

TOWN OF NEWBURY, MASSACHUSETTS

Financial Statements

June 30, 2007

(With Accountants' Report Thereon)

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

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

We have audited the accompanying financial statements of the governmental activities, major fund and the aggregate remaining fund information of the Town of Newbury, Massachusetts as of and for the year ended June 30, 2007, 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, major fund and the aggregate remaining fund information of the Town of Newbury, Massachusetts as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 15, 2008 on our consideration of the Town of Newbury, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 15, 2008

**Town of Newbury, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2007**

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, 2007.

Financial Statements – Change in Reporting Model

The Town of Newbury, Massachusetts has implemented GASB 34 (Governmental Accounting Standards Board Statement number 34). This statement requires all governments to account for and report capital assets in its Financial Statements. In addition, GASB 34 establishes new criteria on the form and content of governmental financial statements. GASB Chairman Tom L. Allen called Statement 34 "the most significant change in the history of governmental accounting." There are many significant changes to the audited financial statements and the accounting methods used to generate the amounts. These changes are explained below and are also further explained in the "Notes to the Financial Statements". Please refer to the **Table of Contents** at the very beginning of these Financial Statements for a summary of where the information explained here is presented in these Financial Statements.

Prior to GASB 34, the financial statements were called **General Purpose Financial Statements (GPFS)**. Under the new GASB 34 reporting model, the **GPFS** have been eliminated and replaced by "**Fund Financial Statements**". These **Fund Financial Statements** are similar to the **GPFS**, but there are changes to how the information is presented and there are other accounting changes which are explained in the "**Notes to the Financial Statements**".

One of the biggest changes created by the new GASB 34 Reporting Model relates to the addition of two NEW financial statements. These financial statements are called **Government-wide Financial Statements**. The first statement is called the **Statement of Net Assets** and the second one is called the **Statement of Activities**. These two statements are quite different from the prior **GPFS**. A description of these **Government-wide Financial Statements** is provided below and additional information about them can be found in the "**Notes to the Financial Statements**".

This discussion and analysis is intended to serve as an introduction to the Town of Newbury, Massachusetts's June 30, 2007 **basic financial statements**. The Town of Newbury, Massachusetts's basic financial statements comprise three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Highlights

- The assets of the Town of Newbury, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$66,770,270 (*net assets*). Of this amount \$3,153,487 (*unrestricted net assets*) may be used to meet government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, undesignated fund balance for the general fund was \$524,612, or 3 percent of total general fund expenditures.
- The Town of Newbury, Massachusetts' total long term debt increased by 3 percent during the current year. The increase was the result of the issuance of \$2,800,000 of long term debt and the retirement of \$2,061,444 of general obligation bonds.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Town of Newbury, Massachusetts' assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Newbury, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Newbury, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Newbury, Massachusetts are classified as governmental funds.

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

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets

and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included 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 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>2007</u>	<u>2006</u>
Current and Other Assets	\$ 25,339,883	\$ 10,728,362
Capital Assets	67,630,117	67,416,492
Total Assets	<u>92,970,000</u>	<u>78,144,854</u>
Other Liabilities	3,559,500	4,432,621
Long Term Liabilities	22,640,230	22,005,202
Total Liabilities	<u>26,199,730</u>	<u>26,437,823</u>
Net Assets:		
Invested in Capital Assets		
net of Related Debt	62,199,364	48,278,253
Restricted	1,417,419	513,913
Unrestricted	3,153,487	2,914,865
Total Net Assets	<u>\$ 66,770,270</u>	<u>\$ 51,707,031</u>

The net assets of the Town (including prior period adjustments) increased by \$15,063,239.

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>2007</u>	<u>2006</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 660,148	\$ 648,114
Operating Grants and Contributions	778,625	434,041
Capital Grants and Contributions	15,315,998	-

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
General Revenues:		
Property Taxes	12,044,196	11,421,059
Motor Vehicle and Other Excises	879,579	1,099,678
Intergovernmental Not Restricted to a Specific Program	800,261	711,648
Other	664,736	652,344
Total Revenues	<u>31,143,543</u>	<u>14,966,884</u>
Expenses		
General Government	1,105,885	900,531
Public Safety	2,056,783	1,799,969
Education	8,244,889	7,928,347
Intergovernmental	179,159	170,979
Highways and Public Works	1,319,389	886,756
Human Services	392,622	407,567
Culture and Recreation	543,623	456,468
Employee Benefits	857,963	752,994
Debt Service	849,777	966,678
	4,381	18,536
Total Expenses	<u>15,554,471</u>	<u>14,288,825</u>
Increase (Decrease) in Net Assets Before Special items	<u>15,589,072</u>	<u>678,059</u>
Increase (Decrease) in Net Assets	<u><u>\$ 15,589,072</u></u>	<u><u>\$ 678,059</u></u>

Governmental Activities

In fiscal year 2007, property taxes accounted for approximately 38% of the revenues.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund was \$140,753 more than the prior year's fund balance.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund balance available for appropriation.

In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

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

**Changes in Fund Balances
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</u>
2003	\$ 9,504	\$ -	\$ -	\$ 310,738	\$ 363,795	\$ 684,037
2004	6,524	-	(163,348)	103,302	261,380	207,858
2005	2,714	(67,401)	-	-	230,192	165,505
2006	-	(43,206)	1,299	-	425,766	383,859
2007	-	-	-	-	524,612	524,612

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

Capital Asset and Debt Administration

Capital Assets. The Town of Newbury, Massachusetts' investments in capital assets for its governmental activities as of June 30, 2007, amounts to \$67,630,117 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

**Capital Assets at June 30, 2007
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 12,360,346	\$12,360,346
Construction in Progress	-	13,406,766
Buildings	19,078,880	18,503,311
Improvements Other Than Buildings	185,588	203,796
Infrastructure	35,491,908	22,391,841
Equipment	308,820	276,028
Vehicles	204,575	274,404
Total	<u>\$ 67,630,117</u>	<u>\$67,416,492</u>

Debt

The Town had \$23,462,934 in bonds outstanding on June 30, 2007. This represents a \$738,556 increase or 3% increase from the previous year.

Outstanding Debt at June 30, 2007

Governmental Activities	<u>2007</u>	<u>2006</u>
General Obligation Bonds Payable	<u>\$23,462,934</u>	<u>\$ 22,724,378</u>

Fiscal Year 2007 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 property. 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 an increase in the regional school assessments and an increase in health insurance premiums and other costs had to be considered in balancing the fiscal year 2007 budget.

Town of Newbury, Massachusetts
Statement of Net Assets
June 30, 2007

	Governmental <u>Activities</u>
Assets	
Current:	
Cash/Investments	\$ 2,841,133
Receivables:	
Property Taxes	3,609,478
Tax Liens	724
Excises	229,987
Rollback Taxes	7,516
Due from Commonwealth of Massachusetts - SBAB	658,214
Betterment Accounts Receivable	14,041,337
Tax Foreclosures	2,210
Noncurrent:	
Due from Commonwealth of Massachusetts - SBAB	3,949,284
Capital Assets:	
Assets Not Being Depreciated	12,360,346
Assets Being Depreciated, Net	55,269,771
Total Assets	<u>92,970,000</u>
Liabilities	
Current:	
Warrants Payable	314,221
Employees' Withholding Payable	29,916
Other Liabilities	4,424
Guarantee Deposits Payable	54,486
Prepaid Taxes	2,625
Accrued Interest	387,540
Bonds Payable	1,708,704
Bond Anticipation Notes Payable	1,057,584
Noncurrent:	
Bonds Payable	21,754,230
Landfill Liabilities	886,000
Total Liabilities	<u>26,199,730</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	62,199,364
Restricted for:	
Special Revenue	645,328
Perpetual Funds:	
Expendable	765,340
Nonexpendable	6,751
Unrestricted	3,153,487
Total Net Assets	<u>\$ 66,770,270</u>

Town of Newbury, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expenses)
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	Revenues and Changes in Net Assets
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Governmental</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Activities</u>
<i>Governmental Activities:</i>					
General Government	\$ 1,105,885	\$ -	\$ 93,794	\$ -	\$ (1,012,091)
Public Safety	2,056,783	567,681	106,150	-	(1,382,952)
Education	8,244,889	-	342,814	-	(7,902,075)
Intergovernmental	179,159	-	-	-	(179,159)
Highways and Public Works	1,319,389	26,818	204,441	15,315,998	14,227,868
Human Services	392,622	28,934	6,048	-	(357,640)
Culture and Recreation	543,623	36,715	25,378	-	(481,530)
Employee Benefits	857,963	-	-	-	(857,963)
Debt Service	849,777	-	-	-	(849,777)
Other	4,381	-	-	-	(4,381)
Total Governmental Activities	<u>\$ 15,554,471</u>	<u>\$ 660,148</u>	<u>\$ 778,625</u>	<u>\$ 15,315,998</u>	<u>1,200,300</u>
<i>General Revenues:</i>					
Property Taxes					12,044,196
Motor Vehicle and Other Excise Taxes					879,579
Penalties and Interest on Taxes					117,999
Other Taxes, Assessments and In Lieu Payments					25,719
Intergovernmental					800,261
Interest and Investment Income					57,636
Other Revenue					441,492
Contributions to Permanent Funds					21,890
Total General Revenues, Special Items and Transfers					<u>14,388,772</u>
Change in Net Assets					15,589,072
<i>Net Assets:</i>					
Beginning of the Year					<u>51,707,031</u>
Prior Period Adjustment					<u>(525,833)</u>
Beginning of the Year, as Restated					<u>51,181,198</u>
End of the Year					<u>\$ 66,770,270</u>

Town of Newbury, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2007

(Continued on Page 11)

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 2,809,425	\$ 31,708	\$ 2,841,133
Receivables:			
Property Taxes	3,609,478	-	3,609,478
Tax Liens	724	-	724
Excises	229,987	-	229,987
Rollback Taxes	7,516	-	7,516
Due From Commonwealth of Massachusetts-SBAB	4,607,498	-	4,607,498
Betterment Accounts Receivable	-	14,041,337	14,041,337
Due From Other Funds	-	2,112,085	2,112,085
Tax Foreclosures	2,210	-	2,210
Total Assets	<u>\$ 11,266,838</u>	<u>\$ 16,185,130</u>	<u>\$ 27,451,968</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 170,103	\$ 144,118	\$ 314,221
Employees' Withholding Payable	-	29,916	29,916
Prepaid Taxes	2,625	-	2,625
Due to Other Funds	2,112,085	-	2,112,085
Other Liabilities	-	4,424	4,424
Guarantee Deposits Payable	-	54,486	54,486
Bonds Anticipation Notes Payable	-	1,057,584	1,057,584
Deferred Revenue:			
Property Taxes	3,609,478	-	3,609,478
Tax Liens	724	-	724
Excises	229,987	-	229,987
Betterments	-	14,041,337	14,041,337
Tax Foreclosures	2,210	-	2,210
Rollback Taxes	7,516	-	7,516
Intergovernmental	4,607,498	-	4,607,498
Total Liabilities	<u>10,742,226</u>	<u>15,331,865</u>	<u>26,074,091</u>
Fund Equity:			
Fund Balances:			
Reserved for Perpetual Permanent Funds	-	6,751	6,751
Designated for:			
Subsequent Year's Expenditures	-	52,500	52,500

Town of Newbury, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2007

(Continued from Page 10)

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Undesignated, Reported in:			
General Fund	524,612	-	524,612
Special Revenue Fund	-	645,328	645,328
Capital Projects Fund	-	(616,654)	(616,654)
Permanent Fund	-	765,340	765,340
Total Fund Balances	<u>524,612</u>	<u>853,265</u>	<u>1,377,877</u>
Total Liabilities and Fund Balances	<u>\$ 11,266,838</u>	<u>\$ 16,185,130</u>	<u>\$ 27,451,968</u>

Town of Newbury, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2007

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>			
Property Taxes	\$ 11,811,759	\$ -	\$ 11,811,759
Excises	921,013	-	921,013
Penalties and Interest	117,999	-	117,999
Licenses and Permits	503,421	-	503,421
Fees and Other Departmental	25,719	-	25,719
Intergovernmental	1,801,289	435,811	2,237,100
Charges for Services	-	37,767	37,767
Fines and Forfeits	21,890	-	21,890
Earnings on Investments	57,636	-	57,636
Special Assessments	-	1,431,388	1,431,388
Other	397,024	6,701	403,725
Total Revenues	<u>15,657,750</u>	<u>1,911,667</u>	<u>17,569,417</u>
<u>Expenditures:</u>			
General Government	1,089,424	-	1,089,424
Public Safety	1,830,046	291,356	2,121,402
Education	7,815,643	-	7,815,643
Intergovernmental	179,159	-	179,159
Highways and Public Works	808,067	1,232,769	2,040,836
Human Services	381,597	11,025	392,622
Culture and Recreation	371,919	76,970	448,889
Employee Benefits	857,963	-	857,963
Debt Service	2,740,279	-	2,740,279
Other	-	4,381	4,381
Total Expenditures	<u>16,074,097</u>	<u>1,616,501</u>	<u>17,690,598</u>
Excess of Revenues Over (Under) Expenditures	<u>(416,347)</u>	<u>295,166</u>	<u>(121,181)</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	742,175	582,252	1,324,427
Operating Transfers (Out)	(94,194)	(1,230,233)	(1,324,427)
Proceeds from Borrowing	-	2,800,000	2,800,000
Total Other Financing Sources (Uses)	<u>647,981</u>	<u>2,152,019</u>	<u>2,800,000</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>231,634</u>	<u>2,447,185</u>	<u>2,678,819</u>
Fund Balance, Beginning	383,859	(1,158,968)	(775,109)
Prior Period Adjustment	(90,881)	(434,952)	(525,833)
Fund Balance, Beginning as Restated	<u>292,978</u>	<u>(1,593,920)</u>	<u>(1,300,942)</u>
Fund Balance, Ending	<u>\$ 524,612</u>	<u>\$ 853,265</u>	<u>\$ 1,377,877</u>

Town of Newbury, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
Fiscal Year Ended June 30, 2007

Total governmental fund balances	\$ 1,377,877
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	67,630,117
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	22,498,750
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(23,462,934)
Accrued Interest on Bonds	(387,540)
Landfill Accrued Liabilities	<u>(886,000)</u>
Net assets of governmental activities	<u><u>\$ 66,770,270</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, 2007

Net change in fund balances - total governmental funds	\$ 2,678,819
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.	213,625
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.	13,574,126
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.	(738,556)
In the statement of activities accrued interest on long term debt is reported as an expense. This amount represents the net change in accrued interest.	(170,942)
Some expenses reported in the Statement of Activities, such as accrued landfill costs, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	32,000
Change in net assets of governmental activities	<u>\$ 15,589,072</u>

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, 2007, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its governmental funds, the Town has elected to apply all Governmental Accounting Standards Board ("GASB") pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

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

(A) **Reporting Entity**

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

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

(B) **Government-wide and fund financial statements**

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The Town reports the following major governmental fund:

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.

(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 assessment 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	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

iv Compensated Absences

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

In general, employees are entitled to ten vacation days for the first through fifth year of employment. For the sixth through tenth year of employment, one additional vacation day is earned for each extra year of employment, up to a maximum of fifteen vacation days per year. As of June 30 each year, all accrued vacation must be used by employees, or they lose it. As a result, an accumulated vacation liability does not exist as of June 30, 2007.

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, 2007.

v Long-Term Obligations

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

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

vi Fund Equity

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

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

Fund Balances

(a) Reserved for Encumbrances

Appropriations for certain projects and specific items not fully expended at year end are carried forward as reserved for encumbrances to the next year. At year end, reserved for encumbrances is reported as a component of fund balance.

(b) Reserved for Special Purposes

The balance in this account represents the amount of fund balance subject to purpose restrictions.

(c) Designated for Subsequent Year's Expenditures

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

vii Use of Estimates

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

viii Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2007 and July 15, 2007. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2007 and the corresponding credit is to the account entitled warrants payable.

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

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

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

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2007 adjusted for any special Town meeting votes applicable to fiscal 2007 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 for the year ended June 30, 2007.

	<u>Revenues</u>
As Reported Budget Basis	\$ 15,314,936
Adjustments:	
On Behalf Payments Included in Intergovernmental	<u>342,814</u>
As Reported GAAP Statement	<u>\$ 15,657,750</u>
	<u><u>Expenditures</u></u>
As Reported Budget Basis	\$ 15,731,283
Adjustments:	
On Behalf Payments Included in Employee Benefits	<u>342,814</u>
As Reported GAAP Statement	<u>\$ 16,074,097</u>

III Detailed Notes on All Funds

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in an event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2007, \$1,144,098 of the Town's bank balance of \$3,066,669 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 1,144,098

Investments

According to GASB Statement No. 40 – "Deposit and Investment Risk Disclosure", disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates. As of June 30, 2007, the Town of Newbury's investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
U.S. Equities and Other	<u>\$ 39,398</u>	<u>\$ 39,398</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 39,398</u>	<u>\$ 39,398</u>	<u>\$ -</u>	<u>\$ -</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, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Government Activities:				
Assets not Being Depreciated:				
Land	\$ 12,360,346	\$ -	\$ -	\$ 12,360,346
Construction in Progress	13,406,766	-	(13,406,766)	-
Total Capital Assets not Being Depreciated	<u>25,767,112</u>	<u>-</u>	<u>(13,406,766)</u>	<u>12,360,346</u>
Assets Being Depreciated:				
Buildings	24,627,826	1,066,554	-	25,694,380
Improvements Other Than Buildings	396,952	-	-	396,952
Infrastructure	33,731,053	13,382,143	-	47,113,196
Equipment	640,487	75,930	-	716,417
Vehicles	1,095,814	10,650	-	1,106,464
Total Capital Assets Being Depreciated	<u>60,492,132</u>	<u>14,535,277</u>	<u>-</u>	<u>75,027,409</u>
Less Accumulated Depreciation for:				
Buildings	(6,124,515)	(490,985)	-	(6,615,500)
Improvements Other Than Buildings	(193,156)	(18,208)	-	(211,364)
Infrastructure	(11,339,212)	(282,076)	-	(11,621,288)
Equipment	(364,459)	(43,138)	-	(407,597)
Vehicles	(821,410)	(80,479)	-	(901,889)
Total Accumulated Depreciation	<u>(18,842,752)</u>	<u>(914,886)</u>	<u>-</u>	<u>(19,757,638)</u>
Capital Assets Being Depreciated, Net	<u>41,649,380</u>	<u>13,620,391</u>	<u>-</u>	<u>55,269,771</u>
Governmental Activities Capital Assets, Net	<u>\$ 67,416,492</u>	<u>\$ 13,620,391</u>	<u>\$ (13,406,766)</u>	<u>\$ 67,630,117</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 16,461
Public Safety	11,311
Education	429,246
Highways and Public works	363,134
Culture and Recreation	94,734
Total Governmental Activities Depreciation Expense	<u>\$ 914,886</u>

C. Accounts Receivable

(A) Assets

i Accounts Receivable

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

General Fund

Property Taxes Receivable:

Real Estate Taxes

2008	\$ 2,921,155	
2007	255,803	
2006	100,426	
2005	53,984	
2004	24,970	
2003	23,278	
2002	17,209	
2001 & Prior	152,707	
Total Real Estate Taxes		<u>\$ 3,549,532</u>

Personal Property Taxes

2008	30,752	
2007	1,665	
2006	1,435	
2005	843	
2004	275	
2003	371	
2002	506	
2001 & Prior	24,099	
Total Personal Property Taxes		<u>59,946</u>

Total Property Taxes Receivable \$ 3,609,478

C. Accounts Receivable (Continued)

Tax Liens		\$ 724
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Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2007	\$ 57,222	
2006	20,298	
2005	12,940	
2004	8,368	
2003	6,357	
2002	5,328	
2001 & Prior	92,065	
Total Motor Vehicle Excise Taxes		\$ 202,578

Boat Excise

2007	661	
2006	493	
2005	687	
2004	721	
2003	493	
2002	555	
2001 & Prior	23,799	
Total Boat Excise		27,409

Tax Excise Receivable	\$ 229,987
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Intergovernmental

Due from Commonwealth of Massachusetts-SBAB	\$ 4,607,498
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Total Intergovernmental	\$ 4,607,498
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D. Due from Commonwealth of Massachusetts

Because of a pronouncement issued by the Governmental Accounting Standards Board (GASB), the account titled "Due from Commonwealth of Massachusetts" is shown on the Fund Financial Statements balance sheet under the General Fund column. This pronouncement, known as GASB 33, relates to certain revenue recognition issues and setting up certain receivable accounts.

The \$4,607,498 General Fund Due from Commonwealth of Massachusetts – SBAB amount relates to the total amount due to the Town of Newbury relating to school building projects. The amount due to the Town was determined by the Massachusetts Department of Education under Chapter 645 of the Acts of 1948. The Town either constructed a new school building or made major improvements to an existing school building and the state entered into a grant agreement with the Town to reimburse the Town for a predetermined percentage of allowable costs and interest expense. The reimbursement to the Town for its portion of the debt service and allowable costs is made in equal installments over the life of the bond issue and is subject to only the appropriation of the state legislature.

E. Bond Anticipation Notes Payable

The Town has bond anticipation notes outstanding as of June 30, 2007 as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>June 30, 2006 Balance</u>	<u>Issued</u>	<u>Reedemed</u>	<u>June 30, 2007 Balance</u>
<u>Governmental Activities:</u>					
MWPAT	1.29%	\$2,402,400	\$ 615,184	\$ (2,800,000)	\$ 217,584
Water and Sewer	3.84 to 3.91%	-	680,000		680,000
Fire - Airpak Equipment	3.84 to 3.91%	-	160,000	-	160,000
		<u>\$2,402,400</u>	<u>\$1,455,184</u>	<u>(\$2,800,000)</u>	<u>\$ 1,057,584</u>

F. Long Term Debt

General obligation bonds outstanding at June 30, 2007, bear interest at various rates.

- (a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2007:

	<u>Governmental Activities</u>
Balance July 1, 2006	\$22,724,378
Add: New Issues	2,800,000
Less: Maturities	(1,637,176)
Reduction in MWPAT Bond	<u>(424,268)</u>
Balance June 30, 2007	<u>\$23,462,934</u>

(b) Summary of Debt Service Requirements to Maturity

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$1,708,704	\$929,674	\$2,638,378
2009	1,703,259	856,608	2,559,867
2010	1,699,795	788,815	2,488,610
2011	1,695,668	721,435	2,417,103
2012	1,687,536	655,070	2,342,606
Fiscal 2013-2017	6,263,452	2,324,865	8,588,317
Fiscal 2018-2022	4,362,075	1,169,900	5,531,975
Fiscal 2023-2027	1,936,446	423,063	2,359,509
Fiscal 2028-2032	1,333,834	268,670	1,602,504
Fiscal 2033-2037	<u>1,072,165</u>	<u>48,589</u>	<u>1,120,754</u>
	<u>\$23,462,934</u>	<u>\$8,186,689</u>	<u>\$31,649,623</u>

(c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued (permanently bonded) or rescinded as of June 30, 2007, are as follows:

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

G. Interfund Transfers

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

	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 742,175	\$ (94,194)	\$ 647,981
Non-major Governmental	582,252	(1,230,233)	(647,981)
Total	<u>\$ 1,324,427</u>	<u>\$ (1,324,427)</u>	<u>\$ -</u>

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to the Essex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex

Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

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

(b) Funding Plan

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

The Town's contributions for the years ending June 30, 2007, 2006 and 2005 were \$305,869, \$279,851 and \$274,891, 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, 2007, the Commonwealth paid \$342,814 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, 2007, or fund balances at June 30, 2007.

C. Subsequent Year Authorizations

The Town adopted a fiscal 2008 operating and capital budget of \$16,484,563. Fiscal 2008 budgetary amounts which are not reflected (except for reserved for expenditures) in the accompanying financial statements will be financed by the following sources:

2008 Property Taxes, State Aid	
and Non-Property Tax Revenue	\$ 16,316,965
Other Available Funds	167,598
	<u>\$ 16,484,563</u>

D. Solid Waste Landfill Closure and Postclosure Care Costs

State and Federal regulations require that landfill closures meet certain standards. Among the standards is the requirements 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, 2007) is 100%. The Town's estimate for monitoring costs are included as a liability in the Statement of Net Assets.

E. Prior Period Adjustment

A prior period adjustment is being made to the fund financial statements, in the general fund column, in the amount of (\$90,881) relating to the reversal of a prior period accrual. In addition, the fund financial statements, Non Major Governmental Funds column, reflects a prior period adjustment in the amount of (\$434,952). This adjustment relates to a reduction in a MWPAT bond amount that had been recorded in a prior period.

Town of Newbury, Massachusetts
General Fund
Statement of Revenues and Expenditures - Budget and Actual
Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
<u>Revenues</u>				
Property Taxes	\$ 11,776,273	\$ 11,776,273	\$ 11,811,759	\$ 35,486
Excises	1,108,800	1,108,800	921,013	(187,787)
Penalties and Interest	90,000	90,000	117,999	27,999
Fees	33,000	33,000	25,719	(7,281)
Licenses and Permits	325,000	325,000	503,421	178,421
Fines and Forfeits	18,000	18,000	21,890	3,890
Intergovernmental	1,462,865	1,462,865	1,458,475	(4,390)
Earnings on Investments	25,000	25,000	57,636	32,636
Miscellaneous	375,150	375,150	397,024	21,874
Total Revenues	<u>15,214,088</u>	<u>15,214,088</u>	<u>15,314,936</u>	<u>100,848</u>
<u>Expenditures</u>				
General Government	1,210,129	1,134,891	1,089,424	45,467
Public Safety	1,810,697	1,850,811	1,830,046	20,765
Education	7,473,856	7,473,832	7,472,829	1,003
Highway and Public Works	721,026	813,628	808,067	5,561
Health and Human Services	435,820	429,946	381,597	48,349
Culture and Recreation	360,139	383,635	371,919	11,716
Intergovernmental	178,979	178,979	179,159	(180)
Employee Benefits	847,407	860,933	857,963	2,970
Debt Service	2,244,500	2,775,493	2,740,279	35,214
Total Expenditures	<u>15,282,553</u>	<u>15,902,148</u>	<u>15,731,283</u>	<u>170,865</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>\$ (68,465)</u>	<u>\$ (688,060)</u>	<u>\$ (416,347)</u>	<u>\$ 271,713</u>
Other Financing Sources (Uses):				
Transfers In	\$ 120,799	\$ 742,175	\$ 742,175	\$ -
Free Cash	-	85,976	85,976	-
Transfers Out	-	(87,757)	(94,194)	(6,437)
Other Amounts to be Raised	(52,334)	(52,334)	(52,241)	93
Total Other Financing Sources (Uses)	<u>68,465</u>	<u>688,060</u>	<u>681,716</u>	<u>(6,344)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 265,369</u>	<u>\$ 265,369</u>

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

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

We have audited the basic financial statements of the Town of Newbury as of and for the year ended June 30, 2007, and have issued our report thereon dated February 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Item 2007-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Town of Newbury in a separate letter dated February 15, 2008.

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 15, 2008

Town of Newbury, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2007

Findings – Financial Statement Audit

2007-1

Internal Controls over Financial Reporting

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

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

Since AICPA and GASB standards state that the financial statements are the “responsibility of management” (i.e. we can only **recommend** audit adjustments) and the opinion letter is our responsibility, it is reasonable that the AICPA believes that someone within every organization should be well versed in generally accepted accounting principles and the GASB statements.

We recommend that the Town consider additional staff training relating to the preparation of financial statements under GAAP and the GASB 34 reporting model. Although the independent auditors are allowed to prepare the financial statements, as a matter of convenience for the Town, someone in the Town should have the ability to prepare the financial statements or to review the financial statements to ensure that material misstatements are not present.