

TOWN OF NEWBURY, MASSACHUSETTS

Financial Statements

June 30, 2009

(With Accountants' Report Thereon)

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*

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Newbury, Massachusetts as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Newbury, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Newbury, Massachusetts as of June 30, 2009 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 11, 2010 on our consideration of the Town of Newbury, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
February 11, 2010

**Town of Newbury, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2009**

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, 2009.

Financial Highlights

- The assets of the Town of Newbury, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$62,975,549 (*net assets*). Of this amount \$286,780 (*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 \$602,340, or 3.2 percent of total general fund expenditures.
- The Town of Newbury, Massachusetts' total long term debt decreased by 7.8 percent during the current year. The decrease was the result of the retirement of \$1,729,817 of general obligation bonds.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

Financial Analysis of the Government-wide Financial Statements

Net Assets

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

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Current and Other Assets	\$ 19,664,017	\$ 20,859,455
Capital Assets	66,542,634	67,425,622
Total Assets	86,206,651	88,285,077
Current Liabilities	3,209,642	3,253,736
Long Term Liabilities	20,021,460	21,568,735
Total Liabilities	23,231,102	24,822,471

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Net Assets:		
Invested in Capital Assets		
net of Related Debt	60,310,754	60,737,402
Restricted	2,378,015	2,566,993
Unrestricted	286,780	158,211
Total Net Assets	<u>\$ 62,975,549</u>	<u>\$ 63,462,606</u>

The net assets of the Town decreased by \$487,057.

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>2009</u>	<u>2008</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 485,209	\$ 563,655
Operating Grants and Contributions	1,083,239	1,821,015
Capital Grants and Contributions	291,802	-
General Revenues:		
Property Taxes	12,412,511	9,116,619
Motor Vehicle and Other Excises	900,896	936,761
Intergovernmental Not Restricted to a Specific Program	1,003,008	1,049,059
Other	410,551	422,764
Total Revenues	<u>16,587,216</u>	<u>13,909,873</u>
Expenses		
General Government	1,057,592	1,110,392
Public Safety	2,070,931	2,002,823
Education	9,211,036	8,878,480
Intergovernmental	164,175	159,544
Highways and Public Works	1,474,897	1,550,121
Human Services	225,586	579,707
Culture and Recreation	738,705	518,654
Employee Benefits	1,248,072	936,717
Debt Service	883,279	776,321
Total Expenses	<u>17,074,273</u>	<u>16,512,759</u>
Increase (Decrease) in Net Assets		
Before Special items	(487,057)	(2,602,886)
Special Items	-	140,016
Increase (Decrease) in Net Assets	<u>\$ (487,057)</u>	<u>\$ (2,462,870)</u>

Governmental Activities

In fiscal year 2009, property taxes accounted for approximately 75% of the Town's revenues.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balances of the general fund was \$307,682 less than the prior year's fund balance.

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

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

Changes in Fund Balances Last Seven Fiscal Years General Fund

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Snow & Ice Deficit</u>	<u>Reserved for Revenue Deficit and Other</u>	<u>Reserved for Revenue Year's Expenditure</u>	<u>Reserved for Subsequent Year's Expenditure</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2003	\$ 9,504	\$ -	\$ -	\$ 310,738	\$ 363,795	\$ 684,037	
2004	6,524	-	(163,348)	103,302	261,380	207,858	
2005	2,714	(67,401)	-	-	230,192	165,505	
2006	-	(43,206)	1,299	-	425,766	383,859	
2007	-	-	-	-	524,612	524,612	
2008	-	-	-	25,000	885,022	910,022	
2009	19,657	-	(96,075)	130,000	548,758	602,340	

<u>Fiscal Year</u>	<u>Free Cash</u>
2003	\$ 103,302
2004	173,111
2005	(102,619)
2006	85,976
2007	92,844
2008	350,297
2009	119,813

Capital Asset and Debt Administration

Capital Assets. The Town of Newbury, Massachusetts' investments in capital assets for its governmental activities as of June 30, 2009, amounts to \$66,542,634 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Capital Assets at June 30, 2009 (Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 12,337,046	\$ 12,337,046
Buildings	18,060,081	18,555,899
Improvements Other Than Buildings	149,171	167,379
Infrastructure	35,137,110	35,502,421
Equipment	405,839	337,135
Vehicles	453,387	525,742
	<u> </u>	<u> </u>
Total	<u>\$ 66,542,634</u>	<u>\$ 67,425,622</u>

Debt

The Town had \$20,475,900 in bonds outstanding on June 30, 2009. This represents a \$1,729,817 decrease or 7.8% decrease from the previous year.

	<u>2009</u>	<u>2008</u>
General Obligation Bonds Payable	<u>\$20,475,900</u>	<u>\$22,205,717</u>

Fiscal Year 2010 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 2010 budget. The Town utilized \$130,000 of "free cash" (general fund-undesignated fund balance) to fund the 2010 budget.

Town of Newbury, Massachusetts
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
Assets	
Current:	
Cash/Investments	\$ 3,198,657
Accounts Receivable:	
Property Taxes	527,607
Tax Liens	27,796
Excises	118,270
Rollback Taxes	7,516
Intergovernmental	1,662,261
Special Assessments	59,986
Noncurrent:	
Accounts Receivable:	
Intergovernmental	2,632,856
Deferred Special Assessments	11,429,068
Capital Assets:	
Assets Not Being Depreciated	12,337,046
Assets Being Depreciated, Net	54,205,588
Total Assets	86,206,651
Liabilities	
Current:	
Other Liabilities	(10,553)
Withholdings Payable	11,620
Guarantee Deposits Payable	455,874
Prepaid Taxes	24,413
Accrued Interest	161,935
Bonds Payable	1,726,353
Bond Anticipation Notes Payable	840,000
Grant Anticipation Notes Payable	
Noncurrent:	
Bonds Payable	18,749,547
Compensated absences Payable	10,671
Other Post Employment Benefits Payable	341,154
Landfill Postclosure Costs Payable	920,088
Total Liabilities	23,231,102
Net Assets	
Invested in Capital Assets, Net of Related Debt	60,310,754
Restricted for:	
Debt Service	645,641
Special Revenue	1,572,200
Perpetual Funds:	
Expendable	153,671
Nonexpendable	6,503
Unrestricted	286,780
Total Net Assets	\$ 62,975,549

Town of Newbury, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<i>Governmental Activities:</i>					
General Government	\$ 1,057,592	\$ 78,624	\$ 9,275	\$ -	\$ (969,693)
Public Safety	2,070,931	237,182	120,343	-	(1,713,406)
Education	9,211,036	-	271,028	-	(8,940,008)
Intergovernmental	164,175	-	-	-	(164,175)
Highways and Public Works	1,474,897	6,633	410,944	291,802	(765,518)
Human Services	225,586	155,881	21,270	-	(48,435)
Culture and Recreation	738,705	6,889	250,379	-	(481,437)
Employee Benefits	1,248,072	-	-	-	(1,248,072)
Debt Service	883,279	-	-	-	(883,279)
Total Governmental Activities	\$ 17,074,273	\$ 485,209	\$ 1,083,239	\$ 291,802	(15,214,023)
 <i>General Revenues:</i>					
Property Taxes					12,412,511
Motor Vehicle and Other Excise Taxes					900,896
Penalties and Interest on Taxes					138,874
Other Taxes, Assessments and In Lieu of Tax Payments					73,752
Intergovernmental					1,003,008
Interest and Investment Income					18,564
Other Revenue					55,505
Contributions to Permanent Funds					123,856
Total General Revenues, Special Items and Transfers					14,726,966
Change in Net Assets					(487,057)
 <i>Net Assets:</i>					
Beginning of the Year					63,462,606
End of the Year					\$ 62,975,549

Town of Newbury, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2009

	<u>General</u>	<u>Betterment</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Assets</u>				
Cash/Investments	\$ 459,684	\$ 645,641	\$ 2,093,332	\$ 3,198,657
Accounts Receivable:				
Property Taxes	527,607	-	-	527,607
Tax Liens	27,796	-	-	27,796
Excises	118,270	-	-	118,270
Rollback Taxes	7,516	-	-	7,516
Intergovernmental	3,291,070	-	1,004,047	4,295,117
Special Assessments Added to Tax	-	59,986	-	59,986
Special Assessments Not Yet Due	-	11,429,068	-	11,429,068
Total Assets	<u>\$ 4,431,943</u>	<u>\$ 12,134,695</u>	<u>\$ 3,097,379</u>	<u>\$ 19,664,017</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Other Liabilities	-	-	(10,553)	(10,553)
Withholdings Payable	-	-	11,620	11,620
Guarantee Deposits Payable	-	-	455,874	455,874
Bonds Anticipation Notes Payable	-	-	840,000	840,000
Deferred Revenue:				
Property Taxes	405,495	-	-	405,495
Tax Liens	27,796	-	-	27,796
Excises	73,313	-	-	73,313
Special Assessments	-	11,489,054	-	11,489,054
Rollback Taxes	7,516	-	-	7,516
Intergovernmental	3,291,070	-	1,004,047	4,295,117
Property Taxes Paid In Advance	24,413	-	-	24,413
Total Liabilities	<u>3,829,603</u>	<u>11,489,054</u>	<u>2,300,988</u>	<u>17,619,645</u>
Fund Equity:				
Fund Balances:				
Reserved for Encumbrances	19,657	-	-	19,657
Reserved for Debt Service	-	113,641	-	113,641
Reserved for Perpetual Permanent Funds	-	-	6,503	6,503
Designated for:				
Subsequent Year's Expenditures	130,000	532,000	215,665	877,665
Revenue Deficit	(96,075)	-	-	(96,075)
Undesignated, Reported in:				
General Fund	548,758	-	-	548,758
Special Revenue Fund	-	-	976,313	976,313
Capital Projects Fund	-	-	(536,104)	(536,104)
Permanent Fund	-	-	134,014	134,014
Total Fund Balances	<u>602,340</u>	<u>645,641</u>	<u>796,391</u>	<u>2,044,372</u>
Total Liabilities and Fund Balances	<u>\$ 4,431,943</u>	<u>\$ 12,134,695</u>	<u>\$ 3,097,379</u>	<u>\$ 19,664,017</u>

Town of Newbury, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2009

	<u>General</u>	<u>Betterment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 12,435,809	\$ -	\$ -	\$ 12,435,809
Tax Liens	5,290	-	-	5,290
Excises	868,933	-	8,501	877,434
Penalties and Interest	138,874	-	-	138,874
Licenses and Permits	227,309	-	-	227,309
Fees and Other Departmental	182,280	-	98,644	280,924
Intergovernmental	1,969,003	-	413,864	2,382,867
Fines and Forfeits	123,856	-	-	123,856
Earnings on Investments	18,564	-	6,523	25,087
Special Assessments	209,333	645,641	-	854,974
In Lieu of Taxes	73,752	-	-	73,752
Contributions	-	-	39,029	39,029
Miscellaneous	43,615	-	14,140	57,755
Total Revenues	<u>16,296,618</u>	<u>645,641</u>	<u>580,701</u>	<u>17,522,960</u>
<u>Expenditures:</u>				
General Government	1,037,901	-	-	1,037,901
Public Safety	1,930,483	-	137,852	2,068,335
Education	8,781,790	-	-	8,781,790
Intergovernmental	164,175	-	-	164,175
Highways and Public Works	960,182	-	181,839	1,142,021
Human Services	377,764	-	7,219	384,983
Culture and Recreation	325,939	-	316,866	642,805
Employee Benefits	906,918	-	-	906,918
Debt Service	2,620,881	-	-	2,620,881
Total Expenditures	<u>17,106,033</u>	<u>-</u>	<u>643,776</u>	<u>17,749,809</u>
Excess of Revenues Over (Under) Expenditures	<u>(809,415)</u>	<u>645,641</u>	<u>(63,075)</u>	<u>(226,849)</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	501,733	-	15,019	516,752
Operating Transfers (Out)	-	(450,533)	(66,219)	(516,752)
Total Other Financing Sources (Uses)	<u>501,733</u>	<u>(450,533)</u>	<u>(51,200)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(307,682)</u>	<u>195,108</u>	<u>(114,275)</u>	<u>(226,849)</u>
Fund Balance, Beginning	910,022	450,533	910,666	2,271,221
Fund Balance, Ending	<u>\$ 602,340</u>	<u>\$ 645,641</u>	<u>\$ 796,391</u>	<u>\$ 2,044,372</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, 2009

Total governmental fund balances	\$ 2,044,372
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	66,542,634
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	16,298,291
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(20,475,900)
Accrued Interest Payable	(161,935)
Compensated Absences Payable	(10,671)
Other Post Employment Benefits Payable	(341,154)
Landfill Accrued Liabilities	(920,088)
Net assets of governmental activities	\$ 62,975,549

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, 2009

Net change in fund balances - total governmental funds	\$ (226,849)
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.	(882,988)
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.	(935,744)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,729,817
Some expenses reported in the Statement of Activities, such as compensated absences, long term landfill liabilities and long term interest payable, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This represents the difference in those items from the prior year.	<u>(171,293)</u>
Change in net assets of governmental activities	<u><u>\$ (487,057)</u></u>

Town of Newbury, Massachusetts
Notes to the Financial Statements
June 30, 2009

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, 2009, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its governmental funds, the Town has elected to apply all Governmental Accounting Standards Board (“GASB”) pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

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

(A) Reporting Entity

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

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

(B) Government-wide and fund financial statements

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

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

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

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

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

(D) Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

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

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

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

ii Property Taxes

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

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

iii Capital Assets

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

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

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

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

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

iv Compensated Absences

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

In general, employees are entitled to ten vacation days for the first through fifth year of employment. For the sixth through tenth year of employment, one additional vacation day is earned for each extra year of employment, up to a maximum of fifteen vacation days per year. Employees may carry forward a maximum of three days vacation to the next fiscal year. The accumulated vacation liability as of June 30, 2009 is reflected in the accompanying financial statements.

Sick leave is accumulated at the rate of 1.25 days per month with the maximum accumulation of 120 days. Sick leave buy back is not allowed upon employee retirement or termination. As a result, an accumulated sick leave benefit liability does not exist as of June 30, 2009.

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 not fully expended at year end and for commitments for which invoices have not yet been received are carried forward as reserved for encumbrances. At year end, reserved for encumbrances is reported as a component of fund balance.

(b) Reserved for Debt Service

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

(c) Reserved for Perpetual Permanent Funds

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

(d) 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.

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 2009 adjusted for any special Town meeting votes applicable to fiscal 2009 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, 2009.

	<u>Revenues</u>
As Reported Budget Basis	\$ 15,831,839
Adjustments:	
Sixty Day Accrual - Net	(51,194)
Subsidies from Massachusetts Water Pollution Abatement Trust	244,945
On Behalf Payments Included in Intergovernmental	<u>271,028</u>
As Reported GAAP (Fund Financial) Statement	<u>\$ 16,296,618</u>
	<u><u>Expenditures</u></u>
As Reported Budget Basis	\$ 16,609,717
Adjustments:	
Beginning Encumbrances	-
Ending Encumbrances	(19,657)
Interest Expense Paid from Subsidies from Massachusetts Water Pollution Abatement Trust	244,945
On Behalf Payments Included in Employee Benefits	<u>271,028</u>
As Reported GAAP (Fund Financial) Statement	<u>\$ 17,106,033</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, 2009, none of the Town's bank balance of \$2,949,222 was exposed to credit risk.

Investments

As of June 30, 2009, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Securities and Other	\$ 28,115
Mutual Funds	365,209
Massachusetts Municipal Depository Trust	<u>39,552</u>
Total	<u>\$ 432,876</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, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Assets not Being Depreciated:				
Land	\$ 12,337,046	\$ -	\$ -	\$ 12,337,046
Total Capital Assets not Being Depreciated	<u>12,337,046</u>	<u>-</u>	<u>-</u>	<u>12,337,046</u>
Assets Being Depreciated:				
Buildings	25,694,380	16,664	-	25,711,044
Improvements Other Than Buildings	396,952	-	-	396,952
Infrastructure	47,524,891	47,006	-	47,571,897
Equipment	886,435	125,953	-	1,012,388
Vehicles	1,288,962	-	-	1,288,962
Total Capital Assets Being Depreciated	<u>75,791,620</u>	<u>189,623</u>	<u>-</u>	<u>75,981,243</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings	(7,138,481)	(512,482)	-	(7,650,963)
Improvements Other Than Buildings	(229,573)	(18,208)	-	(247,781)
Infrastructure	(12,022,470)	(412,317)	-	(12,434,787)
Equipment	(549,300)	(57,249)	-	(606,549)
Vehicles	(763,220)	(72,355)	-	(835,575)
Total Accumulated Depreciation	<u>(20,703,044)</u>	<u>(1,072,611)</u>	<u>-</u>	<u>(21,775,655)</u>
Capital Assets Being Depreciated, Net	<u>55,088,576</u>	<u>(882,988)</u>	<u>-</u>	<u>54,205,588</u>
Governmental Activities Capital Assets, Net	<u>\$ 67,425,622</u>	<u>\$ (882,988)</u>	<u>\$ -</u>	<u>\$ 66,542,634</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 16,627
Public Safety	27,464
Education	429,246
Highways and Public works	504,540
Culture and Recreation	94,734
Total Governmental Activities Depreciation Expense	<u>\$ 1,072,611</u>

C. Accounts Receivable

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

Current:

Property Taxes Receivable:

Real Estate Taxes	
2009	\$ 317,353
2008	44,956
2007	16,975
2006	11,270
2005	7,914
2004	8,305
2003	7,558
2002	7,632
2001	6,945
2000	6,265
1999	8,488
1998	6,918
1997	7,148
1996	5,185
1995	5,411
1994	6,401
1993 & Prior	<u>46,216</u>
Total Real Estate Taxes	<u>\$ 520,940</u>

C. Accounts Receivable (Continued)

Personal Property Taxes

2009	1,926	
2008	1,221	
2007	976	
2006	834	
2005	612	
2004	245	
2003	347	
2002	506	
Total Personal Property Taxes	<u>6,667</u>	

Total Property Taxes Receivable \$ 527,607

Tax Liens \$ 27,796

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2009	\$ 50,691	
2008	12,748	
2007	8,593	
2006	9,121	
2005	8,601	
2004	7,726	
2003	5,962	
2002	5,165	
Total Motor Vehicle Excise Taxes	<u>\$ 108,607</u>	

Boat Excise

2009	4,705	
2008	1,826	
2007	429	
2006	433	
2005	607	
2004	711	
2003	460	
2002	492	
Total Boat Excise	<u>9,663</u>	

Total Excise Taxes Receivable \$ 118,270

Rollback Taxes \$ 7,516

C. Accounts Receivable (Continued)

Intergovernmental :	
Due from Commonwealth of Massachusetts:	
Massachusetts School Building Authority	\$ 658,214
Massachusetts Highway Department - Chapter 90	<u>1,004,047</u>
 Total Intergovernmental	 <u><u>\$ 1,662,261</u></u>
 Special Assessments:	
Betterments Added to Taxes 2009	\$ 33,695
Betterments Added to Taxes 2008	3,339
Betterments Added to Taxes 2007	2,011
Betterment Committed Interest 2009	18,846
Betterment Committed Interest 2008	<u>2,095</u>
 Total Special Assessments	 <u><u>\$ 59,986</u></u>
 Noncurrent:	
Intergovernmental :	
Due from Commonwealth of Massachusetts:	
Massachusetts School Building Authority	<u><u>\$ 2,632,856</u></u>
 Special Assessments:	
Deferred Betterments	<u><u>\$ 11,429,068</u></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

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>July 1, 2008 Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2009 Balance</u>	<u>Maturity Date</u>
<u>Revenue Anticipation Notes</u>		<u>\$0</u>	<u>\$300,000</u>	<u>(\$300,000)</u>	<u>\$0</u>	
<u>Bond Anticipation Notes</u>						
Water and Sewer	2.60%	\$554,000	\$554,000	(\$554,000)	\$ 554,000	7/2/2009
Water and Sewer	2.60%	126,000	126,000	(126,000)	126,000	7/2/2009
Fire - Airpak Equipment	2.60%	<u>160,000</u>	<u>160,000</u>	<u>(160,000)</u>	<u>160,000</u>	7/2/2009
Total Bond Anticipation Notes		<u>\$840,000</u>	<u>\$840,000</u>	<u>(\$840,000)</u>	<u>\$ 840,000</u>	
<u>Grant Anticipation Notes</u>						
Chapter 90 - Road Program		<u>\$299,958</u>	<u>\$0</u>	<u>(\$299,958)</u>	<u>\$ -</u>	

F. Long Term Debt

General obligation bonds outstanding at June 30, 2009, 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, 2009:

	<u>Governmental Activities</u>
Balance July 1, 2008	\$22,205,717
Add: New Issues	0
Less: Maturities	<u>(1,729,817)</u>
Balance June 30, 2009	<u>\$20,475,900</u>

F. Long Term Debt (Continued)

ii Summary of Debt Service Requirements to Maturity

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$1,726,353	\$788,815	\$2,515,168
2011	1,722,226	721,435	2,443,661
2012	1,714,094	655,070	2,369,164
2013	1,686,249	587,273	2,273,522
2014	1,605,711	517,481	2,123,192
Fiscal 2015-2019	5,182,136	1,813,128	6,995,264
Fiscal 2020-2024	3,422,987	822,440	4,245,427
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>493,306</u>	<u>6,520</u>	<u>499,826</u>
	<u>\$20,475,900</u>	<u>\$6,400,406</u>	<u>\$26,876,306</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, 2009, 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 24, 2003	Transfer Station	<u>60,000</u>
	Total	<u>\$900,000</u>

G. Interfund Transfers

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 501,733	\$ -	\$ 501,733
Betterment	-	(450,533)	(450,533)
Non-major Governmental	15,019	(66,219)	(51,200)
Total	<u>\$ 516,752</u>	<u>\$ (516,752)</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.

(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, 2009, 2008 and 2007 were \$320,454, \$334,180 and \$305,869, 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, 2009, the Commonwealth paid \$271,028 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, 2009, or fund balances at June 30, 2009.

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, 2009. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town retirees receiving a pension from the Essex Regional Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 57 active employees and 34 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** The Town pays 75% of the total premiums for retirees’ health insurance and 75% of the premiums for a \$2,000 life insurance policy. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.
- c. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the fiscal year ended June 30, 2009, the amount actually contributed to the plan, and the Town’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$457,476
Interest on Net OPEB Obligation	18,299
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	<u>475,775</u>
Contributions Made	<u>(134,621)</u>
Increase in Net OPEB Obligation	341,154
Net OPEB Obligation (NOO)- Beginning of Year	-
Net OPEB Obligation (NOO)- End of Year	<u><u>\$341,154</u></u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for the current transition year is 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

- d. **Funded Status and Funding Progress.** As of June 30, 2009, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$3,791,377, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$3,791,377.

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

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

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

D. Subsequent Year Authorizations

On May 26, 2009 and October 27, 2009, the Town adopted a fiscal 2010 operating and capital budget of \$17,204,737. Fiscal 2010 budgetary amounts which are not reflected (except for reserved for expenditures) in the accompanying financial statements will be financed by the following sources:

2010 Property Taxes, State Aid and Non-Property Tax Revenue	\$16,062,587
Other Available Funds	264,485
Fund Balance Designated for Subsequent Year's Expenditures (Reflected on Fund Financial Balance Sheet):	
General Fund	130,000
Betterment Fund	532,000
Non-Major Funds	215,665
	<u>\$17,204,737</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, 2009) is 100%. The Town's estimate for monitoring costs are included as a liability in the Statement of Net Assets.

Town of Newbury, Massachusetts
Required Supplementary Information
General Fund
Statement of Revenues and Expenditures - Budget and Actual
Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$ 12,382,168	\$ 12,382,168	\$ 12,423,125	\$ 40,957
Tax Liens	-	-	5,290	5,290
Excises	982,120	982,120	932,811	(49,309)
Penalties and Interest	110,000	110,000	138,874	28,874
Licenses and Permits	252,500	252,500	227,309	(25,191)
Fees and Other Departmental	202,000	202,000	182,280	(19,720)
Fines and Forfeits	134,450	134,450	123,856	(10,594)
Intergovernmental	1,511,459	1,511,459	1,453,030	(58,429)
Earnings on Investments	52,900	52,900	18,564	(34,336)
Special Assessments	209,333	209,333	209,333	-
In Lieu of Taxes	90,000	90,000	73,752	(16,248)
Miscellaneous	52,500	52,500	43,615	(8,885)
	<u>15,979,430</u>	<u>15,979,430</u>	<u>15,831,839</u>	<u>(147,591)</u>
<u>Expenditures</u>				
General Government	1,090,369	1,065,596	1,040,058	25,538
Public Safety	1,910,536	1,952,822	1,942,983	9,839
Education	8,511,315	8,511,315	8,510,762	553
Highway and Public Works	739,500	963,175	960,182	2,993
Health and Human Services	391,955	401,540	377,764	23,776
Culture and Recreation	334,038	330,385	325,939	4,446
Intergovernmental	164,975	164,975	164,175	800
Employee Benefits	937,844	941,104	911,918	29,186
Debt Service	2,369,323	2,376,589	2,375,936	653
	<u>16,449,855</u>	<u>16,707,501</u>	<u>16,609,717</u>	<u>97,784</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>\$ (470,425)</u>	<u>\$ (728,071)</u>	<u>\$ (777,878)</u>	<u>\$ (49,807)</u>
Other Financing Sources (Uses):				
Transfers In	450,533	490,370	501,732	11,362
Unreserved Fund Balance	25,000	242,809	242,809	-
Other Amounts to be Raised	(5,108)	(5,108)	-	5,108
	<u>470,425</u>	<u>728,071</u>	<u>744,541</u>	<u>16,470</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (33,337)</u>	<u>\$ (33,337)</u>

Required Supplementary Information
 Essex Regional Retirement System
 Schedule of Funding Progress

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

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

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

Required Supplementary Information - GASB 45
Town of Newbury, Massachusetts
Schedule of Funding Progress
June 30, 2009

Projected Unit Credit, Pay-As-You-Go Assumptions (4.00%)

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

Town of Newbury, Massachusetts
Required Supplementary Information - GASB 45
Valuation Details
June 30, 2009

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

Actuarial Assumptions:

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

Plan Membership:

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

Town of Newbury, Massachusetts
Notes to the Required Supplementary Information
June 30, 2009

(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, County Office Building, 36 Federal Street, Room 210, Salem, Massachusetts 01970-3483.

(b) Funding Plan

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

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

(c) Actuarial Assumptions

Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Approximate level percent of payroll based on 4.5% annual increases; except level dollar for Early Retirement Incentives (ERI) liability for certain units.
Remaining Amortization Period	As of July 1, 2008, schedules as selected by units for 2002 ERI liability, schedules as selected by unit for 2003 ERI liability and 20 years for the remaining unfunded liability.
Asset Valuation Method	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings (at the assumed actuarial rate of return) and the net new money during the year (contributions less benefit payments and administrative expenses). Twenty percent of the difference between the market value of assets and the preliminary actuarial value is added to the preliminary actuarial value. In order that the actuarial value not differ to 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, 2009. 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 57 active employees and 34

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

- b. **Funding Policy.** The Town pays 75% of the total premiums for 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.

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, 2009, and have issued our report thereon dated February 11, 2010. 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 2009-1 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 11, 2010.

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 11, 2010

Town of Newbury, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2009

Findings – Financial Statement Audit

2009-1

Internal Controls over Financial Reporting

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

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

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

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

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