

TOWN OF NEWBURY, MASSACHUSETTS

Financial Statements

June 30, 2011

(With Accountants' Report Thereon)

36 Jackman St., Unit 1

*

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Town of Newbury, Massachusetts
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**Report on Compliance and on Internal Control Over Financial Reporting and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Governmental Auditing Standards***

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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, 2011, 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, 2011 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 May 21, 2012 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, the budgetary comparison information, the retirement system schedules and the other post employment benefit schedules listed in the table of contents 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
May 21, 2012

**Town of Newbury, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2011**

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, 2011.

Financial Highlights

- The assets of the Town of Newbury, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$60,911,592 (*net assets*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$950,080, or 5.5 percent of total general fund expenditures.

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 (when applicable). 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.

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 22,629,968	\$ 17,074,930
Capital Assets	64,632,042	65,630,716
Total Assets	87,262,010	82,705,646
Current Liabilities	8,878,083	2,884,450
Long Term Liabilities	17,472,335	18,593,842
Total Liabilities	26,350,418	21,478,292

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Net Assets:		
Invested in Capital Assets		
net of Related Debt	59,558,076	60,208,172
Restricted	1,966,943	1,315,715
Unrestricted	(613,427)	(296,533)
Total Net Assets	<u>\$ 60,911,592</u>	<u>\$ 61,227,354</u>

The net assets of the Town decreased by \$ 315,762.

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>2011</u>	<u>2010</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 591,821	\$ 512,729
Operating Grants and Contributions	954,935	748,364
Capital Grants and Contributions	245,695	275,228
General Revenues:		
Property Taxes	13,083,118	12,949,400
Motor Vehicle and Other Excises	945,892	859,787
Intergovernmental Not Restricted to a Specific Program	951,017	945,828
Other	338,032	320,884
Total Revenues	<u>17,110,510</u>	<u>16,612,220</u>
Expenses		
General Government	1,096,633	1,312,435
Public Safety	2,023,470	2,113,703
Education	9,700,040	9,530,394
Intergovernmental	225,471	227,570
Highways and Public Works	1,425,862	2,187,172
Human Services	310,003	336,934
Culture and Recreation	433,600	577,757
Employee Benefits	1,387,042	1,257,692
Debt Service	774,763	816,758
Other	7,988	-
Total Expenses	<u>17,384,872</u>	<u>18,360,415</u>
Increase (Decrease) in Net Assets		
Before Special items	(274,362)	(1,748,195)
Special Items	(41,400)	-
Increase (Decrease) in Net Assets	<u>\$ (315,762)</u>	<u>\$ (1,748,195)</u>

Governmental Activities

In fiscal year 2011, property taxes accounted for approximately 77% of the Town's revenues.

Financial Analysis of the Town's Funds

Governmental Funds

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 Subsequent Year's Expenditure</u>	<u>Unreserved</u>	<u>Total Fund Balance Free Cash</u>	
2006	\$ -	\$ (43,206)	\$ 1,299	\$ -	\$ 425,766	\$ 383,859	\$ 85,976
2007	-	-	-	-	524,612	524,612	92,844
2008	-	-	-	25,000	885,022	910,022	350,297
2009	19,657	-	(96,075)	130,000	548,758	602,340	119,813
2010	67,056	-	(5,144)	106,106	467,859	635,877	(130,659) (Deficit)

GASB 54 was implemented during the fiscal year ended June 30, 2011. As a result, the account titles of the Components of Fund Balance have changed, as noted below. In addition, in accordance with the GASB 54 requirements, the Stabilization Fund (\$147,583 balance as of June 30, 2011), is now reported as a component of the General Fund.

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance Free Cash</u>	
2011	\$ 5,876,638	\$ -	\$ 22,501	\$ 950,080	\$ 6,849,219	\$ 413,317

The above \$5,876,638 fund balance amount is made up of restricted funds to be used to repay the refunded debt, which is due on August 1, 2011. For a further explanation of the debt refunding, please see the next page and also refer to the debt footnote on Pages 23 and 24.

Capital Asset and Debt Administration

Capital Assets. The Town of Newbury, Massachusetts' investments in capital assets for its governmental activities as of June 30, 2011, amounts to \$64,632,042 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

**Capital Assets at June 30, 2011
(Net of Depreciation)**

		<u>Governmental Activities</u>	
		<u>2011</u>	<u>2010</u>
Land		\$ 12,337,046	\$ 12,337,046
Buildings		17,060,683	17,547,432
Improvements Other Than Buildings		117,610	130,963
Infrastructure		34,336,209	34,732,457
Equipment		353,313	393,943
Vehicles		427,181	488,875
Total		<u>\$ 64,632,042</u>	<u>\$ 65,630,716</u>

Debt

The Town had \$23,154,321 in bonds outstanding on June 30, 2011. The long term debt increased by \$4,404,774 during the fiscal year ended June 30, 2011. There are two factors that relate to this change in the long term debt balance. The first relates to a reduction in the principal balance as a result of the retirement of \$1,722,226 of general obligation bonds. The second factor is that the Town issued refunding bonds of \$5,919,000 to refund \$5,690,000 of outstanding general obligation bonds. The proceeds from this refunding issue were deposited into a bank account as of June 30, 2011. \$5,876,638 of this amount has been reserved as of June 30, 2011 to be used to pay principal and interest costs of the refunded debt due on August 1, 2011. Therefore, as of June 30, 2011, the total long term debt principal balance of \$23,154,321 includes the refunded debt principal balance of \$5,690,000 which was paid off on August 1, 2011.

Governmental Activities	<u>2011</u>	<u>2010</u>
General Obligation Bonds Payable	<u>\$23,154,321</u>	<u>\$18,749,547</u>

Fiscal Year 2012 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 decrease in state aid combined with increases in health insurance premiums and other costs had to be considered in balancing the fiscal year 2012 budget. The Town utilized \$216,758 of “free cash” (general fund-unassigned fund balance) to fund the 2012 budget.

Town of Newbury, Massachusetts
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Current:	
Cash/Investments	\$ 9,302,244
Accounts Receivable:	
Property Taxes	283,136
Tax Liens	170,100
Excises	138,562
Rollback Taxes	8,847
Other	37,571
Intergovernmental	1,144,005
Special Assessments	27,084
Noncurrent:	
Accounts Receivable:	
Intergovernmental	1,316,428
Deferred Special Assessments	10,201,991
Capital Assets:	
Assets Not Being Depreciated	12,337,046
Assets Being Depreciated, Net	<u>52,294,996</u>
Total Assets	<u><u>87,262,010</u></u>
 Liabilities	
Current:	
Warrants Payable	211,047
Accrued Salaries Payable	55,039
Other Liabilities	1,402
Withholdings Payable	4,409
Guarantee Deposits Payable	389,058
Accrued Interest	227,034
Bonds Payable	7,561,094
Bond Anticipation Notes Payable	429,000
Noncurrent:	
Bonds Payable	15,593,227
Compensated Absences Payable	14,388
Other Post Employment Benefits Payable	995,632
Landfill Postclosure Costs Payable	<u>869,088</u>
Total Liabilities	<u><u>26,350,418</u></u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	59,558,076
Restricted for:	
Capital Projects	79,743
Debt Service	727,365
Special Revenue	1,000,359
Perpetual Funds:	
Expendable	151,966
Nonexpendable	7,510
Unrestricted (Deficit)	<u>(613,427)</u>
Total Net Assets	<u><u>\$ 60,911,592</u></u>

Town of Newbury, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2011

<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	\$ 1,096,633	\$ 96,297	\$ 257,697	\$ -	\$ (742,639)
Public Safety	2,023,470	239,846	50,039	-	(1,733,585)
Education	9,700,040	-	264,233	-	(9,435,807)
Intergovernmental	225,471	-	-	-	(225,471)
Highways and Public Works	1,425,862	14,210	311,488	245,695	(854,469)
Human Services	310,003	236,392	14,795	-	(58,816)
Culture and Recreation	433,600	5,076	56,683	-	(371,841)
Employee Benefits	1,387,042	-	-	-	(1,387,042)
Debt Service	774,763	-	-	-	(774,763)
Other	7,988	-	-	-	(7,988)
Total Governmental Activities	\$ 17,384,872	\$ 591,821	\$ 954,935	\$ 245,695	(15,592,421)
 <i>General Revenues:</i>					
Property Taxes					13,083,118
Motor Vehicle and Other Excise Taxes					945,892
Penalties and Interest on Taxes					92,779
Other Taxes, Assessments and In Lieu of Tax Payments					47,520
Intergovernmental					951,017
Interest and Investment Income					5,265
Other Revenue					102,484
Fines and Forfeits					89,984
<i>Special Items:</i>					
Payment for Refunding Issue					(41,400)
Total General Revenues, Special Items and Transfers					15,276,659
 Change in Net Assets					 (315,762)
 <i>Net Assets:</i>					
Beginning of the Year					61,227,354
End of the Year					\$ 60,911,592

Town of Newbury, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2011

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 8,834,590	\$ -	\$ 467,654	\$ 9,302,244
Accounts Receivable:				
Property Taxes	283,136	-	-	283,136
Tax Liens	170,100	-	-	170,100
Excises	138,562	-	-	138,562
Rollback Taxes	-	-	8,847	8,847
Other	-	-	37,571	37,571
Intergovernmental	1,974,642	-	485,791	2,460,433
Special Assessments Added to Tax	-	27,084	-	27,084
Special Assessments Not Yet Due	-	10,201,991	-	10,201,991
Due From Other Funds	-	727,365	1,100,747	1,828,112
Total Assets	<u>\$ 11,401,030</u>	<u>\$ 10,956,440</u>	<u>\$ 2,100,610</u>	<u>\$ 24,458,080</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants Payable	\$ 211,047	\$ -	\$ -	\$ 211,047
Accrued Salaries Payable	55,039	-	-	55,039
Due to Other Funds	1,828,112	-	-	1,828,112
Other Liabilities	408	-	994	1,402
Withholdings Payable	-	-	4,409	4,409
Guarantee Deposits Payable	-	-	389,058	389,058
Bonds Anticipation Notes Payable	-	-	429,000	429,000
Deferred Revenue:				
Property Taxes	232,154	-	-	232,154
Other	-	-	37,571	37,571
Tax Liens	170,100	-	-	170,100
Excises	80,309	-	-	80,309
Special Assessments	-	10,229,075	-	10,229,075
Intergovernmental	1,974,642	-	485,791	2,460,433
Total Liabilities	<u>4,551,811</u>	<u>10,229,075</u>	<u>1,346,823</u>	<u>16,127,709</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	-	7,510	7,510
Restricted	5,876,638	727,365	746,277	7,350,280
Assigned	22,501	-	-	22,501
Unassigned	950,080	-	-	950,080
Total Fund Balances	<u>6,849,219</u>	<u>727,365</u>	<u>753,787</u>	<u>8,330,371</u>
Total Liabilities and Fund Balances	<u>\$ 11,401,030</u>	<u>\$ 10,956,440</u>	<u>\$ 2,100,610</u>	<u>\$ 24,458,080</u>

Town of Newbury, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2011

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property Taxes	\$ 13,118,854	\$ -	\$ -	\$ 13,118,854
Tax Liens	51,813	-	-	51,813
Excises	950,272	-	6,966	957,238
Penalties and Interest	92,778	-	-	92,778
Licenses and Permits	236,003	-	-	236,003
Fees and Other Departmental	266,975	-	204,964	471,939
Intergovernmental	1,876,223	-	251,793	2,128,016
Fines and Forfeits	89,985	-	-	89,985
Earnings on Investments	5,265	-	1,740	746,832
Special Assessments	221,045	739,827	-	221,045
In Lieu of Taxes	47,520	-	-	47,520
Contributions	-	-	57,594	57,594
Miscellaneous	10,393	-	8,075	18,468
Total Revenues	16,967,126	739,827	531,132	18,238,085
Expenditures:				
General Government	1,024,183	-	86,411	1,110,594
Public Safety	1,911,890	-	83,513	1,995,403
Education	9,281,226	-	-	9,281,226
Intergovernmental	225,471	-	-	225,471
Highways and Public Works	911,755	-	45,579	957,334
Human Services	329,208	-	6,720	335,928
Culture and Recreation	248,952	-	90,883	339,835
Employee Benefits	1,045,069	-	-	1,045,069
Debt Service	2,424,688	-	-	2,429,051
Other	472	4,363	3,153	7,988
Total Expenditures	17,402,914	4,363	316,259	17,727,899
Excess of Revenues Over (Under) Expenditures	(435,788)	735,464	214,873	510,186
Other Financing Sources (Uses):				
Operating Transfers In	560,603	-	177,041	737,644
Operating Transfers (Out)	(125,000)	(602,041)	(10,603)	(737,644)
Proceeds from Refunding Bonds	5,919,000	-	-	5,919,000
Payments For Refunding Issue	(41,400)	-	-	(41,400)
Bond Proceeds	-	-	208,000	208,000
Total Other Financing Sources (Uses)	6,313,203	(602,041)	374,438	6,085,600
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	5,877,415	133,423	589,311	6,600,149
Fund Balance, Beginning	635,877	593,942	500,403	1,730,222
Prior Period Adjustment	335,927	-	(335,927)	-
Fund Balance, Beginning as Restated	971,804	593,942	164,476	1,730,222
Fund Balance, Ending	\$ 6,849,219	\$ 727,365	\$ 753,787	\$ 8,330,371

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, 2011

Total governmental fund balances	\$ 8,330,371
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	64,632,042
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	13,209,642
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(23,154,321)
Accrued Interest Payable	(227,034)
Compensated Absences Payable	(14,388)
Other Post Employment Benefits Payable	(995,632)
Landfill Accrued Liabilities	(869,088)
Net assets of governmental activities	\$ 60,911,592

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, 2011

Net change in fund balances - total governmental funds	\$ 6,600,149
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.	(998,674)
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.	(1,127,574)
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.	(4,404,774)
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>(384,889)</u>
Change in net assets of governmental activities	<u><u>\$ (315,762)</u></u>

Town of Newbury, Massachusetts
Notes to the Financial Statements
June 30, 2011

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, 2011, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

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. 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 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. Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below.

1. Nonspendable, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),

2. Restricted, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution provisions or through enabling legislation,

3. Committed, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen (the Town's highest level of decision-making authority),

4. Assigned, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and

5. Unassigned, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The Board of Selectmen is the highest level of decision making authority in the Town. Committed fund balance cannot be used for any other purposes without formal vote taken by the Board of Selectmen.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town's balance sheet.

	<u>General Fund</u>	<u>Betterment</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	\$ -	\$ -	\$ 7,510	\$ 7,510
Total Nonspendable	<u>-</u>	<u>-</u>	<u>7,510</u>	<u>7,510</u>
Restricted for:				
General Government	-	-	213,841	213,841
Public Safety	-	-	108,963	108,963
Culture and Recreation	-	-	259,772	259,772
Public Works	-	-	125,042	125,042
Human Services	-	-	38,659	38,659
Debt Service	5,876,638	727,365	-	6,604,003
Total Restricted	<u>5,876,638</u>	<u>727,365</u>	<u>746,277</u>	<u>7,350,280</u>
Assigned to:				
General Government	3,380	-	-	3,380
Public Safety	4,300	-	-	4,300
Public Works	10,000	-	-	10,000
Employee Benefits	4,821	-	-	4,821
Total Assigned	<u>22,501</u>	<u>-</u>	<u>-</u>	<u>22,501</u>
Unassigned	<u>950,080</u>	<u>-</u>	<u>-</u>	<u>950,080</u>
Total Fund Balances	<u>\$ 6,849,219</u>	<u>\$ 727,365</u>	<u>\$ 753,787</u>	<u>\$ 8,330,371</u>

Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that "cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund".

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

The Town’s stabilization fund has a current balance of \$147,583. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

v 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, 2011 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, 2011.

vi 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.

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.

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 2011 adjusted for any special Town meeting votes applicable to fiscal 2011 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, 2011.

	<u>Revenues</u>
As Reported Budget Basis	\$ 16,625,760
Adjustments:	
Sixty Day Accrual - Net	(163,557)
Subsidies from Massachusetts Water Pollution Abatement Trust	237,257
Other Adjustments	3,433
On Behalf Payments Included in Intergovernmental	264,233
As Reported GAAP (Fund Financial) Statement	<u>\$ 16,967,126</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 16,897,797
Adjustments:	
Beginning Encumbrances	67,056
Ending Encumbrances	(22,501)
Interest Expense Paid from Subsidies from Massachusetts Water Pollution Abatement Trust	237,257
Payments for Refunding Issue	(41,400)
Other	472
On Behalf Payments Included in Employee Benefits	264,233
As Reported GAAP (Fund Financial) Statement	<u>\$ 17,402,914</u>

III Detailed Notes on All Funds

A. 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, 2011, \$7,268,147 of the Town's bank balance of \$8,512,825 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 7,268,147

Investments

As of June 30, 2011, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Municipal Bonds	\$ 365,837
Stocks and Equities	30,448
Massachusetts Municipal Depository Trust	39,842
Other	<u>8,206</u>
Total	<u>\$ 444,333</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, 2011 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Government Activities:				
Assets not Being Depreciated:				
Land	\$ 12,337,046	\$ -	\$ -	\$ 12,337,046
Total Capital Assets not Being Depreciated	<u>12,337,046</u>	<u>-</u>	<u>-</u>	<u>12,337,046</u>
Assets Being Depreciated:				
Buildings	25,711,044	27,000	-	25,738,044
Improvements Other Than Buildings	396,952	-	-	396,952
Infrastructure	47,571,897	-	-	47,571,897
Equipment	1,065,353	-	-	1,065,353
Vehicles	1,402,481	12,486	-	1,414,967
Total Capital Assets Being Depreciated	<u>76,147,727</u>	<u>39,486</u>	<u>-</u>	<u>76,187,213</u>
Less Accumulated Depreciation for:				
Buildings	(8,163,612)	(513,749)	-	(8,677,361)
Improvements Other Than Buildings	(265,989)	(13,353)	-	(279,342)
Infrastructure	(12,839,440)	(396,248)	-	(13,235,688)
Equipment	(671,410)	(40,630)	-	(712,040)
Vehicles	(913,606)	(74,180)	-	(987,786)
Total Accumulated Depreciation	<u>(22,854,057)</u>	<u>(1,038,160)</u>	<u>-</u>	<u>(23,892,217)</u>
Capital Assets Being Depreciated, Net	<u>53,293,670</u>	<u>(998,674)</u>	<u>-</u>	<u>52,294,996</u>
Governmental Activities Capital Assets, Net	<u>\$ 65,630,716</u>	<u>\$ (998,674)</u>	<u>\$ -</u>	<u>\$ 64,632,042</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 1,975
Public Safety	27,464
Education	418,814
Highways and Public works	496,374
Culture and Recreation	93,533
Total Governmental Activities Depreciation Expense	<u>\$ 1,038,160</u>

C. Accounts Receivable

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

Current:

Property Taxes Receivable:

Real Estate Taxes

2011	\$ 152,993
2010	11,650
2009	13,647

C. Accounts Receivable (Continued)

2008	7,186	
2007	4,139	
2006	4,678	
2006 & Prior	78,194	
Total Real Estate Taxes	<u> </u>	\$ 272,487
Personal Property Taxes		
2011	2,515	
2010	2,332	
2009	1,352	
2008	1,045	
2007	967	
2006 and Prior	2,438	
Total Personal Property Taxes	<u> </u>	10,649
Total Property Taxes Receivable		<u><u>\$ 283,136</u></u>
Tax Liens		<u><u>\$ 170,100</u></u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2011	\$ 68,980	
2010	12,140	
2009	5,053	
2008	3,999	
2007	5,862	
2006 and Prior	29,112	
Total Motor Vehicle Excise Taxes	<u> </u>	\$ 125,146
Boat Excise		
2011	2,408	
2010	2,126	
2009	4,216	
2008	1,677	
2007	359	
2006 and Prior	2,630	
Total Boat Excise	<u> </u>	13,416
Total Excise Taxes Receivable		<u><u>\$ 138,562</u></u>
Rollback Taxes		<u><u>\$ 8,847</u></u>

C. Accounts Receivable (Continued)

Intergovernmental :

Due from Commonwealth of Massachusetts:

Massachusetts School Building Authority	\$ 658,214
Massachusetts Highway Department - Chapter 90	485,791

Total Intergovernmental	<u>\$ 1,144,005</u>
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Special Assessments:

Betterments Added to Taxes 2011	\$ 12,786
Betterments Added to Taxes 2010	685
Betterments Added to Taxes 2009	2,337
Betterments Added to Taxes 2008	1,670
Betterments Added to Taxes 2007	341
Betterment Committed Interest 2011	6,489
Betterment Committed Interest 2010	381
Betterment Committed Interest 2009	1,305
Betterment Committed Interest 2008	1,090

Total Special Assessments	<u>\$ 27,084</u>
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Noncurrent:

Intergovernmental :

Due from Commonwealth of Massachusetts:

Massachusetts School Building Authority	<u>\$ 1,316,428</u>
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Special Assessments:

Deferred Betterments	<u>\$ 10,201,991</u>
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D. Intergovernmental

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 Massachusetts School Building Authority (M.S.B.A.) 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. The MSBA derives its revenues from a percentage of the Massachusetts sales tax. The Town's reimbursement is subject to the availability of funds at the MSBA.

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

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, 2010 Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2011 Balance</u>	<u>Maturity Date</u>
<u>Bond Anticipation Notes</u>						
Water and Sewer	2.60%	\$ 554,000	\$ -	\$ (554,000)	\$ -	7/1/2010
Water and Sewer	2.60%	-	429,000	-	429,000	7/1/2011
Total Bond Anticipation Notes		<u>\$ 554,000</u>	<u>\$ 429,000</u>	<u>\$ (554,000)</u>	<u>\$ 429,000</u>	
<u>Revenue Anticipation Notes</u>						
Revenue Anticipation		<u>\$ -</u>	<u>\$600,000</u>	<u>(\$600,000)</u>	<u>\$ -</u>	

F. Long Term Debt

General obligation bonds outstanding at June 30, 2011, bear interest at various rates.

i Changes in Long Term Debt

The following is a summary of bond transactions for the year ended June 30, 2011:

	<u>Governmental Activities</u>
Balance July 1, 2010	\$18,749,547
Add: Proceeds from Refunding Bonds	5,919,000
Bond Proceeds	208,000
Less: Maturities	<u>(1,722,226)</u>
Balance June 30, 2011	<u>\$23,154,321</u>

ii Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$7,561,094	\$598,232	\$8,159,326
2013	1,776,249	474,299	2,250,548
2014	1,665,711	428,277	2,093,988
2015	1,099,981	385,247	1,485,228
2016	1,080,524	353,516	1,434,040

F. Long Term Debt (Continued)

Fiscal 2017-2021	4,862,046	1,259,247	6,121,293
Fiscal 2022-2026	2,452,939	503,676	2,956,615
Fiscal 2027-2031	1,302,184	312,319	1,614,503
Fiscal 2032-2036	1,255,488	84,141	1,339,629
Fiscal 2037-2041	<u>98,105</u>	<u>169</u>	<u>98,274</u>
	<u>\$23,154,321</u>	<u>\$4,399,123</u>	<u>\$27,553,444</u>

On June 30, 2011 the Town issued \$ 5,919,000 of Refunding Bonds with an average interest rate of 2.03% to refund \$5,690,000 of outstanding General Obligation Bonds with an average interest rate of 4.65 %. The proceeds from this refunding issue were deposited into a bank account as of June 30, 2011. \$5,876,638 of this amount has been reserved as of June 30, 2011 to be used to pay principal and interest costs of the refunded debt due on August 1, 2011. The net savings from this refunding issue is \$412,229. The principal and interest costs on the refunded debt and the refunding debt are detailed below:

	Refunded Bonds Principal <u>and Interest</u>	Refunding Bonds Principal <u>and Interest</u>
2012	\$1,374,475	\$1,312,074
2013	1,291,530	1,239,903
2014	1,179,010	1,121,659
2015	568,335	525,344
2016	527,410	490,702
2017	477,200	436,567
2018	458,200	418,345
2019	439,000	395,327
2020	<u>419,600</u>	<u>382,610</u>
	<u>\$6,734,760</u>	<u>\$6,322,531</u>

iii Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued (permanently bonded) or rescinded as of June 30, 2011, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
August 8, 2000 and May 22, 2007	Water and Sewer	\$221,000
June 24, 2003	Transfer Station	<u>60,000</u>
	Total	<u>\$281,000</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	\$ 560,603	\$ (125,000)	\$ 435,603
Betterment	-	(602,041)	(602,041)
Non-major Governmental	177,041	(10,603)	166,438
Total	<u>\$ 737,644</u>	<u>\$ (737,644)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional 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 Regional Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

(b) Funding Plan

Active members of the Essex Regional 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 Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2011, 2010 and 2009 were \$385,515, \$352,095 and \$320,454, 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, 2011, the Commonwealth paid \$264,233 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, 2011, or fund balances at June 30, 2011.

C. Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2011. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Essex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 57 active employees and 34 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** The Town pays 75% of the total premiums for retirees’ health insurance and 75% of the premiums for a \$2,000 life insurance policy. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.
- c. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan, and the Town’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$476,847
Interest on Net OPEB Obligation	26,152
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	<u>502,999</u>
Contributions Made	<u>(161,026)</u>
Increase in Net OPEB Obligation	341,973
Net OPEB Obligation (NOO)- Beginning of Year	<u>653,659</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$995,632</u></u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for recent years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2009	\$475,775	28%	\$341,154
2010	\$459,313	32%	\$653,659
2011	\$502,994	42%	\$995,632

- d. **Funded Status and Funding Progress.** As of June 30, 2011, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$3,791,377, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$3,791,377.

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 (RSI) 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.

- e. **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). The projections consider 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 to 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 July 1, 2008, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years. The actuarial value of assets is determined using market value. The UAAL is being amortized over a thirty year amortization period.

D. Subsequent Year Authorizations

The Town adopted a fiscal 2012 operating and capital budget of \$17,425,386. Fiscal 2012 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

2012 Property Taxes, State Aid and Non-Property Tax Revenue	\$16,157,467
Other Available Funds	687,919
Fund Balance Restricted: Betterment Fund	580,000
	<u>\$17,425,386</u>

E. 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, 2011) is 100%. The Town's estimates for monitoring costs are included as a liability in the Statement of Net Assets.

F. Significant Commitments

Encumbrances

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose.

G. Prior Period Adjustments

A prior period adjustment of \$335,927 was made to the Fund Financial Statements to reclassify the Stabilization Fund from the non major funds column to include it as part of the General Fund, in accordance with the GASB 54 requirements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Town of Newbury, Massachusetts
Required Supplementary Information
General Fund
Statement of Revenues and Expenditures - Budget and Actual
Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$ 13,060,852	\$ 13,060,852	\$ 13,294,250	\$ 233,398
Tax Liens	-	-	51,813	51,813
Excises	845,375	845,375	938,433	93,058
Penalties and Interest	116,000	116,000	92,779	(23,221)
Licenses and Permits	202,000	202,000	236,003	34,003
Fees and Other Departmental	257,900	257,900	266,975	9,075
Fines and Forfeits	107,750	107,750	89,984	(17,766)
Intergovernmental	1,348,334	1,348,334	1,374,733	26,399
Earnings on Investments	6,750	6,750	5,265	(1,485)
Special Assessments	221,045	221,045	221,045	-
In Lieu of Taxes	68,000	68,000	47,520	(20,480)
Miscellaneous	11,000	11,000	6,960	(4,040)
Total Revenues	<u>16,245,006</u>	<u>16,245,006</u>	<u>16,625,760</u>	<u>380,754</u>
<u>Expenditures</u>				
General Government	1,081,588	1,028,262	1,015,406	12,856
Public Safety	1,916,368	1,920,828	1,899,390	21,438
Education	9,017,126	9,017,126	9,016,993	133
Highway and Public Works	743,842	920,336	896,755	23,581
Health and Human Services	375,534	376,219	329,208	47,011
Culture and Recreation	250,837	250,837	248,952	1,885
Intergovernmental	225,731	225,731	225,471	260
Employee Benefits	1,013,445	1,002,834	1,036,791	(33,957)
Debt Service	2,231,649	2,231,649	2,228,831	2,818
Total Expenditures	<u>16,856,120</u>	<u>16,973,822</u>	<u>16,897,797</u>	<u>76,025</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(611,114)</u>	<u>(728,816)</u>	<u>(272,037)</u>	<u>456,779</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	550,000	741,777	752,381	10,604
Other Available Funds	186,114	112,039	112,039	-
Transfers Out	(125,000)	(125,000)	(125,000)	-
Total Other Financing Sources (Uses)	<u>611,114</u>	<u>728,816</u>	<u>739,420</u>	<u>10,604</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 467,383</u>	<u>\$ 467,383</u>

Required Supplementary Information
Essex Regional Retirement System
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)
1/1/1992	\$ 61,357,800	\$ 143,785,900	\$ 82,428,100	42.67%	\$ 52,995,500	155.54%
1/1/1994	80,878,500	178,256,800	97,378,300	45.37%	62,076,500	156.87%
1/1/1996	106,176,700	200,397,500	94,220,800	52.98%	72,953,200	129.15%
1/1/1998	151,293,900	245,965,100	94,671,200	61.51%	85,785,000	110.36%
1/1/1999	180,034,700	268,386,000	88,351,300	67.08%	89,645,300	98.56%
1/1/2000	190,363,700	253,847,100	63,483,400	74.99%	69,525,900	91.31%
1/1/2002	218,346,198	287,390,715	69,044,517	75.98%	85,005,338	81.22%
1/1/2004	229,852,971	333,396,222	103,543,251	68.94%	93,404,002	110.86%
1/1/2006	261,327,047	376,034,621	114,707,574	69.50%	98,641,094	116.29%
1/1/2008	301,420,965	445,171,554	143,750,589	67.71%	111,726,856	128.66%

Required Supplementary Information
Essex Regional Retirement System
Schedule of Employer's Contributions

System Wide				Town of Newbury	
Plan Year Ended December 31	Annual Required Contributions	Actual Contributions (A)	Percentage Contributed	Actual Contributions (B)	Town's Percentage of System Wide Actual Contributions
1998	\$ 11,680,106	\$ 11,680,106	100.00%	\$ 214,236	1.83%
1999	11,639,690	11,639,690	100.00%	182,854	1.57%
2000	9,598,269	9,598,269	100.00%	221,650	2.31%
2001	12,014,561	12,014,561	100.00%	160,450	1.34%
2002	9,840,064	9,840,064	100.00%	210,147	2.14%
2003	12,516,569	12,516,569	100.00%	249,673	1.99%
2004	12,223,776	12,223,776	100.00%	252,492	2.07%
2005	13,080,011	13,080,011	100.00%	274,891	2.10%
2006	16,622,274	16,622,274	100.00%	279,851	1.68%
2007	15,788,864	15,788,864	100.00%	305,869	1.94%

Required Supplementary Information - GASB 45
Town of Newbury, Massachusetts
Schedule of Funding Progress
June 30, 2011

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a) / (b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b) - (a) / (c)]</u>
07/01/2008	\$0	\$3,791,377	\$3,791,377	0%	\$2,402,046	158%

Town of Newbury, Massachusetts
 Required Supplementary Information - GASB 45
 Valuation Details
 June 30, 2011

Valuation Date	July 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 years as of July 1, 2008
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	4.0%, Pay-As-You-Go Scenario
Medical/Drug Cost Trend Rate	8.5% Graded To 5.0% Over 8 Years
General Inflation Assumption	3.5% Per Annum
Annual Compensation Increases	4.5% Per Annum

Plan Membership:

Current retirees, beneficiaries, and dependents	34
Current active members	<u>57</u>
Total	91

Town of Newbury, Massachusetts
Notes to the Required Supplementary Information
June 30, 2011

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until 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. Encumbrances do not constitute expenditures or liabilities.

II Pension Plans

Plan Description

The Town provides pension benefits to employees by contributing to Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional 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 Retirement 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 Regional Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

(b) Funding Plan

Active members of the Essex Regional 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 Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the accrued liability for benefits. Additionally, a schedule of employer contributions is presented as required supplementary information. The schedules presented relate to the Essex Regional Retirement System as a whole (of which the Town is one participating employer). The Town's data included should be helpful for understanding the scale of the information presented relative to the Town.

(c) Actuarial Assumptions

Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Approximate level percent of payroll based on 4.5% annual increases; except level dollar for Early Retirement Incentives (ERI) liability for certain units.
Remaining Amortization Period	As of July 1, 2008, schedules as selected by units for 2002 ERI liability, schedules as selected by unit for 2003 ERI liability and 20 years for the remaining unfunded liability.
Asset Valuation Method	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings (at the assumed actuarial rate of return) and the net new money during the year (contributions less benefit payments and administrative expenses). Twenty percent of the difference between the market value of assets and the preliminary actuarial value is added to the preliminary actuarial value. In order that the actuarial value not differ too significantly from the market value of assets, the final actuarial value of assets must be within 20% of the market value of assets.

Actuarial Assumptions:

Investment Rate of Return	8.50%
Projected Salary Increases	5.00%
Cost of Living Adjustments	3.00% of the first \$12,000 of retirement income

Plan Membership:

Retired Participants and Beneficiaries Receiving Benefits	1,568
Inactive Participants Entitled to a Return of their Employee Contributions	880
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	65
Active Participants	<u>3,139</u>
Total	<u>5,652</u>

(C) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2011. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis.

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34 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

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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, 2011, and have issued our report thereon dated May 21, 2012. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 May 21, 2012.

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
May 21, 2012