

**TOWN OF NEWBURY, MASSACHUSETTS**

**Financial Statements**

**June 30, 2014**

**(With Accountants' Report Thereon)**

<i>36 Jackman St., Unit 1</i>	*	<i>Giusti, Hingston and Company Certified Public Accountants Georgetown, MA 01833</i>	*	<i>(Tel) 978-352-7470</i>
-------------------------------	---	---	---	---------------------------

Town of Newbury, Massachusetts  
Table of Contents

	<b>Page</b>
<b>Independent Auditors' Report</b>	1,2
<b>Management's Discussion and Analysis (Required Supplementary Information)</b>	3-9
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements</b>	
• Statement of Net Position	10
• Statement of Activities	11
<b>Fund Financial Statements</b>	
• Balance Sheet - Governmental Funds	12
• Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	13
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Position	14
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
• Statement of Net Position – Fiduciary Funds	16
• Statement of Changes in Net Position – Fiduciary Funds	17
<b>Notes to the Financial Statements</b>	18-35
<b>Required Supplementary Information</b>	
• Statement of Revenues and Expenditures – Budget and Actual - General Fund	37
• Essex Regional Retirement System – Schedule of Funding Progress	38
• Essex Regional Retirement System – Schedule of Employer’s Contributions	39
• GASB 45 – Schedule of Funding Progress	40
• GASB 45 – Valuation Details	41
• Notes to the Required Supplementary Information	42-44

Town of Newbury, Massachusetts  
Table of Contents

**Page**

<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Governmental Auditing Standard</i></b>	
---	--

45,46

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS –  
TOWN OF NEWBURY

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

**Report on the Financial Statements**

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2014 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary statement, the retirement system schedules and the other post employment benefit schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 6, 2015, on our consideration of the Town of Newbury, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Newbury, Massachusetts' internal control over financial reporting and compliance.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
Georgetown, Massachusetts  
June 6, 2015

**Town of Newbury, Massachusetts  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2014**

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, 2014.

**Financial Highlights**

- The assets of the Town of Newbury, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$62,263,294 (*net position*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,568,083, or 15% 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 Position* presents information on all of the Town of Newbury, Massachusetts' assets and liabilities, with the differences between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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. The funds of the Town of Newbury, Massachusetts are classified as governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-

wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* 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*.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains fiduciary funds to account for activities related to charitable trust funds and for its Other Post Employment Benefits (OPEB) trust funds. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

## **Notes to the Financial Statements**

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

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Newbury, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

## **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 Position. 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 Position.
- 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 Position

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

	<b><u>Governmental Activities</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
Current and Other Assets	\$ 16,458,845	\$ 15,558,683
Capital Assets	62,075,665	62,845,511
Total Assets	<u>78,534,510</u>	<u>78,404,194</u>
Current Liabilities	2,142,295	2,533,255
Long Term Liabilities	14,128,921	14,785,218
Total Liabilities	<u>16,271,216</u>	<u>17,318,473</u>
Net Position:		
Net Investment in Capital Assets	58,265,421	58,618,846
Restricted	4,160,171	3,009,568
Unrestricted	(162,298)	(542,693)
Total Net Position	<u>\$ 62,263,294</u>	<u>\$ 61,085,721</u>

The net position of the Town increased by \$1,177,573.

### Changes in Net Position

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

	<b><u>Governmental Activities</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 518,212	\$ 503,428
Operating Grants and Contributions	724,269	1,079,380
Capital Grants and Contributions	202,128	238,683
General Revenues:		
Property Taxes	13,673,161	13,592,511
Motor Vehicle and Other Excises	1,124,105	1,063,537
Intergovernmental Not Restricted to a Specific Program	1,183,706	940,209
Other	1,239,884	555,497
<b>Total Revenues</b>	<u>18,665,466</u>	<u>17,973,245</u>



**Changes in Net Position (Continued)****Governmental Activities**

	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Expenses</b>		
General Government	1,420,504	1,387,342
Public Safety	2,086,750	1,905,953
Education	9,595,818	9,923,704
Intergovernmental	168,853	205,660
Highways and Public Works	1,659,915	1,371,841
Human Services	168,710	261,027
Culture and Recreation	353,062	395,118
Employee Benefits	1,584,282	1,506,486
Debt Service	405,633	424,171
Other	19,366	-
<b>Total Expenses</b>	<b><u>17,462,893</u></b>	<b><u>17,381,302</u></b>
 Increase (Decrease) in Net Position Before Special items	 1,202,573	 591,943
Special Items and Transfers	<u>(25,000)</u>	<u>(25,000)</u>
 Increase (Decrease) in Net Position	 <b><u>\$ 1,177,573</u></b>	 <b><u>\$ 566,943</u></b>

**Governmental Activities**

In fiscal year 2014, property taxes accounted for approximately 73% of the Town's revenues.

***Financial Analysis of the Town's Funds*****Governmental Funds**

The focus of the Town of Newbury, Massachusetts's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Newbury, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Newbury, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Newbury, Massachusetts' Selectmen.

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.

Fiscal Year	Reserved for					Total Fund Balance	Free Cash (Deficit)
	Reserved for	Reserved for	Revenue	Reserved for	Unreserved		
	Encumbrances	Snow & Ice	Deficit and	Subsequent			
		Deficit	Other	Year's Expenditure			
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)

GASB 54 was in effect as of 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 (\$392,330 balance as of June 30, 2014), 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</u>	
					<u>Fund Balance</u>	<u>Free Cash</u>
2011 **	\$ 5,876,638	\$ -	\$ 22,501	\$ 950,080	\$ 6,849,219	\$ 413,317
2012	-	-	169,514	1,292,395	1,461,909	959,003
2013	-	-	370,649	1,364,930	1,735,579	848,263
2014	-	-	221,554	2,568,083	2,789,637	1,591,092

\*\*The above \$5,876,638 fund balance amount is made up of restricted funds to be used to repay the refunded debt, which was due on August 1, 2011. For a further explanation of the debt refunding, please see the notes to the financial statements.

### **General Fund Budgetary Highlights**

Conservative budget estimates allowed the Town to experience favorable operating results for both revenues and expenditures. Positive budgetary variances occurred in substantially all revenue categories.

## Capital Asset and Debt Administration

**Capital Assets.** The Town of Newbury, Massachusetts' investments in capital assets for its governmental activities as of June 30, 2014, amounts to \$62,075,665 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

### Capital Assets at June 30, 2014 (Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 12,337,046	\$ 12,337,046
Construction in Progress	30,425	-
Buildings	15,583,969	16,030,985
Improvements Other Than Buildings	77,551	90,904
Infrastructure	33,154,044	33,545,906
Equipment	570,419	487,663
Vehicles	322,211	353,007
Total	<u>\$ 62,075,665</u>	<u>\$ 62,845,511</u>

## Debt

The Town had \$12,151,267 in bonds outstanding on June 30, 2014. The long term debt decreased by \$1,665,711 during the fiscal year ended June 30, 2014. This decrease is the result of the normal retirement of general obligation bonds.

<u>Governmental Activities</u>	<u>2014</u>	<u>2013</u>
General Obligation Bonds Payable	<u>\$12,151,267</u>	<u>\$13,816,978</u>

## Fiscal Year 2015 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 2015 budget. The Town utilized \$40,000 of "free cash" (general fund-unassigned fund balance) to fund the 2015 budget.

## **Request for Information**

The financial report is designed to provide a general overview of the Town of Newbury, Massachusetts' finances for all those with an interest in the government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be address to:

Town of Newbury  
Finance Department  
Town Hall  
25 High Road  
Newbury, MA 01950

Town of Newbury, Massachusetts  
Statement of Net Position  
June 30, 2014

	Governmental <u>Activities</u>
<b>Assets</b>	
Current:	
Cash/Investments	\$ 6,505,518
Accounts Receivable:	
Property Taxes	89,562
Tax Liens	262,390
Excises	109,890
Intergovernmental	1,082,541
Special Assessments	8,661
Due From (To) Other Fund	(9,889)
Tax Foreclosures	77,810
Noncurrent:	
Accounts Receivable:	
Deferred Special Assessments	8,332,362
Capital Assets:	
Assets Not Being Depreciated	12,367,471
Assets Being Depreciated, Net	49,708,194
Total Assets	<u>78,534,510</u>
<b>Liabilities</b>	
Current:	
Warrants Payable	312,053
Accrued Salaries Payable	160,832
Other Liabilities	385,917
Withholdings Payable	30,688
Accrued Interest	152,825
Bonds Payable	1,099,980
Noncurrent:	
Bonds Payable	11,051,287
Compensated Absences Payable	21,718
Other Post Employment Benefits Payable	2,269,613
Landfill Postclosure Costs Payable	786,303
Total Liabilities	<u>16,271,216</u>
<b>Net Position</b>	
Net Investment in Capital Assets	58,265,421
Restricted for:	
Debt Service	1,173,922
Special Revenue	2,778,939
Perpetual Funds:	
Nonexpendable	
Expendable	207,310
Unrestricted (Deficit)	(162,298)
Total Net Position	<u>\$ 62,263,294</u>

Town of Newbury, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2014

					Net (Expenses)
					Revenues
					and
					Changes in
					Net Position
		Program Revenues			
		Operating		Capital	
		Charges for	Grants and	Grants and	Governmental
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities
Governmental Activities:					
General Government	\$ 1,420,504	\$ 162,548	\$ 111,241	\$ -	\$ (1,146,715)
Public Safety	2,086,750	320,131	111,081	-	(1,655,538)
Education	9,595,818	-	-	-	(9,595,818)
Intergovernmental	168,853	-	-	-	(168,853)
Highways and Public Works	1,659,915	-	347,042	202,128	(1,110,745)
Human Services	168,710	27,999	23,479	-	(117,232)
Culture and Recreation	353,062	7,534	131,426	-	(214,102)
Employee Benefits	1,584,282	-	-	-	(1,584,282)
Debt Service	405,633	-	-	-	(405,633)
Other	19,366	-	-	-	(19,366)
Total Governmental Activities	<u>\$ 17,462,893</u>	<u>\$ 518,212</u>	<u>\$ 724,269</u>	<u>\$ 202,128</u>	<u>(16,018,284)</u>
General Revenues:					
Property Taxes					13,673,161
Motor Vehicle and Other Excise Taxes					1,124,105
Penalties and Interest on Taxes					73,289
Other Taxes, Assessments and					
In Lieu of Tax Payments					47,519
Intergovernmental					1,183,706
Interest and Investment Income					4,834
Other Revenue					782,782
Fines and Forfeits					164,674
Tax Liens					166,787
Special Items:					
Transfer Out					(25,000)
Total General Revenues, Special Items and Transfers					<u>17,195,856</u>
Change in Net Position					1,177,573
Net Position:					
Beginning of the Year					61,085,721
End of the Year					<u>\$ 62,263,294</u>

Town of Newbury, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2014

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash/Investments	\$ 6,456,046	\$ -	\$ 49,472	\$ 6,505,518
Accounts Receivable:				
Property Taxes	89,562	-	-	89,562
Tax Liens	262,390	-	-	262,390
Excises	109,890	-	-	109,890
Intergovernmental	-	-	1,082,541	1,082,541
Special Assessments Added to Tax	-	8,661	-	8,661
Special Assessments Not Yet Due	-	8,332,362	-	8,332,362
Due From Other Funds	-	1,173,922	2,261,245	3,435,167
Tax Foreclosures	77,810	-	-	77,810
Total Assets	<u>\$ 6,995,698</u>	<u>\$ 9,514,945</u>	<u>\$ 3,393,258</u>	<u>\$ 19,903,901</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:				
Liabilities:				
Warrants Payable	\$ 302,546	\$ -	\$ 9,507	\$ 312,053
Accrued Salaries Payable	160,832	-	-	160,832
Employees' Withholdings Payable	14,503	-	16,185	30,688
Due to Other Funds	3,445,056	-	-	3,445,056
Other Liabilities	4,600	-	381,317	385,917
Total Liabilities	<u>3,927,537</u>	<u>-</u>	<u>407,009</u>	<u>4,334,546</u>
Deferred Inflows of Resources:				
Unavailable Revenues	<u>278,524</u>	<u>8,341,023</u>	<u>1,082,541</u>	<u>9,702,088</u>
Total Deferred Inflows of Resources	<u>278,524</u>	<u>8,341,023</u>	<u>1,082,541</u>	<u>9,702,088</u>
Fund Equity:				
Fund Balances:				
Restricted	-	1,173,922	1,903,708	3,077,630
Assigned	221,554	-	-	221,554
Unassigned	2,568,083	-	-	2,568,083
Total Fund Balances	<u>2,789,637</u>	<u>1,173,922</u>	<u>1,903,708</u>	<u>5,867,267</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,717,174</u>	<u>\$ 1,173,922</u>	<u>\$ 2,310,717</u>	<u>\$ 10,201,813</u>

Town of Newbury, Massachusetts  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 13,851,480	\$ -	\$ -	\$ 13,851,480
Tax Liens	166,788	-	-	166,788
Excises	1,273,511	-	8,310	1,281,821
Penalties and Interest	73,289	-	-	73,289
Licenses and Permits	392,970	-	-	392,970
Fees and Other Departmental	118,171	-	825,357	943,528
Intergovernmental	1,841,918	-	142,364	1,984,282
Fines and Forfeits	164,674	-	-	164,674
Earnings on Investments	3,625	-	-	3,625
Special Assessments	1,209	791,004	-	792,213
In Lieu of Taxes	47,519	-	-	47,519
Miscellaneous	54,496	-	132,135	186,631
Total Revenues	<u>17,989,650</u>	<u>791,004</u>	<u>1,108,166</u>	<u>19,888,820</u>
<u>Expenditures:</u>				
General Government	1,437,620	-	60,678	1,498,298
Public Safety	1,993,820	-	111,696	2,105,516
Education	9,207,429	-	-	9,207,429
Intergovernmental	168,853	-	-	168,853
Highways and Public Works	1,144,430	28,737	92,248	1,265,415
Human Services	184,970	-	11,928	196,898
Culture and Recreation	223,877	-	55,221	279,098
Employee Benefits	1,113,525	-	-	1,113,525
Debt Service	2,091,279	-	-	2,091,279
Other	-	-	8,699	8,699
Total Expenditures	<u>17,565,803</u>	<u>28,737</u>	<u>340,470</u>	<u>17,935,010</u>
Excess of Revenues Over (Under) Expenditures	<u>423,847</u>	<u>762,267</u>	<u>767,696</u>	<u>1,953,810</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	655,211	-	-	655,211
Operating Transfers (Out)	(25,000)	(627,261)	(27,950)	(680,211)
Total Other Financing Sources (Uses)	<u>630,211</u>	<u>(627,261)</u>	<u>(27,950)</u>	<u>(25,000)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>1,054,058</u>	<u>135,006</u>	<u>739,746</u>	<u>1,928,810</u>
Fund Balance, Beginning	<u>1,735,579</u>	<u>1,038,916</u>	<u>1,163,962</u>	<u>3,938,457</u>
Fund Balance, Ending	<u>\$ 2,789,637</u>	<u>\$ 1,173,922</u>	<u>\$ 1,903,708</u>	<u>\$ 5,867,267</u>



Town of Newbury, Massachusetts  
Reconciliation of the Governmental Funds Balance Sheet  
Total Fund Balances to the Statement of Net Position  
Fiscal Year Ended June 30, 2014

Total governmental fund balances	\$ 5,867,267
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	62,075,665
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	9,702,088
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(12,151,267)
Accrued Interest Payable	(152,825)
Compensated Absences Payable	(21,718)
Other Post Employment Benefits Payable	(2,269,613)
Landfill Accrued Liabilities	<u>(786,303)</u>
Net Position of Governmental Activities	<u><u>\$ 62,263,294</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, 2014

Net change in fund balances - total governmental funds	\$ 1,928,810
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.	(769,846)
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 unearned revenue.	(1,223,354)
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 position. 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.	1,665,711
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.	(423,748)
Change in net position of governmental activities	\$ 1,177,573

Town of Newbury, Massachusetts  
Fiduciary Funds  
Statement of Net Position  
June 30, 2014

	Private-Purpose <u>Trust</u>
<b>ASSETS</b>	
Due From General Fund	\$ 50,000
	<hr/>
Total Assets	50,000
	<hr/>
<b>LIABILITIES</b>	-
	<hr/>
Total Liabilities	-
	<hr/>
<b>NET POSITION</b>	
Restricted	50,000
	<hr/>
Total Net Position	\$ 50,000
	<hr/> <hr/>

Town of Newbury, Massachusetts  
Fiduciary Funds  
Statement of Changes in Net Position  
Fiscal Year Ended June 30, 2014

Additions	
Transfers In	\$ 25,000
	<hr/>
Total Additions	25,000
	<hr/>
Deductions	
Benefits	-
	<hr/>
Change in Net Position	25,000
	<hr/>
Net Position:	
Beginning of the Year	25,000
	<hr/>
Ending of the Year	\$ 50,000
	<hr/> <hr/>

Town of Newbury, Massachusetts  
Notes to the Financial Statements  
June 30, 2014

**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, 2014, 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 position** 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.

### *Major Fund Criteria*

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

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

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

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

##### Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are 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.

##### Fund Financial Statements

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.

The nonmajor governmental funds consists of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following types are funds that are included in the nonmajor category:

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

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

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

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

Proprietary funds (if applicable) distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The following fiduciary fund types are reported:

The other postemployment benefit trust fund is used to accumulate resources for future other postemployment benefits (OPEB) liabilities.

The private-purpose trust fund is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other government. Some of these trust have donor restrictions and trustee policies that do not allow the endowment portion to be spent.

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

(D) Assets, Liabilities and Net Position 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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net positions and the balance sheet will sometimes report a separate section or deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that are not considered "available" and to reflect property taxes paid in advance of when they may be used. The enterprise fund financial statement of net position includes a deferred inflow of resources for revenues that may not be used as of the financial statement date. The government wide financial statements (statement of net position) reflect deferred inflows of resources for revenues that may not be used as of the financial statement date.

v. Net Position and Fund Equity

*Government-Wide Financial Statements (Net Position)*

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

vi. 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 Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
<b>Fund Balances:</b>				
<b>Restricted for:</b>				
General Government	\$ -	\$ -	\$ 1,340,114	\$ 1,340,114
Public Safety	-	-	136,895	136,895
Culture and Recreation	-	-	334,995	334,995
Public Works	-	-	34,447	34,447
Human Services	-	-	57,257	57,257
Debt Service	-	1,173,922	-	1,173,922
<b>Total Restricted</b>	<u>-</u>	<u>1,173,922</u>	<u>1,903,708</u>	<u>3,077,630</u>
<b>Assigned to:</b>				
General Government	132,206	-	-	132,206
Public Safety	15,566	-	-	15,566
Reserve for Expenditures	40,000	-	-	40,000
Public Works	26,955	-	-	26,955
Human Services	758	-	-	758
Culture and Recreation	6,069	-	-	6,069
<b>Total Assigned</b>	<u>221,554</u>	<u>-</u>	<u>-</u>	<u>221,554</u>
<b>Unassigned</b>	<u>2,568,083</u>	<u>-</u>	<u>-</u>	<u>2,568,083</u>
<b>Total Fund Balances</b>	<u>\$ 2,789,637</u>	<u>\$ 1,173,922</u>	<u>\$ 1,903,708</u>	<u>\$ 5,867,267</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 \$392,330. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

vii. 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 fourth year of employment. For the fifth through ninth year of employment, three weeks of vacation is allowed. Employees with ten or more years of employment are allowed four weeks of vacation. Employees may carry forward unused vacation time into the next fiscal year as long as it is used by September 30th. The accumulated vacation liability as of June 30, 2014 is reflected in the accompanying financial statements.

Sick leave is accumulated at the rate of 10 hours per month with the maximum accumulation of 960 hours. 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, 2014.

viii. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements and in the fund financial statements for proprietary fund types.

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 financial sources. Issuance costs are reported as debt service expenditures.

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.

ix. 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.

x. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

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 2014 adjusted for any special Town meeting votes applicable to fiscal 2014 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, 2014.

	<u>Revenues</u>
As Reported Budget Basis	\$ 17,441,862
Adjustments:	
Sixty Day Accrual - Net	91,735
Subsidies from Massachusetts Water Pollution Abatement Trust	229,178
On Behalf Payments Included in Intergovernmental	226,875
As Reported GAAP (Fund Financial) Statement	<u>\$ 17,989,650</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 17,102,655
Adjustments:	
Beginning Encumbrances	188,649
Ending Encumbrances	(181,554)
Interest Expense Paid from Subsidies from Massachusetts Water Pollution Abatement Trust	229,178
On Behalf Payments Included in Employee Benefits	226,875
As Reported GAAP (Fund Financial) Statement	<u>\$ 17,565,803</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, 2014, \$3,137,320 of the Town's bank balance of \$6,518,845 was exposed to credit risk as follows:

Uninsured and Uncollateralized     \$ 3,137,320

##### Investments

As of June 30, 2014, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Stocks and Equities	\$ 37,089
Massachusetts Municipal Depository Trust	40,119
Other	378,386
Total	<u>\$ 455,594</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, 2014 was as follows:

Government Activities:	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Assets Not Being Depreciated:				
Land	\$ 12,337,046	\$ -	\$ -	\$ 12,337,046
Construction in Progress	-	30,425	-	30,425
Total Capital Assets not Being Depreciated	<u>12,337,046</u>	<u>30,425</u>	<u>-</u>	<u>12,367,471</u>
Assets Being Depreciated:				
Buildings	25,738,044	68,730	-	25,806,774
Improvements Other Than Buildings	396,952	-	-	396,952
Infrastructure	47,571,897	-	-	47,571,897
Equipment	1,288,964	154,231	(40,000)	1,403,195
Vehicles	1,472,186	33,063	(39,979)	1,465,270
Total Capital Assets Being Depreciated	<u>76,468,043</u>	<u>256,024</u>	<u>(79,979)</u>	<u>76,644,088</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings	(9,707,059)	(515,746)	-	(10,222,805)
Improvements Other Than Buildings	(306,048)	(13,353)	-	(319,401)
Infrastructure	(14,025,991)	(391,862)	-	(14,417,853)
Equipment	(801,301)	(60,808)	29,333	(832,776)
Vehicles	(1,119,179)	(63,859)	39,979	(1,143,059)
Total Accumulated Depreciation	<u>(25,959,578)</u>	<u>(1,045,628)</u>	<u>69,312</u>	<u>(26,935,894)</u>
Capital Assets Being Depreciated, Net	50,508,465	(789,604)	(10,667)	49,708,194
Governmental Activities Capital Assets, Net	<u>\$ 62,845,511</u>	<u>\$ (759,179)</u>	<u>\$ (10,667)</u>	<u>\$ 62,075,665</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 8,739
Public Safety	29,229
Education	418,814
Highways and Public Works	495,124
Culture and Recreation	93,722
Total Governmental Activities Depreciation Expense	<u>\$ 1,045,628</u>

C. Accounts Receivable

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

Current:

Property Taxes Receivable:

Real Estate Taxes

2014	<u>\$ 81,640</u>
Total Real Estate Taxes	<u>\$ 81,640</u>

C. Accounts Receivable (Continued)

Personal Property Taxes

2014	393	
2013 and Prior	<u>7,529</u>	
Total Personal Property Taxes		<u>7,922</u>

Total Property Taxes Receivable		<u>\$ 89,562</u>
---------------------------------	--	------------------

Tax Liens		<u>\$ 262,390</u>
-----------	--	-------------------

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2014	\$ 46,110	
2013	9,425	
2012	5,520	
2011	4,150	
2010 and Prior	<u>37,362</u>	
Total Motor Vehicle Excise Taxes		<u>\$ 102,567</u>

Boat Excise

2014	385	
2013 and prior	<u>6,938</u>	
Total Boat Excise		<u>7,323</u>

Total Excise Taxes Receivable		<u>\$ 109,890</u>
-------------------------------	--	-------------------

Intergovernmental :

Massachusetts Highway Department - Chapter 90	<u>\$ 1,082,541</u>	
Total Intergovernmental		<u>\$ 1,082,541</u>

Special Assessments:

Betterments Added to Taxes	<u>\$ 8,661</u>	
Total Special Assessments		<u>\$ 8,661</u>

Special Assessments:

Deferred Betterments		<u>\$ 8,332,362</u>
----------------------	--	---------------------



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

There was no short term debt activity during the current year.

F. Long Term Debt

General obligation bonds outstanding at June 30, 2014, 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, 2014:

	<u>Governmental Activities</u>
Balance July 1, 2013	\$13,816,978
Add: Bond proceeds	-
Less: Maturities	<u>(1,665,711)</u>
Balance June 30, 2014	<u>\$12,151,267</u>

ii Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	1,099,980	385,247	1,485,227
2016	1,080,524	353,516	1,434,040
2017	1,043,778	317,410	1,361,188
2018	1,049,033	284,572	1,333,605
2019	1,043,820	251,947	1,295,767
Fiscal 2020-2024	3,417,987	810,959	4,228,946
Fiscal 2025-2029	1,525,689	311,389	1,837,078
Fiscal 2030-2034	1,397,149	176,855	1,574,004
Fiscal 2035-2039	<u>493,307</u>	<u>6,520</u>	<u>499,827</u>
	<u>\$12,151,267</u>	<u>\$2,898,415</u>	<u>\$15,049,682</u>

F. Long Term Debt (Continued)

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 was 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, 2014, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
June 24, 2003	Transfer Station	<u>\$60,000</u>
	Total	<u>\$60,000</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	\$ 655,211	\$ (25,000)	\$ 630,211
Betterment	-	(627,261)	(627,261)
Non-Major Governmental	-	(27,950)	(27,950)
OPEB Trust	25,000	-	25,000
Total	<u>\$ 680,211</u>	<u>\$ (680,211)</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, 2014, 2013 and 2012 were \$466,828, \$463,795 and \$440,715, 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, 2014, the Commonwealth paid \$226,875 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, 2014, or fund balances at June 30, 2014.

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, 2014. 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 60 active employees and 40 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, 2014, the amount actually contributed to the plan, and the Town’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$693,840
Contributions Made	(223,083)
Increase in Net OPEB Obligation	470,757
Net OPEB Obligation (NOO)- Beginning of Year	1,798,856
Net OPEB Obligation (NOO)- End of Year	<u>\$2,269,613</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
2012	\$564,110	33%	\$1,375,826
2013	\$637,532	34%	\$1,798,856
2014	\$693,840	34%	\$2,269,613

- d. **Funded Status and Funding Progress.** As of June 30, 2014, the Town has funded \$50,000 towards the OPEB Liability. The Actuarial Accrued Liability (AAL) for benefits was \$4,673,482, and the actuarial value of assets was \$50,000, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$4,623,482.

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, 2011, 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 2015 operating and capital budget of \$17,726,339. Fiscal 2015 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

2015 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 16,492,182
Other Available Funds	612,141
Fund Balance Restricted:	
Betterment Fund	622,016
Total Budget	<u><u>\$17,726,339</u></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, 2014) is 100%. The Town's estimates for monitoring costs are included as a liability in the Statement of Net Position.

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. Implementation of New GASB Pronouncements

During fiscal year 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. The implementation of this pronouncement required reporting deferred inflows and deferred outflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the financial statements.

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

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statement #68 will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Essex Regional Retirement System's actuarially accrued liability.

## **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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues</u>				
Property Taxes	\$ 13,797,087	\$ 13,797,087	\$ 13,867,773	\$ 70,686
Tax Liens	-	-	166,787	166,787
Excises	963,000	963,000	1,166,692	203,692
Penalties and Interest	32,000	32,000	73,289	41,289
Licenses and Permits	300,000	300,000	392,970	92,970
Fees and Other Departmental	50,000	50,000	118,171	68,171
Fines and Forfeits	110,000	110,000	164,674	54,674
Intergovernmental	1,387,477	1,387,477	1,385,865	(1,612)
Earnings on Investments	6,000	6,000	3,625	(2,375)
In Lieu of Taxes	50,000	50,000	47,519	(2,481)
Miscellaneous	2,500	2,500	54,497	51,997
Total Revenues	16,698,064	16,698,064	17,441,862	743,798
<u>Expenditures</u>				
General Government	1,659,139	1,659,139	1,560,765	98,374
Public Safety	2,051,794	2,051,794	1,995,235	56,559
Education	8,980,554	8,980,554	8,980,554	-
Highway and Public Works	1,104,466	1,104,466	1,031,367	73,099
Health and Human Services	230,023	230,023	166,378	63,645
Culture and Recreation	224,433	224,433	223,877	556
Intergovernmental	169,564	169,564	168,853	711
Employee Benefits	1,170,462	1,170,462	1,113,525	56,937
Debt Service	1,862,565	1,862,565	1,862,101	464
Total Expenditures	17,453,000	17,453,000	17,102,655	350,345
Excess (Deficiency) of Revenues Over Expenditures	(754,936)	(754,936)	339,207	1,094,143
Other Financing Sources (Uses):				
Transfers In	655,211	655,211	655,211	-
Free Cash	375,275	375,275	375,275	-
Transfers Out	(275,000)	(275,000)	(275,000)	-
Other Amounts to be Raised	(550)	(550)	(550)	-
Total Other Financing Sources (Uses)	754,936	754,936	754,936	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Uses	\$ -	\$ -	\$ 1,094,143	\$ 1,094,143



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)
1/1/1994	\$ 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%
1/1/2011	278,332,006	536,115,536	257,783,530	51.92%	119,707,156	215.35%

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
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%
2008	21,355,202	21,355,202	100.00%	334,180	1.56%
2009	18,258,062	18,258,062	100.00%	320,454	1.76%
2010	19,136,746	19,136,746	100.00%	352,095	1.84%
2011	19,566,952	19,566,952	100.00%	385,515	1.97%
2012	21,084,190	21,084,190	100.00%	440,715	2.09%
2013	22,770,925	22,770,925	100.00%	463,795	2.04%

Required Supplementary Information - GASB 45  
Town of Newbury, Massachusetts  
Schedule of Funding Progress  
June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
07/01/2008	\$0	\$3,791,377	\$3,791,377	0%	\$2,402,046	158%
07/01/2011	\$0	4,673,482	4,673,482	0%	2,180,023	214%

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Town of Newbury, Massachusetts  
Required Supplementary Information - GASB 45  
Valuation Details  
June 30, 2014

---

Valuation Date	July 1, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	27 years as of July 1, 2011
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	2.5% Per Annum
Annual Compensation Increases	3.0% Per Annum

**Plan Membership:**

Current retirees, beneficiaries, and dependents	40
Current active members	<u>60</u>
Total	100

---

Town of Newbury, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2014

(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

<b>Actuarial Cost Method</b>	Entry age normal cost method.
<b>Amortization Method</b>	Approximate level percent of payroll based on 4.5% annual increases; except level dollar for Early Retirement Incentives (ERI) liability for certain units.
<b>Remaining Amortization Period</b>	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.
<b>Asset Valuation Method</b>	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, 2014. 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.

- 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 Middlesex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 60 active employees and

40 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 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE 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, in accordance with the 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the Town of Newbury, Massachusetts' basic financial statements, and have issued our report thereon dated June 6, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Newbury, Massachusetts' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Newbury, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Newbury, Massachusetts' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Newbury, Massachusetts' financial statements are free from 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*.



### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Giusti, Hingston and Company*

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

June 6, 2015