

CITY OF NEWBURYPORT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Newburyport, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Newburyport's 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 opinions.

Management has not included the Newburyport Contributory Retirement System (and the required supplementary information and note disclosures) in the City's financial statements. Accounting principles generally accepted in the United States of America require the Newburyport Contributory Retirement System to be presented as a fiduciary fund and thus increasing its assets, liabilities, revenues, and expenses, and changing the net assets of the aggregate remaining fund information. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the aggregate remaining fund information is not reasonably determinable.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

In our opinion, except for the effects of not including financial information of the Newburyport Contributory Retirement System, as discussed above, the financial statements referred to above present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of June 30, 2011, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Newburyport, Massachusetts, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, appearing on the following pages, and the supplementary information appearing on page 44, 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 3, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 assessing the results of our audit.

Melanson, Heath + Company P.C.
Andover, Massachusetts
April 3, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Newburyport, we offer readers this narrative overview and analysis of the financial activities of the City of Newburyport for the fiscal year ended June 30, 2011. Unless otherwise noted, all amounts in this Management's Discussion and Analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all assets and liabilities, with the difference 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 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 to 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer, water, and harbormaster 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer, water, and harbormaster operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, water, and harbormaster operations. The sewer and water operations are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 108,874 (i.e., net assets), a change of \$ 1,009 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,019, a change of \$ 330 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,283, a change of \$ 200 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 42,785, a change of \$ 730 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 20,864	\$ 21,535	\$ 18,666	\$ 16,565	\$ 39,530	\$ 38,100
Capital assets	67,625	68,961	70,022	61,143	137,647	130,104
Total assets	<u>88,489</u>	<u>90,496</u>	<u>88,688</u>	<u>77,708</u>	<u>177,177</u>	<u>168,204</u>
Long-term liabilities	30,283	29,139	28,538	25,807	58,821	54,946
Other liabilities	3,323	4,339	6,159	1,054	9,482	5,393
Total liabilities	<u>33,606</u>	<u>33,478</u>	<u>34,697</u>	<u>26,861</u>	<u>68,303</u>	<u>60,339</u>
Net assets:						
Invested in capital assets, net	53,561	52,936	40,221	36,595	93,782	89,531
Restricted	9,177	9,539	-	-	9,177	9,539
Unrestricted	(7,855)	(5,457)	13,770	14,252	5,915	8,795
Total net assets	<u>\$ 54,883</u>	<u>\$ 57,018</u>	<u>\$ 53,991</u>	<u>\$ 50,847</u>	<u>\$ 108,874</u>	<u>\$ 107,865</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,804	\$ 3,723	\$ 9,779	\$ 8,996	\$ 13,583	\$ 12,719
Operating grants and contributions	12,868	12,423	-	50	12,868	12,473
Capital grants and contributions	877	960	2,472	1,186	3,349	2,146
General revenues:						
Property taxes	40,746	39,099	-	-	40,746	39,099
Excises	2,336	2,077	-	-	2,336	2,077
Penalties, interest and other taxes	431	963	-	-	431	963
Grants and contributions not restricted to specific programs	2,431	2,600	-	-	2,431	2,600
Investment income	446	229	12	94	458	323
Other	860	472	-	-	860	472
Total revenues	<u>64,799</u>	<u>62,546</u>	<u>12,263</u>	<u>10,326</u>	<u>77,062</u>	<u>72,872</u>
Expenses:						
General government	4,906	4,674	-	-	4,906	4,674
Public safety	9,108	8,832	-	-	9,108	8,832
Education	40,646	40,262	-	-	40,646	40,262
Public works	3,940	3,835	-	-	3,940	3,835
Human services	2,587	2,452	-	-	2,587	2,452
Culture and recreation	2,875	3,032	-	-	2,875	3,032
Interest on long-term debt	609	860	-	-	609	860
Intergovernmental	2,263	2,356	-	-	2,263	2,356
Sewer operations	-	-	4,822	4,926	4,822	4,926
Water operations	-	-	4,054	4,172	4,054	4,172
Harbor operations	-	-	243	302	243	302
Total expenses	<u>66,934</u>	<u>66,303</u>	<u>9,119</u>	<u>9,400</u>	<u>76,053</u>	<u>75,703</u>
Change in net assets before transfers	(2,135)	(3,757)	3,144	926	1,009	(2,831)
Transfers, net	<u>-</u>	<u>32</u>	<u>-</u>	<u>(32)</u>	<u>-</u>	<u>-</u>
Change in net assets	(2,135)	(3,725)	3,144	894	1,009	(2,831)
Net assets - beginning of year	<u>57,018</u>	<u>60,743</u>	<u>50,847</u>	<u>49,953</u>	<u>107,865</u>	<u>110,696</u>
Net assets - end of year	<u>\$ 54,883</u>	<u>\$ 57,018</u>	<u>\$ 53,991</u>	<u>\$ 50,847</u>	<u>\$ 108,874</u>	<u>\$ 107,865</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 108,874, a change of \$ 1,009 from the prior year.

The largest portion of net assets \$ 93,782 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt

used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 9,174 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 5,915 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (2,135). Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (747)
Special revenue fund revenues in excess of expenditures	1,006
Depreciation expense in excess of principal debt service	(1,498)
Increase in net OPEB obligation	(2,883)
Capital asset additions from current year revenues	1,926
Other	61
Total	<u>\$ (2,135)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 3,144.

The following is a summary of the changes in net assets by fund:

Sewer	\$ 2,322
Water	723
Other	99
Total	<u>\$ 3,144</u>

The majority of the Sewer increase resulted from the receipt of a \$ 2,472 ARRA debt forgiveness grant through the MWPAT.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,019, a change of \$ 330 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (747)
Special revenue fund revenues in excess of expenditures	1,006
Capital project fund expenditures in excess of revenues	(271)
Trust fund revenues in excess of expenditures	<u>342</u>
Total	<u>\$ 330</u>

In fiscal year 2011, the City implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the Notes to Financial Statements. Additionally, amounts previously reported in stabilization funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 2,283, while total fund balance was \$ 5,656. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,283	\$ 2,083	\$ 200	4.07%
Total fund balance ¹	5,656	6,164	(508)	10.08%

¹Now includes stabilization accounts. Prior period balances have been revised to conform to current presentation.

The total fund balance of the general fund changed by \$ (508) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (647)
Use of Stabilization accounts, net	(161)
Revenues in excess of budget	225
Expenditures less than budget	729
Expenditures of prior year encumbrances	(690)
Other	<u>36</u>
Total	\$ <u>(508)</u>

Included in the total general fund balance is the City's stabilization accounts with the following balances:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
Stabilization accounts	\$ 2,943	\$ 3,104	\$ (161)

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 13,770, a change of \$ (482) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 752. The reasons for these amendments include:

Public safety appropriations	\$ 179
Public works appropriations	478
Other various appropriations	<u>95</u>
Total	\$ <u>752</u>

The supplemental appropriations were funded by transfers from other funds and the use of free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 137,647 (net of accumulated depreciation), a change of \$ 7,543 from the prior year. This investment in capital assets

includes land, buildings and system, improvements, infrastructure, and machinery and equipment.

The major capital asset events during the current fiscal year related to the Sewer Waste Water Treatment Facility construction in process.

Change in credit rating. During the fiscal year, the City's credit rating remained unchanged at AA.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 42,786, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Newburyport's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Auditor
City of Newburyport, Massachusetts
60 Pleasant Street
Newburyport, Massachusetts 01950

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 17,299,832	\$ 7,765,733	\$ 25,065,565
Investments	1,431,733	-	1,431,733
Receivables, net of allowance for uncollectibles:			
Property taxes	917,984	-	917,984
Excises	262,833	-	262,833
User fees	-	2,203,417	2,203,417
Betterments	-	641,527	641,527
Intergovernmental	133,075	676,200	809,275
Other	-	1,827	1,827
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	818,748	-	818,748
Betterments	-	7,377,565	7,377,565
Capital assets, being depreciated, net	58,330,803	52,690,921	111,021,724
Capital assets, not being depreciated	<u>9,293,735</u>	<u>17,330,910</u>	<u>26,624,645</u>
TOTAL ASSETS	88,488,743	88,688,100	177,176,843
LIABILITIES			
Current:			
Warrants and accounts payable	2,239,940	-	2,239,940
Accrued liabilities	527,863	1,635,235	2,163,098
Taxes paid in advance	347,085	-	347,085
Notes payable	-	4,520,696	4,520,696
Other liabilities	207,159	2,907	210,066
Current portion of long-term liabilities:			
Bonds payable	1,875,000	1,705,595	3,580,595
Compensated absences	310,434	12,782	323,216
Noncurrent:			
Bonds payable, net of current portion	13,375,275	25,829,787	39,205,062
Compensated absences, net of current portion	2,793,901	115,042	2,908,943
Net OPEB obligation	<u>11,929,437</u>	<u>874,953</u>	<u>12,804,390</u>
TOTAL LIABILITIES	33,606,094	34,696,997	68,303,091
NET ASSETS			
Invested in capital assets, net of related debt	53,560,770	40,221,080	93,781,850
Restricted for:			
Grants and other statutory restrictions	7,052,010	-	7,052,010
Permanent funds			
Nonexpendable	1,934,656	-	1,934,656
Expendable	190,046	-	190,046
Unrestricted	<u>(7,854,833)</u>	<u>13,770,023</u>	<u>5,915,190</u>
TOTAL NET ASSETS	\$ <u>54,882,649</u>	\$ <u>53,991,103</u>	\$ <u>108,873,752</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<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>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,906,206	\$ 795,642	\$ 484,750	\$ 57,138	\$ (3,568,676)	\$ -	\$ (3,568,676)
Public safety	9,108,262	660,241	659,188	-	(7,788,833)	-	(7,788,833)
Education	40,646,084	1,757,975	11,378,504	5,150	(27,504,455)	-	(27,504,455)
Public works	3,940,000	182,610	100,252	642,086	(3,015,052)	-	(3,015,052)
Health and human services	2,586,683	195,916	170,263	-	(2,220,504)	-	(2,220,504)
Culture and recreation	2,875,437	212,069	74,682	172,285	(2,416,401)	-	(2,416,401)
Interest on debt service	608,808	-	-	-	(608,808)	-	(608,808)
Intergovernmental	2,263,004	-	-	-	(2,263,004)	-	(2,263,004)
Total Governmental Activities	66,934,484	3,804,453	12,867,639	876,659	(49,385,733)	-	(49,385,733)
Business-Type Activities:							
Sewer services	4,822,422	4,919,655	-	2,472,090	-	2,569,323	2,569,323
Water services	4,054,046	4,526,774	-	-	-	472,728	472,728
Other services	243,106	332,604	-	-	-	89,498	89,498
Total Business-Type Activities	9,119,574	9,779,033	-	2,472,090	-	3,131,549	3,131,549
Total	\$ <u>76,054,058</u>	\$ <u>13,583,486</u>	\$ <u>12,867,639</u>	\$ <u>3,348,749</u>	(49,385,733)	3,131,549	(46,254,184)
General Revenues:							
Property taxes					40,746,352	-	40,746,352
Excises					2,336,377	-	2,336,377
Penalties, interest and other taxes					430,753	-	430,753
Grants and contributions not restricted to specific programs					2,431,242	-	2,431,242
Investment income					446,408	12,391	458,799
Other					859,032	-	859,032
Total general revenues					<u>47,250,164</u>	<u>12,391</u>	<u>47,262,555</u>
Change in Net Assets					(2,135,569)	3,143,940	1,008,371
Net Assets:							
Beginning of year					<u>57,018,218</u>	<u>50,847,163</u>	<u>107,865,381</u>
End of year					\$ <u>54,882,649</u>	\$ <u>53,991,103</u>	\$ <u>108,873,752</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 8,439,766	\$ 8,860,066	\$ 17,299,832
Investments	-	1,431,733	1,431,733
Receivables:			
Property taxes	2,185,326	10,400	2,195,726
Excises	583,389	-	583,389
Intergovernmental	-	133,075	133,075
TOTAL ASSETS	\$ 11,208,481	\$ 10,435,274	\$ 21,643,755
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants and accounts payable	\$ 2,239,940	\$ -	\$ 2,239,940
Deferred revenue	2,405,771	10,400	2,416,171
Accrued liabilities	353,662	60,752	414,414
Taxes collected in advance	347,085	-	347,085
Other liabilities	206,256	903	207,159
TOTAL LIABILITIES	5,552,714	72,055	5,624,769
Fund Balances:			
Nonspendable	-	1,934,656	1,934,656
Restricted	-	8,458,932	8,458,932
Committed	2,942,613	-	2,942,613
Assigned	430,530	-	430,530
Unassigned	2,282,624	(30,369)	2,252,255
TOTAL FUND BALANCES	5,655,767	10,363,219	16,018,986
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,208,481	\$ 10,435,274	\$ 21,643,755

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2011

Total governmental fund balances	\$ 16,018,986
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	67,624,538
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,636,621
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(113,449)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, and the net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(30,284,047)</u>
Net assets of governmental activities	<u><u>\$ 54,882,649</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 40,278,799	\$ 614,697	\$ 40,893,496
Excise taxes	2,212,077	-	2,212,077
Interest, penalties, & other taxes	422,173	8,580	430,753
Charges for services	128,205	2,902,522	3,030,727
Licenses and permits	691,915	-	691,915
Intergovernmental	11,195,687	4,979,853	16,175,540
Investment income	95,941	350,467	446,408
Fines and forfeitures	81,811	-	81,811
Contributions	-	497,172	497,172
Other	263,762	98,098	361,860
Total Revenues	<u>55,370,370</u>	<u>9,451,389</u>	<u>64,821,759</u>
Expenditures:			
Current:			
General government	2,462,792	1,137,290	3,600,082
Public safety	6,706,851	667,470	7,374,321
Education	27,460,800	4,251,388	31,712,188
Public works	2,039,857	1,250,736	3,290,593
Health & human services	1,887,521	164,942	2,052,463
Culture and recreation	1,306,433	449,248	1,755,681
Employee benefits	9,810,768	99,658	9,910,426
Debt service	2,179,292	354,006	2,533,298
Intergovernmental	2,263,004	-	2,263,004
Total Expenditures	<u>56,117,318</u>	<u>8,374,738</u>	<u>64,492,056</u>
Excess (deficiency) of revenues over expenditures	(746,948)	1,076,651	329,703
Other Financing Sources (Uses):			
Transfers in	334,808	245,700	580,508
Transfers out	(95,700)	(484,808)	(580,508)
Total Other Financing Sources (Uses)	<u>239,108</u>	<u>(239,108)</u>	<u>-</u>
Change in fund balances	(507,840)	837,543	329,703
Fund Balance, at Beginning of Year, as reclassified	<u>6,163,607</u>	<u>9,525,676</u>	<u>15,689,283</u>
Fund Balance, at End of Year	<u>\$ 5,655,767</u>	<u>\$ 10,363,219</u>	<u>\$ 16,018,986</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 329,703
<ul style="list-style-type: none"> 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: 	
Capital outlay purchases	2,046,476
Depreciation	(3,382,969)
<ul style="list-style-type: none"> 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. 	(22,844)
<ul style="list-style-type: none"> 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: 	
Repayments of debt	1,885,000
Increase in net OPEB obligation	(2,882,601)
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	39,490
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	(147,824)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ (2,135,569)

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 40,242,406	\$ 40,242,406	\$ 40,242,406	\$ -
Excise taxes	2,151,000	2,151,000	2,212,077	61,077
Charges for services	103,000	103,000	128,205	25,205
Interest, penalties, and other taxes	426,000	426,000	422,173	(3,827)
Licenses and permits	548,000	548,000	691,915	143,915
Intergovernmental	5,958,217	5,958,217	6,040,741	82,524
Investment income	96,000	96,000	72,107	(23,893)
Fines and forfeits	93,000	93,000	81,811	(11,189)
Other	313,000	313,000	263,762	(49,238)
Transfers in	111,588	519,808	519,808	-
Other sources	<u>302,732</u>	<u>646,505</u>	<u>646,505</u>	<u>-</u>
Total Revenues and Other Sources	50,344,943	51,096,936	51,321,510	224,574
Expenditures and Other Uses:				
General government	2,399,833	2,426,276	2,353,784	72,492
Public safety	6,302,403	6,481,229	6,424,311	56,918
Education	22,009,061	22,053,499	22,053,499	-
Public works	1,736,992	2,215,458	2,078,571	136,887
Health and human service	1,777,327	1,933,316	1,770,166	163,150
Culture and recreation	1,294,414	1,309,205	1,308,038	1,167
Employee benefits	10,046,104	9,899,144	9,842,036	57,108
Debt service	2,179,292	2,179,292	2,179,292	-
Intergovernmental	2,503,817	2,503,817	2,263,004	240,813
Transfers out	<u>95,700</u>	<u>95,700</u>	<u>95,700</u>	<u>-</u>
Total Expenditures and Other Uses	<u>50,344,943</u>	<u>51,096,936</u>	<u>50,368,401</u>	<u>728,535</u>
Excess revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>953,109</u>	\$ <u>953,109</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Other Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 3,912,876	\$ 3,559,057	\$ 293,800	\$ 7,765,733
User fee receivables	1,170,610	1,007,050	25,757	2,203,417
Betterment receivables	428,241	213,286	-	641,527
Intergovernmental receivables	676,200	-	-	676,200
Other assets	1,827	-	-	1,827
Noncurrent:				
Betterment receivables	4,924,777	2,452,788	-	7,377,565
Capital assets, being depreciated, net	21,852,755	30,680,663	157,503	52,690,921
Capital assets, not being depreciated	<u>15,030,950</u>	<u>2,129,960</u>	<u>170,000</u>	<u>17,330,910</u>
TOTAL ASSETS	47,998,236	40,042,804	647,060	88,688,100
<u>LIABILITIES</u>				
Current:				
Accrued liabilities	1,098,461	536,774	-	1,635,235
Notes payable	3,354,696	1,166,000	-	4,520,696
Other liabilities	315	2,396	196	2,907
Current portion of long-term liabilities:				
Bonds payable	968,239	712,356	25,000	1,705,595
Compensated absences	3,350	9,432	-	12,782
Noncurrent:				
Bonds payable, net of current portion	17,239,121	8,540,666	50,000	25,829,787
Compensated absences, net of current portion	30,154	84,888	-	115,042
Net OPEB Obligation	<u>405,503</u>	<u>469,450</u>	<u>-</u>	<u>874,953</u>
TOTAL LIABILITIES	23,099,839	11,521,962	75,196	34,696,997
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	16,479,232	23,489,345	252,503	40,221,080
Unrestricted	<u>8,419,165</u>	<u>5,031,497</u>	<u>319,361</u>	<u>13,770,023</u>
TOTAL NET ASSETS	\$ <u>24,898,397</u>	\$ <u>28,520,842</u>	\$ <u>571,864</u>	\$ <u>53,991,103</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Other Funds	Total
Operating Revenues:				
Charges for services	\$ 4,919,655	\$ 4,526,774	\$ 332,604	\$ 9,779,033
Total Operating Revenues	4,919,655	4,526,774	332,604	9,779,033
Operating Expenses:				
Personnel services	1,657,652	1,533,666	188,003	3,379,321
Non-personnel services	1,455,644	1,124,127	35,926	2,615,697
Depreciation	1,184,875	1,048,530	15,402	2,248,807
Total Operating Expenses	4,298,171	3,706,323	239,331	8,243,825
Operating Income	621,484	820,451	93,273	1,535,208
Nonoperating Revenues (Expenses):				
Interest income	2,500	131	9,760	12,391
Interest expense	(524,251)	(347,723)	(3,775)	(875,749)
Total Nonoperating Revenues (Expenses), Net	(521,751)	(347,592)	5,985	(863,358)
Income before transfers and capital contributions	99,733	472,859	99,258	671,850
Transfers and Capital Contributions:				
Capital contributions	2,472,090	-	-	2,472,090
Transfers in	-	250,000	-	250,000
Transfers out	(250,000)	-	-	(250,000)
Change in Net Assets	2,321,823	722,859	99,258	3,143,940
Net Assets at Beginning of Year	22,576,574	27,797,983	472,606	50,847,163
Net Assets at End of Year	\$ 24,898,397	\$ 28,520,842	\$ 571,864	\$ 53,991,103

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Other Funds	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,121,064	\$ 4,783,404	\$ 329,414	\$ 10,233,882
Payments to employees	(1,411,563)	(1,430,170)	(188,003)	(3,029,736)
Payments to vendors	(1,550,727)	(677,854)	(35,848)	(2,264,429)
Net Cash Provided By (Used For) Operating Activities	2,158,774	2,675,380	105,563	4,939,717
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	-	250,000	-	250,000
Transfers out	(250,000)	-	-	(250,000)
Betterments	411,986	170,201	-	582,187
Net Cash Provided By (Used For) Noncapital Financing Activities	161,986	420,201	-	582,187
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(9,439,014)	(1,688,159)	-	(11,127,173)
Capital contributions	1,795,890	-	-	1,795,890
Proceeds from issuance of bonds and notes	7,480,071	1,166,000	-	8,646,071
Principal payments on bonds and notes	(793,868)	(692,149)	(25,000)	(1,511,017)
Interest expense	(524,251)	(347,723)	(3,775)	(875,749)
Net Cash (Used For) Capital and Related Financing Activities	(1,481,172)	(1,562,031)	(28,775)	(3,071,978)
Cash Flows From Investing Activities:				
Investment income	2,500	131	9,760	12,391
Net Cash Provided By Investing Activities	2,500	131	9,760	12,391
Net Change in Cash and Short-Term Investments	842,088	1,533,681	86,548	2,462,317
Cash and Short-Term Investments, Beginning of Year	3,070,788	2,025,376	207,252	5,303,416
Cash and Short-Term Investments, End of Year	\$ 3,912,876	\$ 3,559,057	\$ 293,800	\$ 7,765,733
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income	\$ 621,484	\$ 820,451	\$ 93,273	\$ 1,535,208
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	1,184,875	1,048,530	15,402	2,248,807
Changes in assets and liabilities:				
User fees	201,409	256,630	(3,190)	454,849
Accrued liabilities	142,398	442,010	-	584,408
OPEB	7,529	103,496	-	111,025
Other liabilities	1,079	4,263	78	5,420
Net Cash Provided By (Used For) Operating Activities	\$ 2,158,774	\$ 2,675,380	\$ 105,563	\$ 4,939,717

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>133,350</u>
Total Assets	133,350
<u>LIABILITIES</u>	
Other liabilities	<u>133,350</u>
Total Liabilities	\$ <u><u>133,350</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Newburyport (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Mayor and City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. Management has elected to omit the financial statements and applicable note disclosures and required supplementary information of the Newburyport Contributory Retirement System.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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*.

Fund Financial Statements

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- The *Sewer fund* is used to report the City's sewer operations
- The *Water fund* is used to report the City's water operations

The *Agency fund* is used to account for student activity funds and employee details. The *Agency fund* reports only assets and liabilities, and therefore, has no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2½ percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2011 tax levy reflected an excess capacity of approximately \$ 13,499.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of five 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 costs 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 - 50
Land improvements	10 - 50
Infrastructure	25 - 50
Machinery and equipment	3 - 20
Vehicles	3 - 10

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.

- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

K. Use of Estimates

The preparation of basic 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 disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 55,370,370	\$ 56,117,318
Other financing sources/uses (GAAP Basis)	<u>334,808</u>	<u>95,700</u>
Subtotal (GAAP Basis)	55,705,178	56,213,018
To adjust property tax revenue to the Budgetary Basis	(36,393)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(976,501)
Add end of year appropriation carryforwards to expenditures	-	286,830

(continued)

(continued)

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
To record use of free cash and overlay surplus	646,505	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(5,154,946)	(5,154,946)
Other	<u>161,166</u>	<u>-</u>
Budgetary Basis	<u>\$ 51,321,510</u>	<u>\$ 50,368,401</u>

D. Deficit Fund Equity

The City's special revenue funds and capital project funds reflect various individual deficit fund balance accounts, which will be funded by future receipts and bond issuances.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned.

Massachusetts General Law Chapter 44, Section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City does not have a deposit policy for custodial credit risk.

As of June 30, 2011, \$ 938,144 of the City's bank balances of \$ 25,807,322 were exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the City (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
			<u>Aaa</u>	<u>AA</u>	<u>B</u>
Federal agency securities	\$ 50	\$ -	\$ 50	\$ -	\$ -
Corporate equities	688	688	-	-	-
Bond mutual funds	694	-	-	663	31
Total investments	<u>\$ 1,432</u>	<u>\$ 688</u>	<u>\$ 50</u>	<u>\$ 663</u>	<u>\$ 31</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City does not have a policy for custodial credit risk.

The City's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Mellon Short-Term US Government Securities	\$ 309,685
Mellon Intermediate Bond Fund	539,618
Mellon Bond Fund	273,510
Bank of America	148,623

D. Interest Rate Risk

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

Information about the sensitivity of the fair values of the City investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>1-5</u>	<u>6-10</u>
Federal agency securities	\$ 50	\$ 50	\$ -
Bond mutual funds	694	-	694

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to. Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2011 consist of the following (in thousands):

Personal Property		
2011	\$ 44	
2010	38	
2009	8	
2008	4	
Prior	<u>112</u>	
		206
Tax Liens and other		909
CPA		<u>10</u>
Total		<u>\$ 2,196</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

Property taxes	\$ 459
Excises	320

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

8. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 69,242	\$ 737	\$ -	\$ 69,979
Infrastructure	26,679	910	-	27,589
Machinery and equipment	<u>3,738</u>	<u>224</u>	<u>-</u>	<u>3,962</u>
Total capital assets, being depreciated	99,659	1,871	-	101,530
Less accumulated depreciation for:				
Buildings and improvements	(18,593)	(2,390)	-	(20,983)
Infrastructure	(19,158)	(653)	-	(19,811)
Machinery and equipment	<u>(2,065)</u>	<u>(340)</u>	<u>-</u>	<u>(2,405)</u>
Total accumulated depreciation	<u>(39,816)</u>	<u>(3,383)</u>	<u>-</u>	<u>(43,199)</u>
Total capital assets, being depreciated, net	59,843	(1,512)	-	58,331
Capital assets, not being depreciated:				
Land	<u>9,118</u>	<u>176</u>	<u>-</u>	<u>9,294</u>
Total capital assets, not being depreciated	<u>9,118</u>	<u>176</u>	<u>-</u>	<u>9,294</u>
Governmental activities capital assets, net	<u>\$ 68,961</u>	<u>\$ (1,336)</u>	<u>\$ -</u>	<u>\$ 67,625</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,358	\$ -	\$ -	\$ 1,358
Infrastructure	80,737	297	-	81,034
Machinery and equipment	<u>2,031</u>	<u>290</u>	<u>-</u>	<u>2,321</u>
Total capital assets, being depreciated	84,126	587	-	84,713
Less accumulated depreciation for:				
Buildings and improvements	(110)	(69)	-	(179)
Infrastructure	(28,966)	(2,025)	-	(30,991)
Machinery and equipment	<u>(697)</u>	<u>(155)</u>	<u>-</u>	<u>(852)</u>
Total accumulated depreciation	<u>(29,773)</u>	<u>(2,249)</u>	<u>-</u>	<u>(32,022)</u>
Total capital assets, being depreciated, net	54,353	(1,662)	-	52,691
Capital assets, not being depreciated:				
Land	1,221	40	-	1,261
Construction in progress	<u>5,569</u>	<u>10,501</u>	<u>-</u>	<u>16,070</u>
Total capital assets, not being depreciated	<u>6,790</u>	<u>10,541</u>	<u>-</u>	<u>17,331</u>
Business-type activities capital assets, net	<u>\$ 61,143</u>	<u>\$ 8,879</u>	<u>\$ -</u>	<u>\$ 70,022</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:	
General government	\$ 323
Public safety	371
Education	1,104
Public works	826
Health and human services	22
Culture and recreation	<u>737</u>
Total depreciation expense - governmental activities	<u>\$ 3,383</u>
Business-Type Activities:	
Sewer	\$ 1,185
Water	1,049
Harbor	<u>15</u>
Total depreciation expense - business-type activities	<u>\$ 2,249</u>

9. Warrants and Accounts Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011.
Accounts payable represent additional 2011 expenditures paid after July 15, 2011.

10. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. Other Liabilities

Other liabilities reported in the general fund consist primarily of tax refunds due and various payroll deductions.

12. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2011:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/11</u>
Sewer	1.40%	03/29/11	01/20/12	\$ 500,000
			Upon	
Sewer (MWPAT)	0.00%	Variable	Completion	2,854,696
Water	1.50%	01/21/11	01/20/12	<u>1,166,000</u>
Total				<u>\$ 4,520,696</u>

The following summarizes activity in notes payable during fiscal year 2011 (in thousands):

<u>Bond anticipation notes</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Sewer notes	\$ -	\$ 3,355	\$ -	\$ 3,355
Water notes	<u>-</u>	<u>1,166</u>	<u>-</u>	<u>1,166</u>
Total	<u>\$ -</u>	<u>\$ 4,521</u>	<u>\$ -</u>	<u>\$ 4,521</u>

13. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities</u> <u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Principal</u> <u>Amount</u>
Boardwalk	3.765	2017	\$ 205,000
High school	3.760%	2023	1,920,000
Boardwalk	3.760%	2017	195,000
Boardwalk	3.760%	2017	60,000
High school	3.50 - 5.00%	2025	4,025,000
School demountables	3.50 - 5.00%	2025	350,000
Recreation	3.50 - 5.00%	2025	20,000
City hall	4.00 - 7.00%	2019	1,200,000
Land acquisition	4.00 - 7.00%	2019	775,000
Equipment	4.25 - 5.00%	2017	390,000
Drainage	4.25 - 5.00%	2017	290,000
Central server - IT	4.25 - 5.00%	2015	50,000
Recreational facility	4.25 - 5.00%	2017	35,000
School renovations	4.25 - 5.00%	2017	315,000
Fire Truck	3.50 - 6.00%	2018	400,000
Sidewalk repairs	3.50 - 3.75%	2013	90,000
Inn street electrical	3.50 - 6.00%	2018	80,000
Stormwater management	3.50 - 6.00%	2018	350,000
Street paving	3.50 - 6.00%	2018	400,000
Relocation of N. Res Terr.	3.50 - 6.00%	2018	55,000
City hall restrooms	3.50 - 6.00%	2016	25,000
Ferry road sidewalks	3.50 - 3.75%	2013	130,000
School building impr.	3.50 - 6.00%	2018	450,000
Police station refunding	2.00 - 2.50%	2015	405,500
City Hall refunding	2.00 - 2.50%	2013	62,250
School refunding	2.00 - 2.50%	2015	341,275
School refunding	2.00 - 2.50%	2017	179,700
Library refunding	2.00 - 2.50%	2017	246,950
Library renov. refunding	2.00 - 3.00%	2021	1,765,300
Land acquisition refunding	2.00 - 3.00%	2018	224,070
Recreation refunding	2.00 - 2.50%	2015	77,750
Recreation refunding	2.00 - 2.50%	2015	41,500
City hall refunding	2.00 - 3.00%	2020	95,980
Total Governmental Activities Debt:			<u><u>\$ 15,250,275</u></u>

<u>Business-Type Activities</u> <u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Principal</u> <u>Amount</u>
Plum Island	3.50 - 5.00%	2025	\$ 385,000
Sewer	3.50 - 5.00%	2025	565,000
MWPAT	3.50 - 5.00%	2034	4,041,370
Sewer	4.00 - 7.00%	2019	280,000
Sewer	4.00 - 7.00%	2019	1,280,000
Sewer	4.00 - 7.00%	2019	585,000
MWPAT	0.75%	2019	375,000
Plum Island	2.00%	2036	1,089,815
Sewer	4.25 - 5.00%	2017	110,000
Sewer mains	4.25 - 5.00%	2017	210,000
Sewer refunding	2.00 - 2.50%	2014	43,000
Sewer refunding	2.00 - 2.50%	2014	45,000
Wastewater plant refund	2.00 - 3.25%	2021	912,800
Sewer	2.00 - 4.00%	2028	4,160,000
MWPAT	2.00%	2031	4,125,375
Water	3.50 - 5.00%	2025	460,000
MWPAT	3.40 - 5.25%	2025	2,046,073
MWPAT	3.00 - 5.25	2025	2,770,218
Plum Island	2.00%	2037	726,543
Water	4.00 - 7.00%	2019	540,000
Water	4.00 - 7.00%	2012	5,000
Water	4.00 - 7.00%	2019	670,000
MWPAT	0.00%	2025	248,263
Water refunding	2.00 - 2.50%	2017	782,250
Water improv. refunding	2.00 - 3.25%	2021	944,675
Water refunding	2.00 - 2.50%	2014	60,000
Public wharf	3.50 - 5.00%	2025	75,000
Total Business-Type Activities Debt			<u>\$ 27,535,382</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,875,000	\$ 552,934	\$ 2,427,934
2013	1,855,000	495,541	2,350,541
2014	1,820,000	433,978	2,253,978
2015	1,665,275	372,394	2,037,669
2016	1,535,000	302,033	1,837,033
2017-2021	4,985,000	761,784	5,746,784
2022-2025	<u>1,515,000</u>	<u>143,442</u>	<u>1,658,442</u>
Total	<u>\$ 15,250,275</u>	<u>\$ 3,062,106</u>	<u>\$ 18,312,381</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2011:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,705,595	\$ 1,007,006	\$ 2,712,601
2013	1,714,572	949,254	2,663,826
2014	1,720,307	885,181	2,605,488
2015	1,659,083	817,695	2,476,778
2016	1,669,260	747,935	2,417,195
2017-2021	7,961,244	2,674,984	10,636,228
2022-2026	6,338,136	1,244,147	7,582,283
2027-2031	3,620,451	427,118	4,047,569
2032-2036	1,077,820	60,426	1,138,246
2037	68,914	127	69,041
Total	\$ <u>27,535,382</u>	\$ <u>8,813,873</u>	\$ <u>36,349,255</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2011 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
12/01/03	Sewer	\$ 700,000
09/03/04	Water	46,175
12/16/05	Land Acquisition	500,000
04/08/09	Wastewater Treatment Facility	17,493,777
Total		\$ <u>18,739,952</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/11</u>	Less Current Portion <u>Portion</u>	Equals Long-Term Portion <u>6/30/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 17,135	\$ -	\$ (1,885)	\$ 15,250	\$ (1,875)	\$ 13,375
Compensated absences	2,957	443	(296)	3,104	(310)	2,794
Net OPEB obligation	9,047	5,023	(2,141)	11,929	-	11,929
Totals	\$ <u>29,139</u>	\$ <u>5,466</u>	\$ <u>(4,322)</u>	\$ <u>30,283</u>	\$ <u>(2,185)</u>	\$ <u>28,098</u>

	Total Balance <u>7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/11</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 24,921	\$ 4,125	\$ (1,511)	\$ 27,535	\$ (1,706)	\$ 25,829
Compensated Absences	122	18	(12)	128	(13)	115
Net OPEB obligation	<u>764</u>	<u>366</u>	<u>(255)</u>	<u>875</u>	<u>-</u>	<u>875</u>
Totals	\$ <u>25,807</u>	\$ <u>4,509</u>	\$ <u>(1,778)</u>	\$ <u>28,538</u>	\$ <u>(1,719)</u>	\$ <u>26,819</u>

14. **Restricted Net Assets**

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

In fiscal year 2011, the City implemented GASB Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2011:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes

general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at City Meeting, stabilization accounts set aside by City Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2011:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 1,934,656	\$ 1,934,656
	<u>\$ -</u>	<u>\$ 1,934,656</u>	<u>\$ 1,934,656</u>
Restricted			
Capital project funds	\$ -	\$ 1,186,507	\$ 1,186,507
Special revenue funds	-	7,082,379	7,082,379
Expendable permanent funds	-	190,046	190,046
	<u>\$ -</u>	<u>\$ 8,458,932</u>	<u>\$ 8,458,932</u>
Committed			
Stabilization funds	\$ 2,942,613	\$ -	\$ 2,942,613
	<u>\$ 2,942,613</u>	<u>\$ -</u>	<u>\$ 2,942,613</u>
Assigned			
Encumbrances	\$ 286,830	\$ -	\$ 286,830
Reserved for expenditures	143,700	-	143,700
	<u>\$ 430,530</u>	<u>\$ -</u>	<u>\$ 430,530</u>
Unassigned	<u>\$ 2,282,624</u>	<u>\$ (30,369)</u>	<u>\$ 2,252,255</u>

16. **Subsequent Events**

Debt

Subsequent to June 30, 2011, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Sewer bond anticipation notes	\$ 500,000	1.00%	01/20/12	01/18/13
Water bond anticipation notes	\$ 1,166,000	1.00%	01/20/12	01/18/13

17. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

18. **Post-Employment Healthcare and Life Insurance Benefits**

GASB Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2010, the actuarial valuation date, approximately 417 retirees and 596 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 25% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2010.

Annual Required Contribution (ARC)	\$ 6,460,152
Interest on net OPEB obligation	392,430
Adjustment to ARC	(848,453)
Amortization of Actuarial (Gains) / Losses	<u>(614,906)</u>
Annual OPEB cost	5,389,223
Contributions made	<u>(2,395,597)</u>
Increase in net OPEB obligation	2,993,626
Net OPEB obligation - beginning of year	<u>9,810,764</u>
Net OPEB obligation - end of year	<u><u>\$ 12,804,390</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 5,389,223	44.5%	\$ 12,804,390
2010	\$ 7,136,512	31.3%	\$ 9,810,764
2009	\$ 7,136,512	31.3%	\$ 4,905,382

The City's net OPEB obligation as of June 30, 2011 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 64,860,191
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 64,860,191</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.00% investment rate of return and an initial annual healthcare cost trend rate of 8.00% which decreases to a 5.00% long-term rate for all healthcare benefits after three years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed

basis. This has been calculated assuming the amortization payment increases at a rate of 4.50%.

19. **Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

20. **Beginning Fund Balance Reclassification**

The City's major governmental funds for fiscal year 2011, as defined by GASB Statement 34 and with the implementation of Statement 54 have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/2010 (as previously reported)	Stabilization accounts Reclassification	Fund Equity 6/30/2010 (as restated)
General Fund	\$ 3,059,828	\$ 3,103,779	\$ 6,163,607
Nonmajor Funds	12,629,455	(3,103,779)	9,525,676
Total	<u>\$ 15,689,283</u>	<u>\$ -</u>	<u>\$ 15,689,283</u>

CITY OF NEWBURYPORT, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011
(Unaudited)

Other Post-Employment Benefits

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 Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 74,485,260	\$ 74,485,260	0.0%	\$ 27,055,000	275.3%
07/01/10	\$ -	\$ 64,860,191	\$ 64,860,191	0.0%	N/A	N/A

See Independent Auditors' Report.