219
 Change in Net Assets					 (2,462,870)
 <i>Net Assets:</i>					
Beginning of the Year					66,770,270
Prior Period Adjustment					(844,794)
Beginning of the Year, as Restated					65,925,476
End of the Year					\$ 63,462,606

Town of Newbury, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2008

<u>Assets</u>	<u>General</u>	<u>Betterment</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash/Investments	\$ 878,597	\$ 450,533	\$ 2,078,028	\$ 3,407,158
Accounts Receivable:				
Property Taxes	571,307	-	-	571,307
Excises	150,183	-	-	150,183
Rollback Taxes	7,516	-	-	7,516
Intergovernmental	3,949,284	-	721,781	4,671,065
Special Assessments Added to Tax	-	30,153	-	30,153
Special Assessments Not Yet Due	-	12,022,073	-	12,022,073
Total Assets	<u>\$ 5,556,887</u>	<u>\$ 12,502,759</u>	<u>\$ 2,799,809</u>	<u>\$ 20,859,455</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 173,018	\$ -	\$ -	\$ 173,018
Employees' Withholdings Payable	-	-	9,393	9,393
Other Liabilities	-	-	(11,229)	(11,229)
Guarantee Deposits Payable	-	-	29,240	29,240
Bonds Anticipation Notes Payable	-	-	840,000	840,000
Grant Anticipation Notes Payable	-	-	299,958	299,958
Deferred Revenue:				
Property Taxes	461,878	-	-	461,878
Excises	41,350	-	-	41,350
Special Assessments	-	12,052,226	-	12,052,226
Rollback Taxes	7,516	-	-	7,516
Intergovernmental	3,949,284	-	721,781	4,671,065
Property Taxes Paid In Advance	13,819	-	-	13,819
Total Liabilities	<u>4,646,865</u>	<u>12,052,226</u>	<u>1,889,143</u>	<u>18,588,234</u>
Fund Equity:				
Fund Balances:				
Reserved for Debt Service	-	450,533	-	450,533
Reserved for Perpetual Permanent Funds	-	-	6,833	6,833
Designated for:				
Subsequent Year's Expenditures	25,000	-	-	25,000
Undesignated, Reported in:				
General Fund	885,022	-	-	885,022
Special Revenue Fund	-	-	1,247,195	1,247,195
Capital Projects Fund	-	-	(484,013)	(484,013)
Permanent Fund	-	-	140,651	140,651
Total Fund Balances	<u>910,022</u>	<u>450,533</u>	<u>910,666</u>	<u>2,271,221</u>
Total Liabilities and Fund Balances	<u>\$ 5,556,887</u>	<u>\$ 12,502,759</u>	<u>\$ 2,799,809</u>	<u>\$ 20,859,455</u>

Town of Newbury, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2008

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 12,267,155	\$ -	\$ -	\$ 12,267,155
Excises	1,125,398	-	8,212	1,133,610
Penalties and Interest	115,145	-	-	115,145
Licenses and Permits	259,200	-	-	259,200
Fees and Other Departmental	202,901	-	82,729	285,630
Intergovernmental	2,012,094	-	728,030	2,740,124
Charges for Services	-	-	18,525	18,525
Fines and Forfeits	134,459	-	-	134,459
Earnings on Investments	64,879	-	5,530	70,409
Special Assessments	655,968	274,797	-	930,765
In Lieu of Taxes	90,695	-	-	90,695
Contributions	-	-	54,078	54,078
Miscellaneous	13,817	-	177,555	191,372
Total Revenues	<u>16,941,711</u>	<u>274,797</u>	<u>1,074,659</u>	<u>18,291,167</u>
<u>Expenditures:</u>				
General Government	1,073,847	-	17,475	1,091,322
Public Safety	1,914,092	-	83,555	1,997,647
Education	8,449,234	-	-	8,449,234
Intergovernmental	159,544	-	-	159,544
Highways and Public Works	905,534	-	785,515	1,691,049
Human Services	377,852	-	8,370	386,222
Culture and Recreation	355,716	-	67,405	423,121
Employee Benefits	936,717	-	-	936,717
Debt Service	2,702,845	-	-	2,702,845
Total Expenditures	<u>16,875,381</u>	<u>-</u>	<u>962,320</u>	<u>17,837,701</u>
Excess of Revenues Over (Under) Expenditures	<u>66,330</u>	<u>274,797</u>	<u>112,339</u>	<u>453,466</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	333,388	-	7,418	340,806
Operating Transfers (Out)	(14,308)	(20,192)	(317,915)	(352,415)
Bond Proceeds	-	-	451,487	451,487
Total Other Financing Sources (Uses)	<u>319,080</u>	<u>(20,192)</u>	<u>140,990</u>	<u>439,878</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>385,410</u>	<u>254,605</u>	<u>253,329</u>	<u>893,344</u>
Fund Balance, Beginning	524,612	195,928	657,337	1,377,877
Fund Balance, Ending	<u>\$ 910,022</u>	<u>\$ 450,533</u>	<u>\$ 910,666</u>	<u>\$ 2,271,221</u>

Town of Newbury, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Fiscal Year Ended June 30, 2008

Total governmental fund balances	\$ 2,271,221
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	67,425,622
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	17,234,035
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(22,205,717)
Accrued Interest Payable	(169,720)
Compensated Absences Payable	(13,350)
Landfill Accrued Liabilities	<u>(1,079,485)</u>
Net assets of governmental activities	<u><u>\$ 63,462,606</u></u>

Town of Newbury, Massachusetts
 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, 2008

Net change in fund balances - total governmental funds	\$ 893,344
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. This is the change related to that activity.	(394,747)
In the statement of activities, the gain on the trade in of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sales are reported as revenue. This amount represents the difference between the two approaches.	(23,300)
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.	(4,206,369)
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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,257,217
Some expenses reported in the Statement of Activities, such as compensated absences, long term landfill liabilities and long term interest payable, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This represents the difference in those items from the prior year.	<u>10,985</u>
Change in net assets of governmental activities	<u><u>\$ (2,462,870)</u></u>

Town of Newbury, Massachusetts
Notes to the Financial Statements
June 30, 2008

I Summary of Significant Accounting Policies

The accounting policies of the Town of Newbury, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2008, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its governmental funds, the Town has elected to apply all Governmental Accounting Standards Board (“GASB”) pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

The more significant accounting policies of the Town are summarized below.

(A) Reporting Entity

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

(B) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities are supported by taxes and intergovernmental revenues.

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

Separate financial statements are provided for governmental funds and fiduciary funds (when applicable), even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. All other revenues are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

General Fund – This is the Town’s general operating fund. It accounts for all financial resources of the general government except those required to be accounting for in another fund.

Betterment Fund – This fund is used to capture the betterment accounts receivable and their related revenues and fund balances. The revenues in the betterment fund are utilized to pay betterment related debt service costs.

(D) Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

The Town’s cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Depository Trust (“MMDT”).

Also, certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which the total property tax assessment can be increased to 2.5% of the preceding year's levy plus any new growth.

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Equipment	5-20
Improvements	20
Infrastructure	20-50
Vehicles	5-20

iv Compensated Absences

The vacation and sick leave policies of the Town vary between departments because of various contractual agreements.

In general, employees are entitled to ten vacation days for the first through fifth year of employment. For the sixth through tenth year of employment, one additional vacation day is earned for each extra year of employment, up to a maximum of fifteen vacation days per year. Employees may carry forward a maximum of three days vacation to the next fiscal year. The accumulated vacation liability as of June 30, 2008 is reflected in the accompanying financial statements.

Sick leave is accumulated at the rate of 1.25 days per month with the maximum accumulation of 120 days. Sick leave buy back is not allowed upon employee retirement or termination. As a result, an accumulated sick leave benefit liability does not exist as of June 30, 2008.

v Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

vi Fund Equity

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

In the fund financial statements fund equity is comprised of the following:

Fund Balances

(a) Reserved for Debt Service

This account consists of betterment revenues collected. The revenues are reserved to pay betterment related debt service costs.

(b) Reserved for Perpetual Permanent Funds

The balance in this account represents the non expendable portion of the permanent trust funds.

(c) Designated for Subsequent Year's Expenditures

This account represents amounts transferred (by Town meeting votes) from other fund balance accounts to fund the subsequent year's budget.

vii Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

viii Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2008 and July 15, 2008. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2008 and the corresponding credit is to the account entitled warrants payable.

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until May, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance or retained earnings. Encumbrances do not constitute expenditures or liabilities.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2008 adjusted for any special Town meeting votes applicable to fiscal 2008 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles basis (fund financial statements) for the year ended June 30, 2008.

	<u>Revenues</u>
As Reported Budget Basis	\$ 16,208,583
Adjustments:	
Sixty Day Accrual - Net	218,265
Subsidies from Massachusetts Water Pollution Abatement Trust	248,631
On Behalf Payments Included in Intergovernmental	<u>266,232</u>
As Reported GAAP (Fund Financial) Statement	<u><u>\$ 16,941,711</u></u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 16,360,518
Adjustments:	
Interest Expense Paid from Subsidies from Massachusetts Water Pollution Abatement Trust	248,631
On Behalf Payments Included in Employee Benefits	<u>266,232</u>
As Reported GAAP (Fund Financial) Statement	<u><u>\$ 16,875,381</u></u>

III Detailed Notes on All Funds

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in an event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2008, \$1,526,002 of the Town's bank balance of \$3,474,653 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 1,526,002

Investments

As of June 30, 2008, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Equities and Other	\$ 34,530
Massachusetts Municipal Depository Trust	<u>38,758</u>
Total	<u>\$ 73,288</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have a formal policy relating to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer (State law limits the amount that may be deposited in a financial institution without collateralization).

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Assets not Being Depreciated:				
Land	\$ 12,360,346	\$ -	\$ (23,300)	\$ 12,337,046
Total Capital Assets not Being Depreciated	<u>12,360,346</u>	<u>-</u>	<u>(23,300)</u>	<u>12,337,046</u>
Assets Being Depreciated:				
Buildings	25,694,380	-	-	25,694,380
Improvements Other Than Buildings	396,952	-	-	396,952
Infrastructure	47,113,196	411,695	-	47,524,891
Equipment	886,435	-	-	886,435
Vehicles	1,034,215	254,747	-	1,288,962
Total Capital Assets Being Depreciated	<u>75,125,178</u>	<u>666,442</u>	<u>-</u>	<u>75,791,620</u>

B. Capital Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings	(6,626,165)	(512,316)	-	(7,138,481)
Improvements Other Than Buildings	(211,365)	(18,208)	-	(229,573)
Infrastructure	(11,610,623)	(411,847)	-	(12,022,470)
Equipment	(497,799)	(51,501)	-	(549,300)
Vehicles	(695,903)	(67,317)	-	(763,220)
Total Accumulated Depreciation	<u>(19,641,855)</u>	<u>(1,061,189)</u>	<u>-</u>	<u>(20,703,044)</u>
Capital Assets Being Depreciated, Net	<u>55,483,323</u>	<u>(394,747)</u>	<u>-</u>	<u>55,088,576</u>
Governmental Activities Capital Assets, Net	<u>\$ 67,843,669</u>	<u>\$ (394,747)</u>	<u>\$ (23,300)</u>	<u>\$ 67,425,622</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 16,461
Public Safety	25,602
Education	429,246
Highways and Public works	495,146
Culture and Recreation	94,734
Total Governmental Activities Depreciation Expense	<u>\$ 1,061,189</u>

C. Accounts Receivable

The accounts receivable on the combined balance sheet are listed below by levy.

Current:

Property Taxes Receivable:

Real Estate Taxes

2008	\$ 255,883
2007	62,800
2006	35,672
2005	29,692
2004	17,393
2003	21,018
2002	17,005
2001	14,238
2000	9,621
1999	11,050
1998	11,086
1997	9,851
1996	6,216
1995	6,550
1994 & Prior	<u>56,417</u>
Total Real Estate Taxes	<u>\$ 564,492</u>

C. Accounts Receivable (Continued)

Personal Property Taxes		
2008	2,504	
2007	1,321	
2006	1,160	
2005	709	
2004	245	
2003	370	
2002	506	
Total Personal Property Taxes		<u>6,815</u>
Total Property Taxes Receivable		<u>\$ 571,307</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2008	\$ 79,238	
2007	21,612	
2006	14,023	
2005	10,104	
2004	8,141	
2003	6,232	
2002	5,297	
Total Motor Vehicle Excise Taxes		<u>\$ 144,647</u>
Boat Excise		
2008	2,249	
2007	429	
2006	433	
2005	677	
2004	711	
2003	493	
2002	544	
Total Boat Excise		<u>5,536</u>
Tax Excise Receivable		<u>\$ 150,183</u>
Rollback Taxes		<u>\$ 7,516</u>
Intergovernmental :		
Due from Commonwealth of Massachusetts:		
Massachusetts School Building Authority	\$ 658,214	
Massachusetts Highway Department - Chapter 90	721,781	
Total Intergovernmental		<u>\$ 1,379,995</u>

C. Accounts Receivable (Continued)

Special Assessments:	
Betterments Added to Taxes 2008	\$ 15,577
Betterments Added to Taxes 2007	4,682
Betterment Committed Interest 2008	<u>9,894</u>
 Total Special Assessments	 <u>\$ 30,153</u>
Noncurrent:	
Intergovernmental :	
Due from Commonwealth of Massachusetts:	
Massachusetts School Building Authority	<u>\$ 3,291,070</u>
Special Assessments:	
Deferred Betterments	<u>\$ 12,022,073</u>

D. Intergovernmental

Because of a pronouncement issued by the Governmental Accounting Standards Board (GASB), the accounts receivable titled “Intergovernmental” is shown on the Fund Financial Statements balance sheet under the General Fund column. This pronouncement, known as GASB 33, relates to certain revenue recognition issues and establishing certain receivable accounts.

The general fund Intergovernmental accounts receivable (Massachusetts School Building Authority) relates to the total amount due to the Town of Newbury for school building projects. The amount due to the Town was determined by the Massachusetts Department of Education under Chapter 645 of the Acts of 1948. The Town either constructed a new school building or made major improvements to an existing school building and the state entered into a grant agreement with the Town to reimburse the Town for a predetermined percentage of allowable costs and interest expense. The reimbursement to the Town for its portion of the debt service and allowable costs is made in equal installments over the life of the bond issue and is subject to the appropriation of the state legislature.

The Intergovernmental receivable in the non major funds column represents the amount due from the Massachusetts Highway Department for highway projects.

E. Short Term Debt

The activity related to the Town's short term debt is as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>July 1, 2007 Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2008 Balance</u>	<u>Maturity Date</u>
<u>Bond Anticipation Notes</u>						
<u>Governmental Activities:</u>						
MWPAT		\$217,584	\$ 233,903	(\$451,487)	\$ -	
Water and Sewer	3.00%	554,000	554,000	(554,000)	554,000	7/2/2008
Water and Sewer	3.45%	126,000	126,000	(126,000)	126,000	7/2/2008
Fire - Airpak Equipment	3.45%	<u>160,000</u>	<u>160,000</u>	<u>(160,000)</u>	<u>160,000</u>	7/2/2008
		<u>\$1,057,584</u>	<u>\$1,073,903</u>	<u>(\$1,291,487)</u>	<u>\$ 840,000</u>	

Grant Anticipation Notes

<u>Governmental Activities:</u>						
Chapter 90 - Road Program	3.85%	<u>\$0</u>	<u>\$299,958</u>	<u>\$0</u>	<u>\$ 299,958</u>	10/3/2008

F. Long Term Debt

General obligation bonds outstanding at June 30, 2008, bear interest at various rates.

Changes in Long Term Debt

The following is a summary of bond transactions for the year ended June 30, 2008:

	<u>Governmental Activities</u>
Balance July 1, 2007	\$23,462,934
Add: New Issues	451,487
Less: Maturities	<u>(1,708,704)</u>
Balance June 30, 2008	<u>\$22,205,717</u>

F. Long Term Debt (Continued)

Summary of Debt Service Requirements to Maturity

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$1,729,817	\$856,608	\$2,586,425
2010	1,726,353	788,815	2,515,168
2011	1,722,226	721,435	2,443,661
2012	1,714,094	655,070	2,369,164
2013	1,686,249	587,273	2,273,522
Fiscal 2014-2018	5,744,026	2,055,801	7,799,827
Fiscal 2019-2023	3,956,688	984,448	4,941,136
Fiscal 2024-2028	1,775,372	361,475	2,136,847
Fiscal 2029-2033	1,365,489	223,515	1,589,004
Fiscal 2034-2038	<u>785,403</u>	<u>22,575</u>	<u>807,978</u>
	<u>\$22,205,717</u>	<u>\$7,257,015</u>	<u>\$29,462,732</u>

Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued (permanently bonded) or rescinded as of June 30, 2008, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
August 8, 2000 and May 23, 2006	Water and Sewer	\$680,000
May 23, 2006	Fire - Airpak Equipment	160,000
June 23, 2003	Transfer Station	<u>60,000</u>
	Total	<u>\$900,000</u>

G. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 333,388	\$ (14,308)	\$ 319,080
Betterment	-	(20,192)	(20,192)
Non-major Governmental Agency	7,418	(317,915)	(310,497)
	11,609	-	11,609
Total	<u>\$ 352,415</u>	<u>\$ (352,415)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to the Essex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Retirement System issues a publicly available financial report that includes financial statements and the required supplementary information. That report may be obtained by writing to the Essex Retirement System, 36 Federal Street, Room 210, Salem, Massachusetts 01970-3473.

(b) Funding Plan

Active members of the Essex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Essex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2008, 2007 and 2006 were \$334,180, \$305,869 and \$279,851, respectively, equal to 100% of the required contribution each year.

B. On Behalf Payments

In accordance with Government Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance", the Town is required to recognize, as income, certain payments made on behalf of the Town by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's former teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2008, the Commonwealth paid \$266,232 to the State Plan on behalf of the Town. Accordingly, the accompanying basic financial statements include the required adjustments, which have increased both Intergovernmental revenues and Employee Benefits (pension) expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2008, or fund balances at June 30, 2008.

C. Subsequent Year Authorizations

On May 27, 2008 and October 28, 2008, the Town adopted a fiscal 2009 operating and capital budget of \$16,423,334. Fiscal 2009 budgetary amounts which are not reflected (except for reserved for expenditures) in the accompanying financial statements will be financed by the following sources:

2009 Property Taxes, State Aid and Non-Property Tax Revenue	\$15,809,349
Other Available Funds	588,985
Fund Balance Designated for Subsequent Year's Expenditures (Reflected on Fund Financial Balance Sheet):	
General Fund	25,000
	<u>\$16,423,334</u>

D. Solid Waste Landfill Closure and Postclosure Care Costs

State and Federal regulations require that landfill closures meet certain standards. Among the standards is the requirement to monitor the landfill for 30 years. Accounting principles generally accepted in the United States of America require recognition of a liability for closure and postclosure costs based on landfill capacity used to date. The landfill capacity used to date (as of June 30, 2008) is 100%. The Town's estimate for monitoring costs are included as a liability in the Statement of Net Assets.

E. Prior Period Adjustment

A prior period adjustment (\$1,058,346) was made in the governmental activities in the entity wide financial statements. The entry was made to correct (reduce) the deferred betterment receivable account. Another prior period adjustment was made \$213,552 to reflect capital assets not previously included in the Town's capital asset schedule.

Town of Newbury, Massachusetts
General Fund
Statement of Revenues and Expenditures - Budget and Actual
Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$ 12,100,176	\$ 12,100,176	\$ 12,157,723	\$ 57,547
Excises	956,586	956,586	1,016,565	59,979
Penalties and Interest	195,000	195,000	115,145	(79,855)
Licenses and Permits	463,000	463,000	259,200	(203,800)
Fees and Other Departmental	60,000	60,000	202,901	142,901
Fines and Forfeits	145,000	145,000	134,459	(10,541)
Intergovernmental	1,492,212	1,492,212	1,497,231	5,019
Earnings on Investments	75,000	75,000	64,879	(10,121)
Special Assessments	655,968	655,968	655,968	-
In Lieu of Taxes	96,294	96,294	90,695	(5,599)
Miscellaneous	18,100	18,100	13,817	(4,283)
	<u>16,257,336</u>	<u>16,257,336</u>	<u>16,208,583</u>	<u>(48,753)</u>
<u>Expenditures</u>				
General Government	1,194,544	1,091,454	1,073,847	17,607
Public Safety	1,908,861	1,928,630	1,914,092	14,538
Education	8,183,002	8,183,002	8,183,002	-
Highway and Public Works	749,171	908,173	905,534	2,639
Health and Human Services	443,885	390,137	377,852	12,285
Culture and Recreation	397,875	359,875	355,716	4,159
Intergovernmental	158,421	158,421	159,544	(1,123)
Employee Benefits	936,220	936,220	936,717	(497)
Debt Service	2,447,955	2,474,906	2,454,214	20,692
	<u>16,419,934</u>	<u>16,430,818</u>	<u>16,360,518</u>	<u>70,300</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>\$ (162,598)</u>	<u>\$ (173,482)</u>	<u>\$ (151,935)</u>	<u>\$ 21,547</u>
Other Financing Sources (Uses):				
Transfers In	162,598	187,790	333,388	145,598
Transfers Out	-	(14,308)	(14,308)	-
	<u>162,598</u>	<u>173,482</u>	<u>319,080</u>	<u>145,598</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,145</u>	<u>\$ 167,145</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Selectmen
Town of Newbury
Town Hall
25 High Road
Newbury, MA 01950

We have audited the basic financial statements of the Town of Newbury as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Newbury's, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Newbury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Newbury's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Newbury's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Newbury's financial statements that is more than inconsequential will not be prevented or detected by the Town of Newbury's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Newbury's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items 2008-1 and 2008-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Newbury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Newbury in a separate letter dated February 6, 2009.

The report is intended solely for the information and use of management, the Board of Selectmen and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 6, 2009

Town of Newbury, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2008
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Findings – Financial Statement Audit

2008-1

Internal Controls over Financial Reporting

During the fiscal year ended June 30, 2007, the American Institute of Certified Public Accountants (AICPA), adopted a new audit standard, Statement on Auditing Standard number 112 (SAS 112). This standard specifically states that if certain internal control financial reporting deficiencies are present in a municipality, a significant deficiency must be reported. One aspect of this financial reporting control issue relates to the preparation of the audited financial statements. The current accounting system used by the Town is maintained in accordance with State statutes and the Commonwealth of Massachusetts Uniform Municipal Accounting System (UMAS). This system provides the capability of preparing necessary reports, such as a balance sheet, revenue and expenditure reports - with budget and actual amounts and the Department of Revenue (DOR) required Schedule A report, etc. However, the audited financial statements are prepared by the independent auditor (which is allowed by AICPA standards).

This new standard, SAS 112, requires us to report a significant deficiency when the person within the organization “responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles (GAAP) in recording the entity’s financial transactions **or preparing its financial statements” (including notes to the financial statements)** in accordance with GASB 34 and other GASB standards. The Town Accountant is capable of properly recording the Town’s transactions. However, financial statement preparation has typically been outside the job responsibilities of most Town Accountants. In most Massachusetts municipalities, (including the Town of Newbury) the individual responsible for the entity’s financial statements understands the financial statements and notes when they are explained. However, few municipalities have an individual who stays current with changes in generally accepted accounting principles and statements issued by the Governmental Accounting Standards Board (GASB), most notably, GASB Statement number 34 (considered the biggest change in the history of Governmental Accounting). This has typically been considered the “auditor’s job”.

Since AICPA and GASB standards state that the financial statements are the “responsibility of management” (i.e. we can only **recommend** audit adjustments) and the opinion letter is our responsibility, it is reasonable that the AICPA believes that someone within every organization should be well versed in generally accepted accounting principles and the GASB statements. **It should be noted that the Town does not have to prepare its financial statements. It only has to demonstrate the ability to do so.**

We recommend that the Town consider additional staff training relating to the preparation of financial statements under GAAP and the GASB 34 reporting model.

As is the case with all internal control decisions, management must make assessments of the cost/benefits related to implementing new systems and procedures.

Town of Newbury, Massachusetts
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Findings – Financial Statement Audit

2008-2

Deferred Betterments

The Town assessed betterments in conjunction with the Plum Island Project. The betterments become due over 20 (Water) or 30 (Sewer) years. As the betterments come due they are added to the real estate tax bill and become part of the Collector's accounts receivable system. Payment history and balance due reports for the amounts added to tax can be obtained through the Collector's accounts receivable software. However, the Town does not have software with strong reporting capabilities for the betterment balances that have not yet been added to taxes. As a result, the Town Accountant has created a spreadsheet in order to keep a listing of individual betterment balances. The spreadsheet requires a considerable amount of time and effort to maintain. Also, since the detail related to the betterment outstanding list was not properly maintained in previous years, a significant prior period adjustment was required.

The betterment billing process (i.e. adding to tax) is initiated in the Assessors' office. Therefore, the amount due for each betterment (not yet added to taxes) is in the Assessors' assessing software. However, the software does not currently have a report that would provide the balance due for the betterments not yet added to taxes. Since the information is in the Assessors' system, it is likely that the software provider can add a balance due report to the list of available system reports.

We recommend that the Assessors' office request that their software provider add a betterment balance due report to the list of system reports. The balance due report should be reconciled to the general ledger balance on a monthly basis.