

CITY OF NEWBURYPORT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2012, 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.

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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2013 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.

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

Melanson, Heath + Company P.C.
March 1, 2013

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, 2012. 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 \$ 107,726 (i.e., net assets), a change of \$ (1,148) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,087, a change of \$ 68 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,827, a change of \$ 544 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 53,561, a change of \$ 10,776 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 Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 22,421	\$ 20,864	\$ 18,915	\$ 18,666	\$ 41,336	\$ 39,530
Capital assets	<u>67,383</u>	<u>67,625</u>	<u>79,310</u>	<u>70,022</u>	<u>146,693</u>	<u>137,647</u>
Total assets	<u>89,804</u>	<u>88,489</u>	<u>98,225</u>	<u>88,688</u>	<u>188,029</u>	<u>177,177</u>
Long-term liabilities outstanding	31,448	30,283	41,412	28,538	72,860	58,821
Other liabilities	<u>4,908</u>	<u>3,323</u>	<u>2,535</u>	<u>6,159</u>	<u>7,443</u>	<u>9,482</u>
Total liabilities	<u>36,356</u>	<u>33,606</u>	<u>43,947</u>	<u>34,697</u>	<u>80,303</u>	<u>68,303</u>
Net assets:						
Invested in capital assets, net	54,041	53,561	41,357	40,221	95,398	93,782
Restricted	9,454	9,177	-	-	9,454	9,177
Unrestricted	<u>(10,047)</u>	<u>(7,855)</u>	<u>12,921</u>	<u>13,770</u>	<u>2,874</u>	<u>5,915</u>
Total net assets	<u>\$ 53,448</u>	<u>\$ 54,883</u>	<u>\$ 54,278</u>	<u>\$ 53,991</u>	<u>\$ 107,726</u>	<u>\$ 108,874</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,547	\$ 3,804	\$ 9,558	\$ 9,779	\$ 14,105	\$ 13,583
Operating grants and contributions	13,502	12,868	-	-	13,502	12,868
Capital grants and contributions	778	877	874	2,472	1,652	3,349
General revenues:						
Property taxes	42,700	40,746	-	-	42,700	40,746
Excises	2,462	2,336	-	-	2,462	2,336
Penalties, interest and other taxes	542	431	-	-	542	431
Grants and contributions not restricted to specific programs	2,265	2,431	-	-	2,265	2,431
Investment income	123	446	4	12	127	458
Other	596	860	-	-	596	860
Total revenues	<u>67,515</u>	<u>64,799</u>	<u>10,436</u>	<u>12,263</u>	<u>77,951</u>	<u>77,062</u>
Expenses:						
General government	5,590	4,906	-	-	5,590	4,906
Public safety	8,876	9,108	-	-	8,876	9,108
Education	41,520	40,646	-	-	41,520	40,646
Public works	3,982	3,940	-	-	3,982	3,940
Human services	2,804	2,587	-	-	2,804	2,587
Culture and recreation	2,870	2,875	-	-	2,870	2,875
Interest on long-term debt	562	609	-	-	562	609
Intergovernmental	2,823	2,263	-	-	2,823	2,263
Sewer operations	-	-	5,531	4,822	5,531	4,822
Water operations	-	-	4,166	4,054	4,166	4,054
Harbor operations	-	-	375	243	375	243
Total expenses	<u>69,027</u>	<u>66,934</u>	<u>10,072</u>	<u>9,119</u>	<u>79,099</u>	<u>76,053</u>
Change in net assets before transfers	(1,512)	(2,135)	364	3,144	(1,148)	1,009
Transfers in (out)	<u>77</u>	<u>-</u>	<u>(77)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,435)	(2,135)	287	3,144	(1,148)	1,009
Net assets - beginning 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>
Net assets - end of year	<u>\$ 53,448</u>	<u>\$ 54,883</u>	<u>\$ 54,278</u>	<u>\$ 53,991</u>	<u>\$ 107,726</u>	<u>\$ 108,874</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 \$ 107,726, a change of \$ (1,148) from the prior year.

The largest portion of net assets \$ 95,398 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 \$ 9,454 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 2,874 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 \$ (1,435). Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 915
Enterprise fund transfers, net	77
Special revenue fund revenues in excess of expenditures	667
Depreciation expense in excess of principal debt service	(1,538)
Increase in net OPEB obligation	(2,884)
Capital asset additions from current year revenues	1,628
Other	<u>(300)</u>
Total	\$ <u><u>(1,435)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 287.

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

Sewer operations	\$ 518
Water operations	(229)
Other	<u>(2)</u>
Total	\$ <u><u>287</u></u>

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 \$ 16,087, a change of \$ 68 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$	915
Enterprise fund transfers, net		77
Special revenue fund revenues in excess of expenditures		667
Capital project fund expenditures in excess of revenues		(1,535)
Trust fund expenditures in excess of revenues		<u>(56)</u>
Total	\$	<u><u>68</u></u>

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 \$ 2,827, while total fund balance was \$ 6,633. 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>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	% of <u>Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,827	\$ 2,283	\$ 544	4.9%
Total fund balance	6,633	5,656	977	11.6%

The total fund balance of the general fund changed by \$ 977 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (1,167)
Use of Stabilization accounts, net	(305)
Collections of prior year taxes	306
Revenues in excess of budget	908
Expenditures less than budget	666
Change in encumbrances	573
Other	<u>(4)</u>
Total	\$ <u><u>977</u></u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Stabilization accounts	\$ <u>2,638</u>	\$ <u>2,943</u>	\$ <u>(305)</u>
Total	\$ <u><u>2,638</u></u>	\$ <u><u>2,943</u></u>	\$ <u><u>(305)</u></u>

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 \$ 12,921, a change of \$ (849) 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 \$ 2,023. The reasons for these amendments include:

General government appropriations	\$ 661
Public safety appropriations	283
Public works appropriations	547
Transfers to other funds appropriations	285
Other various appropriations	<u>247</u>
Total	\$ <u><u>2,023</u></u>

The supplemental appropriations were primarily 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 \$ 146,693 (net of accumulated depreciation), a change of \$ 9,046 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 \$ 53,561, 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.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Signs of economic recovery were apparent in FY 2012. General Fund "Free Cash" generated from FY 2012 financial operations totaled \$ 2,241,951, which was the largest sum in recent history. This was due in part to increased automobile sales and building activity throughout the City. As a result, the Mayor and City Council were able to use a portion of Free Cash to lower the FY 2013 tax rate below the levels allowable under Proposition 2½.

The City also instituted a new paid parking program and generated additional revenues from an increase in the local meals tax. This, combined with savings from changes in employee health insurance, helped the City to maintain a strong financial position with healthy reserves and a positive revenue stream. This was evidenced by the City's ability to maintain an AA bond rating during trying times for municipalities throughout America. Other factors that also helped the City to maintain this rating were a growing tax base with improved resident wealth indices, and a manageable debt position. The City also managed to reach its goal of retaining 5% of General Fund revenues in the Stabilization Account.

The fiscal 2013 budget was approved by the Mayor and City Council in the amount of \$ 59,521,184, which included the General Fund, and three enterprise funds - Water, Sewer, and Harbormaster. The City has also initiated additional

changes in employee health insurance that will result in savings in FY 2013. The City has also held the line on salaries which has been a positive factor in maintaining a responsible Fiscal Year 2013 budget, while at the same time, providing satisfactory levels of services to the public.

The City continues to use conservative budget revenue estimates due to the uncertainty of today's economy and questions associated with the State's ability to provide local aid at increasing levels. It should be noted that the City received an award from the Government Finance Officers Association (GFOA) for its FY 2013 budget presentation, which is another positive indicator of financial stability in the City.

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, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 18,373,224	\$ 6,637,754	\$ 25,010,978
Investments	1,935,083	-	1,935,083
Receivables, net of allowance for uncollectibles:			
Property taxes	1,067,702	-	1,067,702
Excises	199,741	-	199,741
User fees	-	2,149,685	2,149,685
Betterments	-	603,085	603,085
Intergovernmental	240,685	2,587,276	2,827,961
Other	-	1,827	1,827
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	604,941	-	604,941
Betterments	-	6,935,480	6,935,480
Capital assets, being depreciated, net	56,709,038	78,048,139	134,757,177
Capital assets, not being depreciated	<u>10,673,641</u>	<u>1,261,367</u>	<u>11,935,008</u>
TOTAL ASSETS	89,804,055	98,224,613	188,028,668
LIABILITIES			
Current:			
Warrants and accounts payable	2,806,680	-	2,806,680
Accrued liabilities	242,594	303,934	546,528
Taxes paid in advance	546,239	-	546,239
Notes payable	1,150,000	2,226,642	3,376,642
Other liabilities	162,622	3,229	165,851
Current portion of long-term liabilities:			
Bonds payable	1,855,000	1,714,572	3,569,572
Compensated absences	325,955	13,422	339,377
Noncurrent:			
Bonds payable, net of current portion	11,520,275	38,471,847	49,992,122
Compensated absences, net of current portion	2,933,597	120,793	3,054,390
Net OPEB obligation	<u>14,813,497</u>	<u>1,092,032</u>	<u>15,905,529</u>
TOTAL LIABILITIES	36,356,459	43,946,471	80,302,930
NET ASSETS			
Invested in capital assets, net of related debt	54,040,503	41,357,386	95,397,889
Restricted for:			
Grants and other statutory restrictions	7,384,767	-	7,384,767
Permanent funds			
Nonexpendable	1,896,821	-	1,896,821
Expendable	172,795	-	172,795
Unrestricted	<u>(10,047,290)</u>	<u>12,920,756</u>	<u>2,873,466</u>
TOTAL NET ASSETS	\$ <u>53,447,596</u>	\$ <u>54,278,142</u>	\$ <u>107,725,738</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 5,590,166	\$ 1,348,073	\$ 640,049	\$ -	\$ (3,602,044)	\$ -	\$ (3,602,044)
Public safety	8,876,423	534,993	419,133	-	(7,922,297)	-	(7,922,297)
Education	41,520,463	1,897,059	12,130,293	-	(27,493,111)	-	(27,493,111)
Public works	3,981,995	271,448	101,073	647,787	(2,961,687)	-	(2,961,687)
Health and human services	2,803,874	176,732	211,905	-	(2,415,237)	-	(2,415,237)
Culture and recreation	2,869,560	318,218	-	130,037	(2,421,305)	-	(2,421,305)
Interest on debt service	561,521	-	-	-	(561,521)	-	(561,521)
Intergovernmental	2,822,726	-	-	-	(2,822,726)	-	(2,822,726)
Total Governmental Activities	69,026,728	4,546,523	13,502,453	777,824	(50,199,928)	-	(50,199,928)
Business-Type Activities:							
Sewer services	5,531,247	5,110,023	-	873,846	-	452,622	452,622
Water services	4,165,918	4,102,027	-	-	-	(63,891)	(63,891)
Other services	374,561	345,478	-	-	-	(29,083)	(29,083)
Total Business-Type Activities	10,071,726	9,557,528	-	873,846	-	359,648	359,648
Total	\$ 79,098,454	\$ 14,104,051	\$ 13,502,453	\$ 1,651,670	(50,199,928)	359,648	(49,840,280)
General Revenues:							
Property taxes					42,700,074	-	42,700,074
Excises					2,462,354	-	2,462,354
Penalties, interest and other taxes					541,813	-	541,813
Grants and contributions not restricted to specific programs					2,265,561	-	2,265,561
Investment income					122,665	3,989	126,654
Other					595,810	-	595,810
Transfers, net					76,598	(76,598)	-
Total general revenues					48,764,875	(72,609)	48,692,266
Change in Net Assets					(1,435,053)	287,039	(1,148,014)
Net Assets:							
Beginning of year					54,882,649	53,991,103	108,873,752
End of year					\$ 53,447,596	\$ 54,278,142	\$ 107,725,738

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 9,849,895	\$ 8,523,329	\$ 18,373,224
Investments	-	1,935,083	1,935,083
Receivables:			
Property taxes	2,151,876	17,558	2,169,434
Excises	628,359	-	628,359
Intergovernmental	-	240,685	240,685
TOTAL ASSETS	<u>\$ 12,630,130</u>	<u>\$ 10,716,655</u>	<u>\$ 23,346,785</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants and accounts payable	\$ 2,806,680	\$ -	\$ 2,806,680
Deferred revenue	2,433,775	17,558	2,451,333
Accrued liabilities	55,990	87,000	142,990
Taxes collected in advance	546,239	-	546,239
Notes payable	-	1,150,000	1,150,000
Other liabilities	154,907	7,714	162,621
TOTAL LIABILITIES	5,997,591	1,262,272	7,259,863
Fund Balances:			
Nonspendable	-	1,896,821	1,896,821
Restricted	-	7,557,562	7,557,562
Committed	2,638,133	-	2,638,133
Assigned	1,167,773	-	1,167,773
Unassigned	2,826,633	-	2,826,633
TOTAL FUND BALANCES	<u>6,632,539</u>	<u>9,454,383</u>	<u>16,086,922</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,630,130</u>	<u>\$ 10,716,655</u>	<u>\$ 23,346,785</u>

CITY OF NEWBURYPORT, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total governmental fund balances	\$ 16,086,922
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	67,382,679
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,525,923
<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.	(99,604)
<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>(31,448,324)</u>
Net assets of governmental activities	\$ <u><u>53,447,596</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, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 42,112,641	\$ 626,292	\$ 42,738,933
Excise taxes	2,534,193	-	2,534,193
Interest, penalties, & other taxes	536,469	5,344	541,813
Charges for services	127,643	3,776,531	3,904,174
Licenses and permits	619,806	-	619,806
Intergovernmental	11,712,646	4,833,192	16,545,838
Investment income	167,403	(44,738)	122,665
Fines and forfeitures	22,543	-	22,543
Contributions	-	11,000	11,000
Other	477,178	107,632	584,810
Total Revenues	<u>58,310,522</u>	<u>9,315,253</u>	<u>67,625,775</u>
Expenditures:			
Current:			
General government	2,886,361	1,994,153	4,880,514
Public safety	6,536,418	226,343	6,762,761
Education	27,140,552	6,212,923	33,353,475
Public works	2,207,445	711,893	2,919,338
Health & human services	2,023,256	223,459	2,246,715
Culture and recreation	1,301,604	414,614	1,716,218
Employee benefits	10,371,048	111,276	10,482,324
Debt service	2,106,360	344,006	2,450,366
Intergovernmental	2,822,726	-	2,822,726
Total Expenditures	<u>57,395,770</u>	<u>10,238,667</u>	<u>67,634,437</u>
Excess (deficiency) of revenues over expenditures	914,752	(923,414)	(8,662)
Other Financing Sources (Uses):			
Transfers in	351,535	526,097	877,632
Transfers out	(289,515)	(511,519)	(801,034)
Total Other Financing Sources (Uses)	<u>62,020</u>	<u>14,578</u>	<u>76,598</u>
Change in fund balances	976,772	(908,836)	67,936
Fund Balance, at Beginning of Year	<u>5,655,767</u>	<u>10,363,219</u>	<u>16,018,986</u>
Fund Balance, at End of Year	<u>\$ 6,632,539</u>	<u>\$ 9,454,383</u>	<u>\$ 16,086,922</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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 67,936
<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	3,170,805
Depreciation	(3,412,664)
<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. 	(110,698)
<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	1,875,000
Increase in net OPEB obligation	(2,884,060)
<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. 	13,845
<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. 	<u>(155,217)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(1,435,053)</u>

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, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
Revenues and Other Sources:				
Property taxes	\$ 41,710,073	\$ 41,806,433	\$ 41,806,433	\$ -
Excise taxes	2,202,000	2,202,000	2,534,193	332,193
Charges for services	113,000	113,000	127,643	14,643
Interest, penalties, and other taxes	465,000	465,000	536,469	71,469
Licenses and permits	650,000	650,000	619,806	(30,194)
Intergovernmental	5,850,878	5,850,878	6,413,141	562,263
Investment income	70,000	70,000	64,051	(5,949)
Fines and forfeits	80,000	80,000	22,543	(57,457)
Other	455,976	455,976	477,178	21,202
Transfers in	-	759,367	759,367	-
Other sources	-	1,166,719	1,166,719	-
Total Revenues and Other Sources	51,596,927	53,619,373	54,527,543	908,170
Expenditures and Other Uses:				
General government	2,352,313	3,013,485	2,926,662	86,823
Public safety	6,357,130	6,639,829	6,542,314	97,515
Education	22,231,159	22,231,159	22,231,159	-
Public works	1,777,130	2,323,830	2,201,442	122,388
Health and human service	1,918,974	2,125,984	2,125,651	333
Culture and recreation	1,301,660	1,343,810	1,324,812	18,998
Employee benefits	11,049,913	11,048,113	10,382,442	665,671
Debt service	2,106,361	2,106,361	2,106,361	-
Intergovernmental	2,497,287	2,497,287	2,822,726	(325,439)
Transfers out	5,000	289,515	289,515	-
Total Expenditures and Other Uses	51,596,927	53,619,373	52,953,084	666,289
Excess revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,574,459	\$ 1,574,459

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 3,022,331	\$ 3,334,817	\$ 280,606	\$ 6,637,754
User fee receivables	1,178,621	943,294	27,770	2,149,685
Betterment receivables	404,349	198,736	-	603,085
Intergovernmental receivables	560,642	2,026,634	-	2,587,276
Other assets	1,827	-	-	1,827
Noncurrent:				
Betterment receivables	4,650,012	2,285,468	-	6,935,480
Capital assets, being depreciated, net	40,453,141	37,452,898	142,100	78,048,139
Capital assets, not being depreciated	<u>268,808</u>	<u>822,559</u>	<u>170,000</u>	<u>1,261,367</u>
TOTAL ASSETS	50,539,731	47,064,406	620,476	98,224,613
<u>LIABILITIES</u>				
Current:				
Accrued liabilities	181,736	122,198	-	303,934
Notes payable	1,060,642	1,166,000	-	2,226,642
Other liabilities	316	2,396	517	3,229
Current portion of long-term liabilities:				
Bonds payable	979,747	709,825	25,000	1,714,572
Compensated absences	3,518	9,904	-	13,422
Noncurrent:				
Bonds payable, net of current portion	22,367,455	16,079,392	25,000	38,471,847
Compensated absences, net of current portion	31,661	89,132	-	120,793
Net OPEB Obligation	<u>498,537</u>	<u>593,495</u>	<u>-</u>	<u>1,092,032</u>
TOTAL LIABILITIES	25,123,612	18,772,342	50,517	43,946,471
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	17,307,147	23,788,139	262,100	41,357,386
Unrestricted	<u>8,108,972</u>	<u>4,503,925</u>	<u>307,859</u>	<u>12,920,756</u>
TOTAL NET ASSETS	<u>\$ 25,416,119</u>	<u>\$ 28,292,064</u>	<u>\$ 569,959</u>	<u>\$ 54,278,142</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, 2012

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Operating Revenues:				
Charges for services	\$ <u>5,110,023</u>	\$ <u>4,102,027</u>	\$ <u>345,478</u>	\$ <u>9,557,528</u>
Total Operating Revenues	5,110,023	4,102,027	345,478	9,557,528
Operating Expenses:				
Personnel services	1,758,698	1,622,957	178,679	3,560,334
Non-personnel services	1,703,634	1,066,438	177,579	2,947,651
Depreciation	<u>1,612,535</u>	<u>1,247,482</u>	<u>15,403</u>	<u>2,875,420</u>
Total Operating Expenses	<u>5,074,867</u>	<u>3,936,877</u>	<u>371,661</u>	<u>9,383,405</u>
Operating Income (Loss)	35,156	165,150	(26,183)	174,123
Nonoperating Revenues (Expenses):				
Interest income	100	113	3,776	3,989
Interest expense	<u>(456,380)</u>	<u>(229,041)</u>	<u>(2,900)</u>	<u>(688,321)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(456,280)</u>	<u>(228,928)</u>	<u>876</u>	<u>(684,332)</u>
Income before transfers and capital contributions	(421,124)	(63,778)	(25,307)	(510,209)
Transfers and Capital Contributions:				
Capital contributions	873,846	-	-	873,846
Transfers in	65,000	-	23,402	88,402
Transfers out	<u>-</u>	<u>(165,000)</u>	<u>-</u>	<u>(165,000)</u>
Change in Net Assets	517,722	(228,778)	(1,905)	287,039
Net Assets at Beginning of Year	<u>24,898,397</u>	<u>28,520,842</u>	<u>571,864</u>	<u>53,991,103</u>
Net Assets at End of Year	\$ <u><u>25,416,119</u></u>	\$ <u><u>28,292,064</u></u>	\$ <u><u>569,959</u></u>	\$ <u><u>54,278,142</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Funds	Total
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 5,102,012	\$ 4,165,783	\$ 343,465	\$ 9,611,260
Payments to employees	(1,427,104)	(1,498,912)	(178,679)	(3,104,695)
Payments to vendors	(2,857,243)	(1,476,298)	(177,258)	(4,510,799)
Net Cash Provided By (Used For) Operating Activities	817,665	1,190,573	(12,472)	1,995,766
Cash Flows From Noncapital Financing Activities:				
Transfers in	65,000	-	23,402	88,402
Transfers out	-	(165,000)	-	(165,000)
Betterments	298,657	181,870	-	480,527
Net Cash Provided By Noncapital Financing Activities	363,657	16,870	23,402	403,929
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(5,450,779)	(6,712,316)	-	(12,163,095)
Capital contributions	873,846	-	-	873,846
Proceeds from issuance of bonds and notes	7,284,283	7,387,916	-	14,672,199
Principal payments on bonds and notes	(4,322,937)	(1,878,355)	(25,000)	(6,226,292)
Interest expense	(456,380)	(229,041)	(2,900)	(688,321)
Net Cash (Used For) Capital and Related Financing Activities	(2,071,967)	(1,431,796)	(27,900)	(3,531,663)
Cash Flows From Investing Activities:				
Investment income	100	113	3,776	3,989
Net Cash Provided By Investing Activities	100	113	3,776	3,989
Net Change in Cash and Short-Term Investments	(890,545)	(224,240)	(13,194)	(1,127,979)
Cash and Short-Term Investments, Beginning of Year	3,912,876	3,559,057	293,800	7,765,733
Cash and Short-Term Investments, End of Year	\$ 3,022,331	\$ 3,334,817	\$ 280,606	\$ 6,637,754
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Operating income (Loss)	\$ 35,156	\$ 165,150	\$ (26,183)	\$ 174,123
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	1,612,535	1,247,482	15,403	2,875,420
Changes in assets and liabilities:				
User fees	(8,011)	63,756	(2,013)	53,732
Accrued liabilities	(916,725)	(414,576)	-	(1,331,301)
OPEB	93,034	124,045	-	217,079
Other liabilities	1,676	4,716	321	6,713
Net Cash Provided By (Used For) Operating Activities	\$ 817,665	\$ 1,190,573	\$ (12,472)	\$ 1,995,766

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>230,330</u>
Total Assets	230,330
<u>LIABILITIES</u>	
Other liabilities	<u>230,330</u>
Total Liabilities	\$ <u><u>230,330</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 2012 tax levy reflected an excess capacity of approximately \$ 13,773.

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)	\$ 58,310,522	\$ 57,395,770
Other financing sources/uses (GAAP Basis)	<u>351,535</u>	<u>289,515</u>
Subtotal (GAAP Basis)	58,662,057	57,685,285
To adjust property tax revenue to the Budgetary Basis	(306,208)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(286,830)
Add end-of-year appropriation carryforwards from expenditures	-	859,443
To record use of free cash and overlay surplus	1,166,719	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,299,505)	(5,299,505)
Other	<u>304,480</u>	<u>(5,309)</u>
Budgetary Basis	<u>\$ 54,527,543</u>	<u>\$ 52,953,084</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, 2012, \$ 1,790,999 of the City's bank balances of \$ 26,967,755 was 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>A1</u>	<u>A3</u>
Federal agency securities	\$ 206	\$ -	\$ 206	\$ -	\$ -
Corporate bonds	90	-	-	45	45
Corporate equities	499	499	-	-	-
Mutual funds	<u>1,140</u>	<u>1,140</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,935</u>	<u>\$ 1,639</u>	<u>\$ 206</u>	<u>\$ 45</u>	<u>\$ 45</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. There were no investments in any one issuer (other than U.S.

Treasury securities and mutual funds) that represent 5% or more of total investments.

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>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>1-5</u>	<u>6-10</u>
Federal agency securities	\$ 206	\$ 206	\$ -
Corporate bonds	<u>90</u>	<u>90</u>	<u>-</u>
Total	<u>\$ 296</u>	<u>\$ 296</u>	<u>\$ -</u>

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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 973	
2011	158	
2010	7	
2009	7	
Prior	<u>119</u>	
		1,264
Personal Property		
2012	11	
2011	43	
2010	38	
2009	8	
Prior	<u>110</u>	
		210
Tax Liens		677
CPA		<u>18</u>
Total		<u>\$ 2,169</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):

	<u>Governmental</u>
Property taxes	\$ 496
Excises	428

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

8. **Capital Assets**

Capital asset activity for the year ended June 30, 2012 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	\$ 69,979	\$ 454	\$ -	\$ 70,433
Infrastructure	27,589	1,022	-	28,611
Machinery and equipment	<u>3,962</u>	<u>315</u>	<u>-</u>	<u>4,277</u>
Total capital assets, being depreciated	101,530	1,791	-	103,321
Less accumulated depreciation for:				
Buildings and improvements	(20,983)	(2,362)	-	(23,345)
Infrastructure	(19,811)	(738)	-	(20,549)
Machinery and equipment	<u>(2,405)</u>	<u>(313)</u>	<u>-</u>	<u>(2,718)</u>
Total accumulated depreciation	<u>(43,199)</u>	<u>(3,413)</u>	<u>-</u>	<u>(46,612)</u>
Total capital assets, being depreciated, net	58,331	(1,622)	-	56,709
Capital assets, not being depreciated:				
Land	9,294	184	-	9,478
CIP	<u>-</u>	<u>1,196</u>	<u>-</u>	<u>1,196</u>
Total capital assets, not being depreciated	<u>9,294</u>	<u>1,380</u>	<u>-</u>	<u>10,674</u>
Governmental activities capital assets, net	<u>\$ 67,625</u>	<u>\$ (242)</u>	<u>\$ -</u>	<u>\$ 67,383</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,358	\$ -	\$ -	\$ 1,358
Infrastructure	81,034	28,233	-	109,267
Machinery and equipment	<u>2,321</u>	<u>-</u>	<u>-</u>	<u>2,321</u>
Total capital assets, being depreciated	84,713	28,233	-	112,946
Less accumulated depreciation for:				
Buildings and improvements	(179)	(69)	-	(248)
Infrastructure	(30,991)	(2,658)	-	(33,649)
Machinery and equipment	<u>(852)</u>	<u>(148)</u>	<u>-</u>	<u>(1,000)</u>
Total accumulated depreciation	<u>(32,022)</u>	<u>(2,875)</u>	<u>-</u>	<u>(34,897)</u>
Total capital assets, being depreciated, net	52,691	25,358	-	78,049
Capital assets, not being depreciated:				
Land	1,261	-	-	1,261
Construction in progress	<u>16,070</u>	<u>-</u>	<u>(16,070)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>17,331</u>	<u>-</u>	<u>(16,070)</u>	<u>1,261</u>
Business-type activities capital assets, net	<u>\$ 70,022</u>	<u>\$ 25,358</u>	<u>\$ (16,070)</u>	<u>\$ 79,310</u>

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

Governmental Activities:	
General government	\$ 328
Public safety	372
Education	1,060
Public works	897
Health and human services	23
Culture and recreation	<u>733</u>
Total depreciation expense - governmental activities	\$ <u>3,413</u>
Business-Type Activities:	
Sewer	\$ 1,613
Water	1,247
Harbor	<u>15</u>
Total depreciation expense - business-type activities	\$ <u>2,875</u>

9. **Warrants and Accounts Payable**

Warrants payable represent 2012 expenditures paid by July 15, 2012.

Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

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, 2012 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, 2012:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>
School	1.00%	02/14/12	01/18/13	\$ 1,150,000
Sewer	1.00%	01/20/12	01/18/13	500,000
			Upon	
Sewer (MWPAT)	0.00%	Variable	Completion	560,642
Water	1.00%	01/20/12	01/18/13	<u>1,166,000</u>
Total				<u>\$ 3,376,642</u>

The following summarizes activity in notes payable during fiscal year 2012 (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>
School	\$ -	\$ 1,150	\$ -	\$ 1,150
Sewer notes	3,355	1,061	(3,355)	1,061
Water notes	<u>1,166</u>	<u>1,166</u>	<u>(1,166)</u>	<u>1,166</u>
Total	<u>\$ 4,521</u>	<u>\$ 3,377</u>	<u>\$ (4,521)</u>	<u>\$ 3,377</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>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Boardwalk	3.765	2017	\$ 170,000
High school	3.760%	2023	1,760,000
Boardwalk	3.760%	2017	160,000
Boardwalk	3.760%	2017	50,000
High school	3.50 - 5.00%	2025	3,740,000
School demountables	3.50 - 5.00%	2025	300,000
Recreation	3.50 - 5.00%	2025	10,000
City hall	4.00 - 7.00%	2019	1,050,000
Land acquisition	4.00 - 7.00%	2019	675,000
Equipment	4.25 - 5.00%	2017	330,000
Drainage	4.25 - 5.00%	2017	245,000
Central server - IT	4.25 - 5.00%	2015	40,000
Recreational facility	4.25 - 5.00%	2017	30,000
School renovations	4.25 - 5.00%	2017	285,000
Fire Truck	3.50 - 6.00%	2018	350,000
Sidewalk repairs	3.50 - 3.75%	2013	60,000
Inn street electrical	3.50 - 6.00%	2018	70,000
Stormwater management	3.50 - 6.00%	2018	315,000
Street paving	3.50 - 6.00%	2018	350,000
Relocation of N. Res Terr.	3.50 - 6.00%	2018	45,000
City hall restrooms	3.50 - 6.00%	2016	20,000
Ferry road sidewalks	3.50 - 3.75%	2013	85,000
School building impr.	3.50 - 6.00%	2018	425,000
Police station refunding	2.00 - 2.50%	2015	295,500
City Hall refunding	2.00 - 2.50%	2013	29,250
School refunding	2.00 - 2.50%	2015	243,275
School refunding	2.00 - 2.50%	2017	142,700
Library refunding	2.00 - 2.50%	2017	203,000
Library renov. refunding	2.00 - 3.00%	2021	1,535,300
Land acquisition refunding	2.00 - 3.00%	2018	190,000
Recreation refunding	2.00 - 2.50%	2015	56,250
Recreation refunding	2.00 - 2.50%	2015	31,000
City hall refunding	2.00 - 3.00%	2020	84,000
Total Governmental Activities Debt:			<u>\$ 13,375,275</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Plum Island	3.50 - 5.00%	2025	\$ 360,000
Sewer	3.50 - 5.00%	2025	525,000
MWPAT	3.50 - 5.00%	2034	340,000
Sewer	4.00 - 7.00%	2019	260,000
Sewer	4.00 - 7.00%	2019	1,195,000
Sewer	4.00 - 7.00%	2019	540,000
MWPAT	0.75%	2019	3,930,711
Plum Island	2.00%	2038	1,049,680
Sewer	4.25 - 5.00%	2017	90,000
Sewer mains	4.25 - 5.00%	2017	180,000
Sewer refunding	2.00 - 2.50%	2014	30,000
Sewer refunding	2.00 - 2.50%	2014	30,000
Wastewater plant refund	2.00 - 3.25%	2021	812,800
Sewer	2.00 - 4.00%	2028	3,940,000
MWPAT	2.00%	2031	3,955,929
MWPAT	2.00%	2033	6,108,082
Water	3.50 - 5.00%	2025	425,000
MWPAT	3.40 - 5.25%	2025	1,929,375
MWPAT	3.00 - 5.25	2025	2,614,048
Plum Island	2.00%	2038	699,789
Water	4.00 - 7.00%	2019	495,000
Water	4.00 - 7.00%	2019	620,000
MWPAT	0.00%	2025	230,530
Water refunding	2.00 - 2.50%	2017	647,250
Water improv. refunding	2.00 - 3.25%	2021	839,675
Water refunding	2.00 - 2.50%	2014	40,000
MWPAT	2.00%	2033	8,248,550
Public wharf	3.50 - 5.00%	2025	50,000
Total Business-Type Activities Debt:			<u>\$ 40,186,419</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,490,000	242,443	1,732,443
2018 - 2022	3,955,000	581,231	4,536,231
2023	<u>1,055,000</u>	<u>81,552</u>	<u>1,136,552</u>
Total	<u>\$ 13,375,275</u>	<u>\$ 2,509,172</u>	<u>\$ 15,884,447</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, 2012:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,714,572	\$ 1,152,000	\$ 2,866,572
2014	2,301,047	1,166,507	3,467,554
2015	2,252,445	1,087,278	3,339,723
2016	2,275,518	1,005,523	3,281,041
2017	2,337,124	913,169	3,250,293
2018 - 2022	10,933,595	3,392,416	14,326,011
2023 - 2027	9,332,487	1,710,899	11,043,386
2028 - 2032	7,019,126	620,147	7,639,273
Thereafter	<u>2,020,505</u>	<u>37,640</u>	<u>2,058,145</u>
Total	<u>\$ 40,186,419</u>	<u>\$ 11,085,579</u>	<u>\$ 51,271,998</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2012 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	13,622,877
09/10/10	Sewer	500,000
09/10/10	Water	10,501,450
06/05/12	Schools	650,000
06/05/12	Schools	500,000
01/12/12	Sewer	6,270,000
Total		<u>\$ 33,290,502</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/12</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 15,250	\$ -	\$ (1,875)	\$ 13,375	\$ (1,855)	\$ 11,520
Compensated absences	3,104	466	(310)	3,260	(326)	2,934
Net OPEB obligation	11,929	5,256	(2,372)	14,813	-	14,813
Totals	<u>\$ 30,283</u>	<u>\$ 5,722</u>	<u>\$ (4,557)</u>	<u>\$ 31,448</u>	<u>\$ (2,181)</u>	<u>\$ 29,267</u>
	<u>Total Balance 7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/12</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/12</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 27,535	\$ 14,357	\$ (1,706)	\$ 40,186	\$ (1,715)	\$ 38,471
Compensated absences	128	19	(13)	134	(13)	121
Net OPEB obligation	875	396	(179)	1,092	-	1,092
Totals	<u>\$ 28,538</u>	<u>\$ 14,772</u>	<u>\$ (1,898)</u>	<u>\$ 41,412</u>	<u>\$ (1,728)</u>	<u>\$ 39,684</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, 2012:

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 by City Council, stabilization accounts set aside by City Council 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, 2012:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 1,896,821	\$ 1,896,821
Total Nonexpendable	-	1,896,821	1,896,821
Restricted			
Capital project funds	-	33,099	33,099
Special revenue funds	-	7,351,668	7,351,668
Expendable permanent funds	-	172,795	172,795
Total Restricted	-	7,557,562	7,557,562
Committed			
Stabilization funds	2,638,133	-	2,638,133
Total Committed	2,638,133	-	2,638,133
Assigned			
Encumbrances	859,443	-	859,443
Reserved for expenditures	308,330	-	308,330
Total Assigned	1,167,773	-	1,167,773
Unassigned	2,826,633	-	2,826,633
Total Unassigned	2,826,633	-	2,826,633
Total Fund Balance	\$ 6,632,539	\$ 9,454,383	\$ 16,086,922

16. Subsequent Events

Debt

Subsequent to June 30, 2012, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
MWPAT interim notes	\$ 13,611,357	0.12%	08/15/12	Upon Completion
General obligation bonds	\$ 33,730,000	2.50% - 5.00 %	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 2012 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, 2012, 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)	\$ 6,602,615
Interest on net OPEB obligation	512,176
Adjustment to ARC	(1,107,347)
Amortization of Actuarial (Gains)/Losses	<u>(356,012)</u>
Annual OPEB cost	5,651,432
Contributions made	<u>(2,550,293)</u>
Increase in net OPEB obligation	3,101,139
Net OPEB obligation - beginning of year	<u>12,804,390</u>
Net OPEB obligation - end of year	<u>\$ 15,905,529</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>
2012	\$ 5,651,432	45.1%	\$ 15,905,529
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

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. Implementation of New GASB Standards

- The GASB has issued Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by eliminating the deferred charges. The City anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.
- The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the City of Newburyport's actuarially accrued liability.

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

June 30, 2012
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
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.