

CITY OF NEWBURYPORT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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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

Report on the Financial Statements

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, 2013, (except for the Newburyport Contributory Retirement System, which is as of and for the year ending December 31, 2012) and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2013, (except for the Newburyport Contributory Retirement System, which is as of and for the year ending December 31, 2012) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Employee's Retirement System, and Other Post-employment Benefit Plan Schedules of Funding Progress appearing on page 53 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Melanson, Heath + Company P.C.

Andover, Massachusetts
March 14, 2014

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, 2013. 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 Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise 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. A complete copy of the Newburyport Contributory Retirement System financial statements can be obtained from the Retirement Board at City Hall, Newburyport, Massachusetts 02492.

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 \$107,451 (i.e., net position), a change of \$(275) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$35,648, a change of \$19,561 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,511, a change of \$186 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$97,715, a change of \$44,154 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>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 45,826	\$ 22,421	\$ 25,578	\$ 18,915	\$ 71,404	\$ 41,336
Capital assets	76,577	67,383	91,987	79,310	168,564	146,693
Total assets	<u>122,403</u>	<u>89,804</u>	<u>117,565</u>	<u>98,225</u>	<u>239,968</u>	<u>188,029</u>
Long-term liabilities outstanding	61,575	30,902	61,521	41,412	123,096	72,314
Deferred inflows	409	546	-	-	409	546
Other liabilities	8,515	4,908	497	2,535	9,012	7,443
Total liabilities	<u>70,499</u>	<u>36,356</u>	<u>62,018</u>	<u>43,947</u>	<u>132,517</u>	<u>80,303</u>
Net position:						
Net investment in capital assets	59,799	54,041	41,262	41,357	101,061	95,398
Restricted	9,563	9,454	-	-	9,563	9,454
Unrestricted	(17,458)	(10,047)	14,285	12,921	(3,173)	2,874
Total net position	<u>\$ 51,904</u>	<u>\$ 53,448</u>	<u>\$ 55,547</u>	<u>\$ 54,278</u>	<u>\$ 107,451</u>	<u>\$ 107,726</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,509	\$ 4,547	\$ 11,606	\$ 9,558	\$ 16,115	\$ 14,105
Operating grants and contributions	12,980	13,502	-	-	12,980	13,502
Capital grants and contributions	2,267	778	-	874	2,267	1,652
General revenues:						
Property taxes	43,885	42,700	-	-	43,885	42,700
Excises	2,768	2,462	-	-	2,768	2,462
Penalties, interest and other taxes	387	542	-	-	387	542
Grants and contributions not restricted to specific programs	2,421	2,265	-	-	2,421	2,265
Investment income	279	123	241	4	520	127
Other	470	596	-	-	470	596
Total revenues	69,966	67,515	11,847	10,436	81,813	77,951
Expenses:						
General government	5,312	5,590	-	-	5,312	5,590
Public safety	9,215	8,876	-	-	9,215	8,876
Education	43,076	41,520	-	-	43,076	41,520
Public works	4,484	3,982	-	-	4,484	3,982
Human services	2,870	2,804	-	-	2,870	2,804
Culture and recreation	2,948	2,870	-	-	2,948	2,870
Interest on long-term debt	870	562	-	-	870	562
Intergovernmental	2,553	2,823	-	-	2,553	2,823
Sewer operations	-	-	5,377	5,531	5,377	5,531
Water operations	-	-	5,121	4,166	5,121	4,166
Harbor operations	-	-	262	375	262	375
Total expenses	71,328	69,027	10,760	10,072	82,088	79,099
Change in net position before transfers	(1,362)	(1,512)	1,087	364	(275)	(1,148)
Transfers in (out)	(182)	77	182	(77)	-	-
Change in net position	(1,544)	(1,435)	1,269	287	(275)	(1,148)
Net position - beginning of year	53,448	54,883	54,278	53,991	107,726	108,874
Net position - end of year	\$ 51,904	\$ 53,448	\$ 55,547	\$ 54,278	\$ 107,451	\$ 107,726

As noted earlier, net position 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 position was \$107,451, a change of \$(275) from the prior year.

The largest portion of net position \$101,061 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 position \$9,563 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$(3,173) 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 position of \$(1,544). Key elements of this change are as follows:

Depreciation expense in excess of principal debt service	\$ (1,383)
Increase in net OPEB obligation	(2,983)
Capital asset additions from current year revenues	2,900
Other	<u>(78)</u>
Total	\$ <u><u>(1,544)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$1,269. The following is a summary of the changes in net position by fund:

Sewer operations	\$ 716
Water operations	528
Other	<u>25</u>
Total	\$ <u><u>1,269</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 \$35,648, a change of \$19,561 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 167
Enterprise fund transfers, net	(182)
School capital project fund revenue and other sources in excess of expenditures	20,004
Special revenue fund revenues in excess of expenditures	129
Nonmajor capital project fund expenditures in excess of revenues	(600)
Trust fund expenditures in excess of revenues	<u>43</u>
Total	<u>\$ 19,561</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,999, while total fund balance was \$6,745. 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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 5,511	\$ 5,325	\$ 186	9.6%
Total fund balance	6,745	6,633	112	11.8%

The total fund balance of the general fund changed by \$112 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,074)
Collections of prior year taxes	243
Revenues in excess of budget	319
Expenditures less than budget	763
Change in encumbrances	(126)
Stabilization account activity, net	<u>(13)</u>
Total	<u>\$ 112</u>

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

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
General stabilization	\$ 2,511	\$ 2,498	\$ 13
Capital stabilization	<u>114</u>	<u>140</u>	<u>(26)</u>
Total	\$ <u>2,625</u>	\$ <u>2,638</u>	\$ <u>(13)</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 position of the enterprise funds at the end of the year amounted to \$14,285, a change of \$1,364 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 \$1,856. The reasons for these amendments include:

General government appropriations	\$ 122
Public safety appropriations	211
Education appropriations	94
Public works appropriations	912
Health and human services appropriations	249
Transfers to other funds appropriations	418
Other various appropriations	<u>(150)</u>
Total	\$ <u>1,856</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 \$168,564 (net of accumulated depreciation), a change of \$21,871 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 and Water infrastructure improvements, as well as the new construction related to the Bresnahan School and the renovations and additions to the Nock/Molin School.

Change in credit rating. During the fiscal year, the City's credit rating remained unchanged at AA. However, on January 9, 2014, Standard and Poor's rating services updated the City's credit rating to AA+.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$97,715, 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

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 POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 41,316,588	\$ 8,040,657	\$ 49,357,245
Investments	2,141,990	-	2,141,990
Receivables, net of allowance for uncollectibles:			
Property taxes	942,546	-	942,546
Excises	331,834	-	331,834
User fees	-	2,441,202	2,441,202
Betterments	-	594,198	594,198
Intergovernmental	411,163	7,667,758	8,078,921
Other	-	1,827	1,827
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	682,834	-	682,834
Betterments	-	6,833,271	6,833,271
Capital assets, being depreciated, net	54,642,619	90,725,296	145,367,915
Capital assets, not being depreciated	21,933,782	1,261,367	23,195,149
TOTAL ASSETS	122,403,356	117,565,576	239,968,932
LIABILITIES			
Current:			
Warrants payable	2,914,126	-	2,914,126
Accrued liabilities	4,533,552	493,701	5,027,253
Notes payable	700,000	-	700,000
Other liabilities	367,390	3,815	371,205
Current portion of long-term liabilities:			
Bonds payable	2,721,363	3,146,773	5,868,136
Compensated absences	342,253	14,093	356,346
Noncurrent:			
Bonds payable, net of current portion	37,633,847	56,895,181	94,529,028
Compensated absences, net of current portion	3,080,276	126,833	3,207,109
Net OPEB obligation	17,797,120	1,337,966	19,135,086
DEFERRED INFLOWS OF RESOURCES	409,299	-	409,299
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	70,499,226	62,018,362	132,517,588
NET POSITION			
Net investment in capital assets	59,799,236	41,261,833	101,061,069
Restricted for:			
Grants and other statutory restrictions	7,450,013	-	7,450,013
Permanent funds			
Nonexpendable	1,891,143	-	1,891,143
Expendable	221,253	-	221,253
Unrestricted	(17,457,515)	14,285,381	(3,172,134)
TOTAL NET POSITION	\$ 51,904,130	\$ 55,547,214	\$ 107,451,344

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 5,311,861	\$ 1,357,260	\$ 584,415	\$ 12,404	\$ (3,357,782)	\$ -	\$ (3,357,782)
Public safety	9,214,721	544,298	218,090	-	(8,452,333)	-	(8,452,333)
Education	43,075,835	1,772,820	11,610,090	2,087,947	(27,604,978)	-	(27,604,978)
Public works	4,483,685	266,038	409,798	143,785	(3,664,064)	-	(3,664,064)
Health and human services	2,870,458	224,462	157,767	-	(2,488,229)	-	(2,488,229)
Culture and recreation	2,947,844	344,252	-	22,401	(2,581,191)	-	(2,581,191)
Interest on debt service	870,292	-	-	-	(870,292)	-	(870,292)
Intergovernmental	2,553,513	-	-	-	(2,553,513)	-	(2,553,513)
Total Governmental Activities	71,328,209	4,509,130	12,980,160	2,266,537	(51,572,382)	-	(51,572,382)
Business-Type Activities:							
Sewer services	5,376,719	6,212,431	-	-	-	835,712	835,712
Water services	5,120,856	5,128,847	-	-	-	7,991	7,991
Other services	261,876	265,166	-	-	-	3,290	3,290
Total Business-Type Activities	10,759,451	11,606,444	-	-	-	846,993	846,993
Total	\$ 82,087,660	\$ 16,115,574	\$ 12,980,160	\$ 2,266,537	(51,572,382)	846,993	(50,725,389)
General Revenues:							
Property taxes					43,884,538	-	43,884,538
Excises					2,767,615	-	2,767,615
Penalties, interest and other taxes					386,710	-	386,710
Grants and contributions not restricted to specific programs					2,422,472	-	2,422,472
Investment income					279,353	240,579	519,932
Other					469,728	-	469,728
Transfers, net					(181,500)	181,500	-
Total general revenues					50,028,916	422,079	50,450,995
Change in Net Position					(1,543,466)	1,269,072	(274,394)
Net Position:							
Beginning of year					53,447,596	54,278,142	107,725,738
End of year					\$ 51,904,130	\$ 55,547,214	\$ 107,451,344

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	<u>School Building Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 11,127,631	\$ 22,188,351	\$ 8,000,606	\$ 41,316,588
Investments	-	-	2,141,990	2,141,990
Receivables:				
Property taxes	2,027,778	-	12,924	2,040,702
Excises	745,316	-	-	745,316
Intergovernmental	-	-	411,160	411,160
TOTAL ASSETS	\$ 13,900,725	\$ 22,188,351	\$ 10,566,680	\$ 46,655,756
LIABILITIES				
Warrants and accounts payable	\$ 2,914,126	\$ -	\$ -	\$ 2,914,126
Accrued liabilities	923,527	2,976,806	161,473	4,061,806
Notes payable	-	-	700,000	700,000
Other liabilities	366,824	-	565	367,389
TOTAL LIABILITIES	4,204,477	2,976,806	862,038	8,043,321
DEFERRED INFLOWS OF RESOURCES	2,951,370	-	12,924	2,964,294
FUND BALANCES				
Nonspendable	-	-	1,891,143	1,891,143
Restricted	-	19,211,545	7,944,889	27,156,434
Committed	113,626	-	-	113,626
Assigned	1,120,256	-	-	1,120,256
Unassigned	5,510,996	-	(144,314)	5,366,682
TOTAL FUND BALANCES	6,744,878	19,211,545	9,691,718	35,648,141
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 13,900,725	\$ 22,188,351	\$ 10,566,680	\$ 46,655,756

The accompanying notes are an integral part of these financial statements.

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

JUNE 30, 2013

Total governmental fund balances	\$ 35,648,141
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	76,576,401
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,726,193
<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.	(471,746)
<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>(61,574,859)</u>
Net position of governmental activities	<u>\$ 51,904,130</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>School Building Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 43,282,623	\$ -	\$ 654,726	\$ 43,937,349
Excise taxes	2,514,534	-	-	2,514,534
Interest, penalties, & other taxes	382,139	-	4,571	386,710
Charges for services	136,959	-	3,664,424	3,801,383
Licenses and permits	688,192	-	-	688,192
Intergovernmental	11,747,413	2,087,947	3,833,809	17,669,169
Investment income	70,905	-	50,681	121,586
Fines and forfeitures	19,555	-	-	19,555
Other	230,420	-	239,308	469,728
Total Revenues	<u>59,072,740</u>	<u>2,087,947</u>	<u>8,447,519</u>	<u>69,608,206</u>
Expenditures:				
Current:				
General government	2,496,032	-	1,601,230	4,097,262
Public safety	6,652,134	-	285,248	6,937,382
Education	28,923,256	11,086,559	4,855,089	44,864,904
Public works	2,350,946	-	661,523	3,012,469
Health & human services	2,085,715	-	394,428	2,480,143
Culture and recreation	1,403,503	-	621,097	2,024,600
Employee benefits	10,411,566	-	123,200	10,534,766
Debt service	2,029,144	-	334,006	2,363,150
Intergovernmental	2,553,513	-	-	2,553,513
Total Expenditures	<u>58,905,809</u>	<u>11,086,559</u>	<u>8,875,821</u>	<u>78,868,189</u>
Excess (deficiency) of revenues over expenditures	166,931	(8,998,612)	(428,302)	(9,259,983)
Other Financing Sources (Uses):				
Proceeds of refunding bonds	-	6,422,355	-	6,422,355
Issuance of bonds	-	26,589,000	-	26,589,000
Premiums on issuance of bonds	-	2,413,702	-	2,413,702
Payment to refunding escrow agent	-	(6,422,355)	-	(6,422,355)
Transfers in	394,847	-	568,304	963,151
Transfers out	(449,439)	-	(695,212)	(1,144,651)
Total Other Financing Sources (Uses)	<u>(54,592)</u>	<u>29,002,702</u>	<u>(126,908)</u>	<u>28,821,202</u>
Change in fund balances	112,339	20,004,090	(555,210)	19,561,219
Fund Balance, at Beginning of Year, as restated	<u>6,632,539</u>	<u>(792,545)</u>	<u>10,246,928</u>	<u>16,086,922</u>
Fund Balance, at End of Year	<u>\$ 6,744,878</u>	<u>\$ 19,211,545</u>	<u>\$ 9,691,718</u>	<u>\$ 35,648,141</u>

The accompanying notes are an integral part of these 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, 2013

Net Changes in Fund Balances - Total Governmental Funds \$ 19,561,219

- 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 12,442,031

Depreciation (3,248,309)

- 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.

358,037

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Issuance of debt (26,589,000)

Repayments of debt 1,865,000

Premiums on bond (2,413,702)

Increase in net OPEB obligation (2,983,623)

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

(372,142)

- 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.

(162,977)

Change in Net Position of Governmental Activities \$ (1,543,466)

The accompanying notes are an integral part of these 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, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 42,652,945	\$ 43,039,356	\$ 43,039,356	\$ -
Excise taxes	2,400,000	2,400,000	2,514,534	114,534
Charges for services	100,000	100,000	136,959	36,959
Interest, penalties, and other taxes	500,000	500,000	382,139	(117,861)
Licenses and permits	525,000	525,000	688,192	163,192
Intergovernmental	6,057,770	6,057,770	6,167,074	109,304
Investment income	52,000	52,000	57,402	5,402
Fines and forfeits	18,000	18,000	19,555	1,555
Other	225,000	225,000	230,420	5,420
Transfers in	-	394,847	394,847	-
Other sources	-	1,074,321	1,074,321	-
Total Revenues and Other Sources	52,530,715	54,386,294	54,704,799	318,505
Expenditures and Other Uses:				
General government	2,423,961	2,546,358	2,486,661	59,697
Public safety	6,520,357	6,730,751	6,642,320	88,431
Education	22,826,421	22,920,421	22,920,421	-
Public works	1,855,758	2,767,421	2,677,767	89,654
Health and human service	1,973,750	2,223,400	2,080,234	143,166
Culture and recreation	1,322,299	1,452,565	1,414,374	38,191
Employee benefits	10,980,038	10,699,388	10,396,253	303,135
Debt service	2,037,787	2,037,787	2,029,144	8,643
Intergovernmental	2,585,344	2,585,344	2,553,513	31,831
Transfers out	5,000	422,859	422,859	-
Total Expenditures and Other Uses	52,530,715	54,386,294	53,623,546	762,748
Excess revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,081,253	\$ 1,081,253

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Funds	Total
ASSETS				
Current:				
Cash and short-term investments	\$ 4,041,214	\$ 3,729,530	\$ 269,913	\$ 8,040,657
User fee receivables	1,341,836	1,065,840	33,526	2,441,202
Betterment receivables	396,232	197,966	-	594,198
Intergovernmental receivables	5,430,079	2,237,679	-	7,667,758
Other assets	1,827	-	-	1,827
Noncurrent:				
Betterment receivables	4,556,668	2,276,603	-	6,833,271
Capital assets, being depreciated, net	47,143,515	43,435,084	146,697	90,725,296
Capital assets, not being depreciated	268,808	822,559	170,000	1,261,367
TOTAL ASSETS	63,180,179	53,765,261	620,136	117,565,576
LIABILITIES				
Current:				
Accrued liabilities	301,165	192,536	-	493,701
Other liabilities	944	2,699	172	3,815
Current portion of long-term liabilities:				
Bonds payable	1,769,249	1,352,524	25,000	3,146,773
Compensated absences	3,694	10,399	-	14,093
Noncurrent:				
Bonds payable, net of current portion	34,348,770	22,546,411	-	56,895,181
Compensated absences, net of current portion	33,244	93,589	-	126,833
Net OPEB Obligation	590,726	747,240	-	1,337,966
TOTAL LIABILITIES	37,047,792	24,945,398	25,172	62,018,362
NET POSITION				
Net investment in capital assets	17,300,747	23,669,389	291,697	41,261,833
Unrestricted	8,831,640	5,150,474	303,267	14,285,381
TOTAL NET POSITION	<u>\$ 26,132,387</u>	<u>\$ 28,819,863</u>	<u>\$ 594,964</u>	<u>\$ 55,547,214</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	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	\$ 6,212,431	\$ 5,128,847	\$ 265,166	\$ 11,606,444
Total Operating Revenues	6,212,431	5,128,847	265,166	11,606,444
Operating Expenses:				
Personnel services	1,811,777	1,638,968	186,181	3,636,926
Non-personnel services	1,300,102	1,190,965	58,292	2,549,359
Depreciation	2,014,930	1,635,590	15,403	3,665,923
Total Operating Expenses	5,126,809	4,465,523	259,876	9,852,208
Operating Income	1,085,622	663,324	5,290	1,754,236
Nonoperating Revenues (Expenses):				
Interest income	57,689	136,175	46,715	240,579
Interest expense	(249,910)	(655,333)	(2,000)	(907,243)
Total Nonoperating Revenues (Expenses), Net	(192,221)	(519,158)	44,715	(666,664)
Income before transfers	893,401	144,166	50,005	1,087,572
Transfers:				
Transfers in	-	460,766	-	460,766
Transfers out	(177,133)	(77,133)	(25,000)	(279,266)
Change in Net Position	716,268	527,799	25,005	1,269,072
Net Position at Beginning of Year	25,416,119	28,292,064	569,959	54,278,142
Net Position at End of Year	\$ 26,132,387	\$ 28,819,863	\$ 594,964	\$ 55,547,214

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 6,049,216	\$ 5,006,301	\$ 259,410	\$ 11,314,927
Payments to employees	(1,481,028)	(1,485,223)	(186,181)	(3,152,432)
Payments to vendors	(1,416,846)	(1,115,372)	(58,637)	(2,590,855)
Net Cash Provided By Operating Activities	3,151,342	2,405,706	14,592	5,571,640
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	-	460,766	-	460,766
Transfers out	(177,133)	(77,133)	(25,000)	(279,266)
Betterments	101,461	9,635	-	111,096
Net Cash Provided By (Used For) Noncapital Financing Activities	(75,672)	393,268	(25,000)	292,596
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(8,705,304)	(7,617,776)	(20,000)	(16,343,080)
Proceeds from issuance of bonds and notes	8,881,220	7,608,435	-	16,489,655
Principal payments on bonds and notes	(2,040,482)	(1,875,732)	(25,000)	(3,941,214)
Interest expense	(249,910)	(655,333)	(2,000)	(907,243)
Net Cash (Used For) Capital and Related Financing Activities	(2,114,476)	(2,540,406)	(47,000)	(4,701,882)
Cash Flows From Investing Activities:				
Investment income	57,689	136,175	46,715	240,579
Net Cash Provided By Investing Activities	57,689	136,175	46,715	240,579
Net Change in Cash and Short-Term Investments	1,018,883	394,743	(10,693)	1,402,933
Cash and Short-Term Investments, Beginning of Year	3,022,331	3,334,817	280,606	6,637,754
Cash and Short-Term Investments, End of Year	\$ 4,041,214	\$ 3,729,560	\$ 269,913	\$ 8,040,687
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income	\$ 1,085,622	\$ 663,324	\$ 5,290	\$ 1,754,236
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	2,014,930	1,635,590	15,403	3,665,923
Changes in assets and liabilities:				
User fees	(163,215)	(122,546)	(5,756)	(291,517)
Accrued liabilities	119,429	70,338	-	189,767
OPEB	92,189	153,745	-	245,934
Other liabilities	2,387	5,255	(345)	7,297
Net Cash Provided By Operating Activities	\$ 3,151,342	\$ 2,405,706	\$ 14,592	\$ 5,571,640

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Pension Trust Fund (For the Year Ended December 31, 2012)	Agency Funds
ASSETS		
Cash	\$ 2,654,023	\$ 162,192
Investments	52,220,592	-
Accounts receivable	<u>40,416</u>	<u>-</u>
Total Assets	54,915,031	162,192
LIABILITIES		
Other liabilities	<u>7,055</u>	<u>162,192</u>
Total Liabilities	7,055	162,192
NET POSITION		
Unrestricted	<u>54,907,976</u>	<u>-</u>
Total Liabilities and Net position	<u>\$ 54,915,031</u>	<u>\$ 162,192</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 3,963,411
Plan members	1,557,801
Other systems and Commonwealth of Massachusetts	191,671
Other	<u>12,200</u>
Total contributions	5,725,083
Investment Income:	
Appreciation in fair value of investments	6,525,623
Less: management fees	<u>(264,891)</u>
Net investment income	<u>6,260,732</u>
Total additions	11,985,815
Deductions:	
Benefit payments to plan members and beneficiaries	5,358,432
Refunds to plan members	102,923
Transfers to other systems	128,724
Administrative expenses	<u>160,798</u>
Total deductions	<u>5,750,877</u>
Net increase	6,234,938
Net position:	
Beginning of year	<u>48,673,038</u>
End of year	<u>\$ 54,907,976</u>

The accompanying notes are an integral part of these 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.

In the Fiduciary Funds: The Newburyport Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System and complete financial statements can be obtained by contacting the System located at City of Newburyport, Massachusetts, City Hall, Newburyport, Massachusetts 02492.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the 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 expendi-

tures, 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.
- The *school building fund* accounts for the financing and construction costs related to the school building projects.

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.

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 *Pension Trust Fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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.

The *Agency Funds* include *Student Activity Funds*, *Police*, *Fire* and *Maintenance Detail Funds* and *Newburyport Retirement Board Fund*.

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.

Investments for the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

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 2013 tax levy reflected an excess capacity of approximately \$353,951.

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 Position.

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 position".

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 Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets 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 position 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. The remaining net position is 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)	\$ 59,072,740	\$ 58,905,809
Other financing sources/uses (GAAP Basis)	<u>394,847</u>	<u>449,439</u>
Subtotal (GAAP Basis)	59,467,587	59,355,248
To adjust property tax revenue to the Budgetary Basis	(243,267)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(859,443)
Add end-of-year appropriation carryforwards from expenditures	-	734,660
To record use of free cash and overlay surplus	1,074,321	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,580,339)	(5,580,339)
Other	<u>(13,503)</u>	<u>(26,580)</u>
Budgetary Basis	\$ <u>54,704,799</u>	\$ <u>53,623,546</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, 2013, \$18,655,300 of the City’s bank balances of \$55,032,496 was exposed to custodial credit risk as uninsured or uncollateralized.

The Contributory Retirement System (the System) does not have a deposit policy for custodial credit risk.

As of December 31, 2012, none of the Contributory Retirement System’s bank balance of \$2,708,922 was exposed to custodial credit risk as uninsured or uncollateralized.

4. **Investments**

Statutes authorize the Investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer’s Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investments of funds of savings banks under the laws of the Commonwealth.

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	\$ 20	\$ -	\$ 20	\$ -	\$ -
Certificates of deposit	70	70	-	-	-
Corporate equities	342	342	-	-	-
Mutual funds	1,710	1,710	-	-	-
Total investments	<u>\$ 2,142</u>	<u>\$ 2,122</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ -</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

As of December 31, 2012, the System's investments of \$52,220,592 were exposed to credit risk as uninsured and uncollateralized. However, the investments were held in the State investment pool (PRIT).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
State Investment Pool	\$ 52,221	\$ 52,221

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

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 and System do not have policies 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. The System's investments were held in the State investment pool (PRIT).

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.

The Retirement System places no limit on the amount invested in any one issuer. The System does not have an investment in one issuer greater than 5% 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>
Federal agency securities	\$ 20	\$ 20
Certificates of deposit	<u>70</u>	<u>70</u>
Total	<u>\$ 90</u>	<u>\$ 90</u>

The Retirement System 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.

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 and System do 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, 2013 consist of the following (in thousands):

Real Estate		
2013	\$ 862	
2012	38	
2011	14	
2010	2	
Prior	<u>132</u>	1,048
Personal Property		
2013	12	
2012	8	
2011	39	
2010	37	
Prior	<u>126</u>	222
Tax Liens		758
CPA		<u>13</u>
Total		\$ <u><u>2,041</u></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	\$ 415
Excises	413

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013.

8. Interfund Transfers In and (Out)

The City's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them. The transfers

from the enterprise funds to the general fund are made to cover indirect costs of enterprise funds not incurred in but paid by the general fund. The following is an analysis of interfund transfers made in fiscal year 2013.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 394,847	\$ (449,439)
Nonmajor Governmental Funds:		
Special revenue funds	-	(30,542)
Capital project funds	30,400	(126,766)
Enterprise Funds:		
Sewer fund	-	(177,133)
Water fund	460,766	(77,133)
Nonmajor fund	-	(25,000)
Total	<u>\$ 886,013</u>	<u>\$ (886,013)</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2013 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	\$ 70,433	\$ 460	\$ -	\$ 70,893
Infrastructure	28,611	537	-	29,148
Machinery and equipment	4,277	186	-	4,463
Total capital assets, being depreciated	103,321	1,183	-	104,504
Less accumulated depreciation for:				
Buildings and improvements	(23,345)	(2,333)	-	(25,678)
Infrastructure	(20,549)	(628)	-	(21,177)
Machinery and equipment	(2,718)	(288)	-	(3,006)
Total accumulated depreciation	(46,612)	(3,249)	-	(49,861)
Total capital assets, being depreciated, net	56,709	(2,066)	-	54,643
Capital assets, not being depreciated:				
Land	9,478	-	-	9,478
CIP	1,196	11,260	-	12,456
Total capital assets, not being depreciated	10,674	11,260	-	21,934
Governmental activities capital assets, net	<u>\$ 67,383</u>	<u>\$ 9,194</u>	<u>\$ -</u>	<u>\$ 76,577</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	109,267	16,147	-	125,414
Machinery and equipment	<u>2,321</u>	<u>196</u>	<u>-</u>	<u>2,517</u>
Total capital assets, being depreciated	112,946	16,343	-	129,289
Less accumulated depreciation for:				
Buildings and improvements	(248)	(70)	-	(318)
Infrastructure	(33,649)	(3,447)	-	(37,096)
Machinery and equipment	<u>(1,000)</u>	<u>(150)</u>	<u>-</u>	<u>(1,150)</u>
Total accumulated depreciation	<u>(34,897)</u>	<u>(3,667)</u>	<u>-</u>	<u>(38,564)</u>
Total capital assets, being depreciated, net	78,049	12,676	-	90,725
Capital assets, not being depreciated:				
Land	<u>1,261</u>	<u>-</u>	<u>-</u>	<u>1,261</u>
Total capital assets, not being depreciated	<u>1,261</u>	<u>-</u>	<u>-</u>	<u>1,261</u>
Business-type activities capital assets, net	<u>\$ 79,310</u>	<u>\$ 12,676</u>	<u>\$ -</u>	<u>\$ 91,986</u>

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

Governmental Activities:	
General government	\$ 324
Public safety	375
Education	1,018
Public works	774
Health and human services	23
Culture and recreation	<u>735</u>
Total depreciation expense - governmental activities	<u>\$ 3,249</u>
Business-Type Activities:	
Sewer	\$ 2,015
Water	1,636
Harbor	<u>16</u>
Total depreciation expense - business-type activities	<u>\$ 3,667</u>

10. Warrants and Accounts Payable

Warrants payable represent 2013 expenditures paid by July 15, 2013.
Accounts payable represent additional 2013 expenditures paid after July 15, 2013.

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, 2013:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/13</u>
School	1.00%	01/10/13	01/17/14	\$ <u>700,000</u>
Total				\$ <u><u>700,000</u></u>

The following summarizes activity in notes payable during fiscal year 2013 (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	\$ 700	\$ (1,150)	\$ 700
Sewer notes	1,061	-	(1,061)	-
Water notes	<u>1,166</u>	<u>-</u>	<u>(1,166)</u>	<u>-</u>
Total	\$ <u><u>3,377</u></u>	\$ <u><u>700</u></u>	\$ <u><u>(3,377)</u></u>	\$ <u><u>700</u></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 6/30/13</u>
High school	3.50 - 5.00%	2023	\$ 550,000
School demountables	3.50 - 5.00%	2025	100,000
City hall	4.00 - 7.00%	2019	900,000
Land acquisition	4.00 - 7.00%	2019	575,000
Equipment	4.25 - 5.00%	2017	275,000
Drainage	4.25 - 5.00%	2017	200,000
Central server - IT	4.25 - 5.00%	2015	30,000
Recreational facility	4.25 - 5.00%	2017	25,000
School renovations	4.25 - 5.00%	2017	245,000
Fire Truck	3.50 - 6.00%	2018	300,000
Sidewalk repairs	3.50 - 3.75%	2013	30,000
Inn street electrical	3.50 - 6.00%	2018	60,000
Stormwater management	3.50 - 6.00%	2018	280,000
Street paving	3.50 - 6.00%	2018	300,000
Relocation of N. Res Terr.	3.50 - 6.00%	2018	35,000
City hall restrooms	3.50 - 6.00%	2016	15,000
Ferry road sidewalks	3.50 - 3.75%	2013	40,000
School building impr.	3.50 - 6.00%	2018	400,000
Police station refunding	2.00 - 2.50%	2015	185,500
School refunding	2.00 - 2.50%	2015	144,275
School refunding	2.00 - 2.50%	2017	107,700
Library refunding	2.00 - 2.50%	2017	163,000
Library renov. refunding	2.00 - 3.00%	2021	1,310,300
Land acquisition refunding	2.00 - 3.00%	2018	156,000
Recreation refunding	2.00 - 2.50%	2015	35,000
Recreation refunding	2.00 - 2.50%	2015	20,500
City hall refunding	2.00 - 3.00%	2020	73,000
Bresnihan school	2.50 - 5.00%	2033	15,848,000
Nock Mill school	2.50 - 5.00%	2033	10,741,000
High school	2.50 - 5.00%	2033	1,407,300
Boardwalk I	2.50 - 4.00%	2023	132,300
Boardwalk II	2.50 - 4.00%	2017	122,400
Boardwalk III	2.50 - 4.00%	2017	39,100
High school	2.50 - 5.00%	2025	2,677,300
School demountables	2.50 - 4.00%	2018	150,500
Total Governmental Activities Debt:			<u>\$ 37,673,175</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/13</u>
Sewer	3.50 - 5.00%	2025	\$ 80,000
MWPAT	3.50 - 5.00%	2034	300,000
Sewer	4.00 - 7.00%	2019	240,000
Sewer	4.00 - 7.00%	2019	1,105,000
Sewer	4.00 - 7.00%	2019	495,000
MWPAT	0.75%	2019	3,819,105
Plum Island	2.00%	2038	1,009,315
Sewer	4.25 - 5.00%	2017	75,000
Sewer mains	4.25 - 5.00%	2017	150,000
Sewer refunding	2.00 - 2.50%	2014	15,000
Sewer refunding	2.00 - 2.50%	2014	15,000
Wastewater plant refund	2.00 - 3.25%	2021	712,800
Sewer	2.00 - 4.00%	2028	3,720,000
MWPAT	2.00%	2031	3,783,060
MWPAT	2.00%	2033	6,108,082
Sewer	2.50 - 5.00%	2033	500,000
MWPAT	2.00%	2033	13,611,357
Sewer	2.50 - 5.00%	2025	379,300
Water	3.50 - 5.00%	2025	120,000
MWPAT	3.40 - 5.25%	2025	1,809,600
MWPAT	3.00 - 5.25	2025	2,453,579
Plum Island	2.00%	2038	673,035
Water	4.00 - 7.00%	2019	450,000
Water	4.00 - 7.00%	2019	570,000
MWPAT	0.00%	2025	212,796
Water refunding	2.00 - 2.50%	2017	517,250
Water improv. refunding	2.00 - 3.25%	2021	734,675
Water refunding	2.00 - 2.50%	2014	20,000
MWPAT	2.00%	2033	8,248,550
Water	2.50 - 5.00%	2033	1,166,000
MWPAT	2.00%	2033	6,356,650
Water	2.50 - 5.00%	2025	300,700
Plum Island water	2.50 - 5.00%	2025	266,100
Public wharf	3.50 - 5.00%	2025	25,000
Total Business-Type Activities Debt:			<u>\$ 60,041,954</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Outstanding as of 6/30/13</u>
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B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,563,600	\$ 1,454,317	\$ 4,017,917
2015	1,994,875	1,378,602	3,373,477
2016	1,834,500	1,186,732	3,021,232
2017	1,811,800	1,126,389	2,938,189
2018	1,817,100	1,065,074	2,882,174
2019 - 2023	6,752,600	4,560,713	11,313,313
2024 - 2028	7,923,700	3,203,089	11,126,789
2029 - 2033	12,975,000	1,764,825	14,739,825
Total	\$ <u>37,673,175</u>	\$ <u>15,739,741</u>	\$ <u>53,412,916</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, 2013:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,146,773	\$ 1,590,154	\$ 4,736,927
2015	3,117,725	1,624,867	4,742,592
2016	3,219,235	1,505,525	4,724,760
2017	3,302,567	1,369,288	4,671,855
2018	3,212,548	1,235,693	4,448,241
2019 - 2023	16,002,099	4,695,042	20,697,141
2024 - 2028	14,233,051	2,454,614	16,687,665
2029 - 2033	12,964,887	848,060	13,812,947
Thereafter	843,069	8,896	851,965
Total	\$ <u>60,041,954</u>	\$ <u>15,332,139</u>	\$ <u>75,374,093</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2013 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	11,520
09/10/10	Sewer	6,270,000
09/10/10	Water	2,978,800
06/05/12	Schools	22,268,204
06/05/12	Schools	15,697,326
01/12/12	Senior Center	5,800,000
Total		<u>\$ 54,272,025</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/12</u>	Additions	Reductions	Total Balance <u>6/30/13</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/13</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 13,375	\$ 26,163	\$ (1,865)	\$ 37,673	\$ (2,564)	\$ 35,109
Deferred adjustments:						
Unamortized bond premium	-	2,839	(158)	2,681	(157)	2,524
Total bonds payable	13,375	29,002	(2,023)	40,354	(2,721)	37,633
Compensated absences	3,260	489	(326)	3,423	(342)	3,081
Net OPEB obligation	14,813	4,594	(1,610)	17,797	-	17,797
Totals	<u>\$ 31,448</u>	<u>\$ 34,085</u>	<u>\$ (3,959)</u>	<u>\$ 61,574</u>	<u>\$ (3,063)</u>	<u>\$ 58,511</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 40,186	\$ 21,634	\$ (1,778)	\$ 60,042	\$ (3,147)	\$ 56,895
Compensated absences	134	20	(13)	141	(14)	127
Net OPEB obligation	1,092	331	(85)	1,338	-	1,338
Totals	<u>\$ 41,412</u>	<u>\$ 21,985</u>	<u>\$ (1,876)</u>	<u>\$ 61,521</u>	<u>\$ (3,161)</u>	<u>\$ 58,360</u>

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2013:

	<u>Entity-wide Basis</u> Governmental <u>Activities</u>	<u>Fund Basis</u> <u>General</u> <u>Nonmajor</u>
Unavailable property tax revenue	\$ 409	\$ 2,951 \$ 13

15. **Restricted Net Position**

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

Permanent fund restricted net position 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.

16. **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.

The City has 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, 2013:

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 funds 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, 2013:

	General Fund	School Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 1,891,143	\$ 1,891,143
Total Nonexpendable	-	-	1,891,143	1,891,143
Restricted				
Capital project funds	-	19,211,545	129,309	19,340,854
Special revenue funds	-	-	7,594,327	7,594,327
Expendable permanent funds	-	-	221,253	221,253
Total Restricted	-	19,211,545	7,944,889	27,156,434
Committed				
Stabilization accounts	113,626	-	-	113,626
Total Committed	113,626	-	-	113,626
Assigned				
Encumbrances				
General government	52,513	-	-	52,513
Public safety	21,741	-	-	21,741
Education	82,519	-	-	82,519
Public works	368,568	-	-	368,568
Health and human services	128,786	-	-	128,786
Culture and recreation	35,684	-	-	35,684
Employee benefits	44,849	-	-	44,849
For next year's expenditures	385,596	-	-	385,596
Total Assigned	1,120,256	-	-	1,120,256
Unassigned - Uncommitted stabilization	2,625,056	-	-	2,625,056
Unassigned	2,885,940	-	(144,314)	2,741,626
Total Unassigned	5,510,996	-	(144,314)	5,366,682
Total Fund Balance	\$ 6,744,878	\$ 19,211,545	\$ 9,691,718	\$ 35,648,141

17. Subsequent Events

Debt

Subsequent to June 30, 2013, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Water system improvement notes	\$ 1,400,000	1.00%	01/17/14	10/24/14
Bresnahan school notes	1,769,409	1.00%	01/17/14	10/24/14
Nock/Molin school notes	1,130,591	1.00%	01/17/14	10/24/14

18. 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.

19. 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 Position 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, 2012, the actuarial valuation date, approximately 412 retirees and 602 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 2013 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, 2013, 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, 2012.

Annual Required Contribution (ARC)	\$ 6,336,845
Interest on net OPEB obligation	636,222
Adjustment to ARC	(884,440)
Amortization of Actuarial (Gains)/Losses	<u>(1,163,042)</u>
Annual OPEB cost	4,925,585
Contributions made	<u>(1,696,028)</u>
Increase in net OPEB obligation	3,229,557
Net OPEB obligation - beginning of year	<u>15,905,529</u>
Net OPEB obligation - end of year	<u>\$ 19,135,086</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>
2013	\$ 4,925,585	34.4%	\$ 19,135,086
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, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 74,485,260
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 74,485,260</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, 2012 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%.

20. **Contributory Retirement System**

The City follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. **Plan Description and Contribution Information**

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Newburyport Contributory Retirement System (NCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the NCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the NCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The NCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission. The System also issues a stand-alone financial report, which can be obtained from the System located at 60 Pleasant Street, Newburyport, Massachusetts 01950.

Membership of each plan consisted of the following at December 31, 2012:

Retirees and beneficiaries receiving benefits	217
Terminated plan members entitled to but not yet receiving benefits	9
Active plan members	<u>364</u>
Total	590
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2013	\$ 3,963,411	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Newburyport Contributory Retirement System's most recent valuation (in thousands).

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) -</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as</u> <u>a Percent-</u> <u>age of</u> <u>Covered</u> <u>Payroll</u> <u>[(b-a)/c]</u>
01/01/12	\$ 51,992,733	\$ 88,054,145	\$ 36,061,412	59.0%	\$ 15,079,238	239.1%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the individual entry age normal actuarial cost method. The actuarial assumptions included (a) 8.00 % investment rate of return and (b) a projected salary increase of 5.25 to 5.50% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.00 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2012, the unfunded actuarially accrued liability is being amortized over 18 years using 4.0 % increasing payment method.

E. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

The Town's current year covered payroll for teachers and administrators was not available.

In fiscal year 2013, the Commonwealth of Massachusetts contributed \$5,580,339 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

F. Other Employees

Certain retired employees of the Town were exempted from membership or elected not to participate in the System. The Town pays retirement benefits to these employees from the General Fund appropriations. These employees are not included in the Town's actuarial liability. The Town's fiscal 2013 pension expense relating to these employees was not available.

21. 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.

22. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2013, 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 6/30/12 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/12 (as restated)
General Fund	\$ 6,632,539	\$ -	\$ 6,632,539
School building fund	-	(792,545)	(792,545)
Nonmajor Funds	<u>9,454,383</u>	<u>792,545</u>	<u>10,246,928</u>
Total	<u>\$ 16,086,922</u>	<u>\$ -</u>	<u>\$ 16,086,922</u>

23. Implementation of New GASB Standards

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, 2013
(Unaudited)**

Employees' Retirement System

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]
01/01/12	\$ 51,992,733	\$ 88,054,145	\$ 36,061,412	59.0%	\$ 15,079,238	239.1%
01/01/10	\$ 48,716,469	\$ 79,970,940	\$ 31,254,471	60.9%	\$ 14,284,583	218.8%
01/01/08	\$ 46,753,245	\$ 71,953,723	\$ 25,200,478	65.0%	\$ 13,709,329	183.8%

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]
07/01/12	\$ -	\$ 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
07/01/08	\$ -	\$ 47,929,801	\$ 47,929,801	0.0%	N/A	N/A

See Independent Auditors' Report.