

CITY OF NEWBURYPORT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

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www.melansonheath.comINDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Newburyport, Massachusetts

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

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

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

In our opinion, except for the effects of not including financial information of the Newburyport Contributory Retirement System, as discussed above, the financial statements referred to above present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of June 30, 2009, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the City of Newburyport, Massachusetts, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing on page 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 16, 2010

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, 2009. Unless otherwise noted, all amounts in this Management's Discussion and Analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer, water, and harbor 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 harbor 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 harbor operations. The sewer and water operations are considered to be major funds.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 110,696 (i.e., net assets), a change of \$ (4,183) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,361, a change of \$ 2,761 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,085, a change of \$ 255 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 40,483, a change of \$ (465) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 21,907	\$ 18,052	\$ 15,504	\$ 15,850	\$ 37,411	\$ 33,902
Capital assets	<u>69,294</u>	<u>70,200</u>	<u>56,901</u>	<u>57,926</u>	<u>126,195</u>	<u>128,126</u>
Total assets	<u>91,201</u>	<u>88,252</u>	<u>72,405</u>	<u>73,776</u>	<u>163,606</u>	<u>162,028</u>
Long-term liabilities	26,154	20,612	22,166	23,128	48,320	43,740
Other liabilities	<u>4,304</u>	<u>3,145</u>	<u>286</u>	<u>264</u>	<u>4,590</u>	<u>3,409</u>
Total liabilities	<u>30,458</u>	<u>23,757</u>	<u>22,452</u>	<u>23,392</u>	<u>52,910</u>	<u>47,149</u>
Net assets:						
Invested in capital assets, net	52,973	52,585	35,343	35,047	88,316	87,632
Restricted	6,892	6,057	-	-	6,892	6,057
Unrestricted	<u>878</u>	<u>5,853</u>	<u>14,610</u>	<u>15,337</u>	<u>15,488</u>	<u>21,190</u>
Total net assets	<u>\$ 60,743</u>	<u>\$ 64,495</u>	<u>\$ 49,953</u>	<u>\$ 50,384</u>	<u>\$ 110,696</u>	<u>\$ 114,879</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,624	\$ 3,504	\$ 8,614	\$ 9,390	\$ 12,238	\$ 12,894
Operating grants and contributions	13,654	12,292	50	322	13,704	12,614
Capital grants and contributions	1,104	663	-	-	1,104	663
General revenues:						
Property taxes	37,800	36,305	-	-	37,800	36,305
Excises	1,993	2,121	-	-	1,993	2,121
Penalties, interest and other taxes	1,072	968	-	-	1,072	968
Grants and contributions not restricted to specific programs	3,305	3,658	-	-	3,305	3,658
Investment income	(120)	269	20	72	(100)	341
Other	339	70	-	-	339	70
Total revenues	<u>62,771</u>	<u>59,850</u>	<u>8,684</u>	<u>9,784</u>	<u>71,455</u>	<u>69,634</u>
Expenses:						
General government	4,821	5,195	-	-	4,821	5,195
Public safety	8,818	8,359	-	-	8,818	8,359
Education	40,685	36,084	-	-	40,685	36,084
Public works	3,975	3,956	-	-	3,975	3,956
Human services	2,537	2,507	-	-	2,537	2,507
Culture and recreation	2,776	2,824	-	-	2,776	2,824
Interest on long-term debt	434	469	-	-	434	469
Intergovernmental	2,479	2,209	-	-	2,479	2,209
Sewer operations	-	-	4,709	4,530	4,709	4,530
Water operations	-	-	4,170	4,414	4,170	4,414
Harbor operations	-	-	234	207	234	207
Total expenses	<u>66,525</u>	<u>61,603</u>	<u>9,113</u>	<u>9,151</u>	<u>75,638</u>	<u>70,754</u>
Change in net assets before transfers	(3,754)	(1,753)	(429)	633	(4,183)	(1,120)
Transfers, net	<u>2</u>	<u>2</u>	<u>(2)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(3,752)</u>	<u>(1,751)</u>	<u>(431)</u>	<u>631</u>	<u>(4,183)</u>	<u>(1,120)</u>
Net assets - beginning of year	<u>64,495</u>	<u>66,246</u>	<u>50,384</u>	<u>49,753</u>	<u>114,879</u>	<u>115,999</u>
Net assets - end of year	<u>\$ 60,743</u>	<u>\$ 64,495</u>	<u>\$ 49,953</u>	<u>\$ 50,384</u>	<u>\$ 110,696</u>	<u>\$ 114,879</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 110,696, a change of \$ (4,183) from the prior year.

The largest portion of net assets \$ 88,316 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of

related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 6,892 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 15,488 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (3,752). Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (399)
Special revenue fund revenues in excess of expenditures	1,611
Trust fund expenditures in excess of revenues	(363)
Depreciation expense in excess of principal debt service	(1,592)
Increase in OPEB liability	(4,523)
Capital asset additions from current year revenues	1,654
Other	<u>(140)</u>
Total	\$ <u><u>(3,752)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (431).

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

Sewer	\$ (472)
Water	2
Other	<u>39</u>
Total	\$ <u><u>(431)</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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,361, a change of \$ 2,761 in comparison with the prior year. Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (399)
Special revenue fund revenues in excess of expenditures	1,611
Capital project fund revenues and bond proceeds in excess of expenditures	1,910
Trust fund expenditures in excess of revenues	(363)
Other	<u>2</u>
Total	<u>\$ 2,761</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 2,085, while total fund balance was \$ 2,274. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3.9 percent of total general fund expenditures, while total fund balance represents 4.2 percent of that same amount.

The fund balance of the general fund changed by \$ (70) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus	\$ (428)
Revenues less than budget	(377)
Expenditures less than budget	1,059
Property tax collections less than budget	(97)
Other	<u>(227)</u>
Total	<u>\$ (70)</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 14,610, a change of \$ (727) in comparison with 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 \$ 479. The reasons for these amendments include:

Snow and ice	\$ 230
Street lights	50
Fuel and oil	50
Other various supplemental appropriations	<u>149</u>
Total	\$ <u>479</u>

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

The budget and actual statement reflects an under collection of Intergovernmental revenue, primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were partially offset by an American Recovery and Reinvestment Act (ARRA) grant which is reported in a separate major fund, in accordance with the transparency requirements of the Act. The general fund revenue shortfall is offset by budgetary turn backs in employee benefit expenditures. The turn backs result from the City transferring general fund expenditures to the ARRA major fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 126,195 (net of accumulated depreciation), a change of \$ (1,931) 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 depreciation expense increases as a result of prior construction in process activity placed in service.

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 40,483, 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 footnotes to the financial statements.

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

The City of Newburyport has maintained an "AA" bond rating from Standard and Poor's in FY 2010. This is a result of the City's ability to maintain a stable economic base and gain access to large labor markets in Southern New Hampshire and the Boston Metropolitan area. Also, very strong income levels and lower unemployment in Newburyport compared with the rest of the Commonwealth of Massachusetts and the nation, are also key factors in maintaining the "AA" Bond Rating.

The City has also enjoyed extremely strong per capita market values, improved financial operating performance within City government, good to strong reserves, and a low debt burden. In addition, plans for major residential and commercial projects are under development and are expected to broaden the property tax base in future years.

The Mayor's proposed FY 2011 budget is currently under development and calls for funding at FY 2010 levels. Department managers have also been instructed to present budget cuts equal to 2% of their departmental budgets in order to prepare for potential budget reductions due to the volatile economic climate we are facing. Anticipated reductions in state aid, local receipts, and property tax growth are also projected. This, together with estimated increases totaling over \$ 900,000 in health insurance and contractual requirements, will present major budget challenges in the FY 2011.

REQUESTS FOR INFORMATION

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

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

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 17,971,972	\$ 3,854,977	\$ 21,826,949
Investments	1,995,154	-	1,995,154
Receivables, net of allowance for uncollectibles:			
Property taxes	1,031,936	-	1,031,936
Excises	174,389	-	174,389
User fees	-	2,735,006	2,735,006
Betterments	-	703,558	703,558
Intergovernmental	147,727	-	147,727
Departmental	36,142	-	36,142
Other	-	1,827	1,827
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	549,865	-	549,865
Betterments	-	8,209,159	8,209,159
Capital assets, being depreciated, net	60,160,387	55,585,685	115,746,072
Capital assets, not being depreciated	<u>9,133,223</u>	<u>1,315,103</u>	<u>10,448,326</u>
TOTAL ASSETS	91,200,795	72,405,315	163,606,110
LIABILITIES			
Current:			
Warrants and accounts payable	2,941,659	-	2,941,659
Accrued liabilities	869,800	283,535	1,153,335
Other liabilities	492,098	2,296	494,394
Current portion of long-term liabilities:			
Bonds payable	1,850,000	1,276,891	3,126,891
Compensates absences	281,572	11,594	293,166
Noncurrent:			
Bonds payable, net of current portion	16,965,000	20,391,299	37,356,299
Compensated absences, net of current portion	2,534,153	104,346	2,638,499
OPEB	<u>4,523,418</u>	<u>381,964</u>	<u>4,905,382</u>
TOTAL LIABILITIES	30,457,700	22,451,925	52,909,625
NET ASSETS			
Invested in capital assets, net of related debt	52,972,620	35,343,090	88,315,710
Restricted for:			
Grants and other statutory restrictions	5,222,764	-	5,222,764
Permanent funds			
Nonexpendable	1,533,528	-	1,533,528
Expendable	136,217	-	136,217
Unrestricted	<u>877,966</u>	<u>14,610,300</u>	<u>15,488,266</u>
TOTAL NET ASSETS	<u>\$ 60,743,095</u>	<u>\$ 49,953,390</u>	<u>\$ 110,696,485</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,820,883	\$ 697,236	\$ 1,271,172	\$ -	\$ (2,852,475)	\$ -	\$ (2,852,475)
Public safety	8,818,296	519,084	370,730	-	(7,928,482)	-	(7,928,482)
Education	40,684,426	1,809,971	11,583,587	-	(27,290,868)	-	(27,290,868)
Public works	3,974,620	227,480	101,332	567,308	(3,078,500)	-	(3,078,500)
Health and human services	2,537,150	118,861	327,445	-	(2,090,844)	-	(2,090,844)
Culture and recreation	2,775,791	251,862	-	536,500	(1,987,429)	-	(1,987,429)
Interest on debt service	434,420	-	-	-	(434,420)	-	(434,420)
Intergovernmental	2,479,089	-	-	-	(2,479,089)	-	(2,479,089)
Total Governmental Activities	66,524,675	3,624,494	13,654,266	1,103,808	(48,142,107)	-	(48,142,107)
Business-Type Activities:							
Sewer services	4,708,724	4,202,338	25,000	-	-	(481,386)	(481,386)
Water services	4,170,448	4,139,211	25,000	-	-	(6,237)	(6,237)
Other services	233,603	272,164	-	-	-	38,561	38,561
Total Business-Type Activities	9,112,775	8,613,713	50,000	-	-	(449,062)	(449,062)
Total	<u>\$ 75,637,450</u>	<u>\$ 12,238,207</u>	<u>\$ 13,704,266</u>	<u>\$ 1,103,808</u>	(48,142,107)	(449,062)	(48,591,169)
General Revenues:							
Property taxes					37,800,001	-	37,800,001
Excises					1,993,160	-	1,993,160
Penalties, interest and other taxes					1,071,646	-	1,071,646
Grants and contributions not restricted to specific programs					3,304,791	-	3,304,791
Investment income					(120,045)	20,125	(99,920)
Other					338,736	-	338,736
Transfers, net					1,950	(1,950)	-
Total general revenues and transfers					<u>44,390,239</u>	<u>18,175</u>	<u>44,408,414</u>
Change in Net Assets					(3,751,868)	(430,887)	(4,182,755)
Net Assets:							
Beginning of year					64,494,963	50,384,277	114,879,240
End of year					<u>\$ 60,743,095</u>	<u>\$ 49,953,390</u>	<u>\$ 110,696,485</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 6,064,156	\$ 12,369,442	\$ 18,433,598
Investments	-	1,533,528	1,533,528
Receivables:			
Property taxes	2,094,072	15,227	2,109,299
Excises	565,862	-	565,862
Intergovernmental	-	147,727	147,727
Departmental	-	36,142	36,142
TOTAL ASSETS	<u>\$ 8,724,090</u>	<u>\$ 14,102,066</u>	<u>\$ 22,826,156</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants and accounts payable	\$ 2,941,659	\$ -	\$ 2,941,659
Deferred revenue	2,326,571	15,227	2,341,798
Accrued liabilities	690,025	-	690,025
Other liabilities	<u>491,750</u>	<u>349</u>	<u>492,099</u>
TOTAL LIABILITIES	6,450,005	15,576	6,465,581
Fund Balances:			
Restricted for:			
Encumbrances and continuing appropriations	189,514	-	189,514
Perpetual (nonexpendable) permanent funds	-	1,533,528	1,533,528
Unreserved:			
Undesignated, reported in:			
General fund	2,084,571	-	2,084,571
Special revenue funds	-	10,192,735	10,192,735
Capital project funds	-	2,224,010	2,224,010
Permanent funds	<u>-</u>	<u>136,217</u>	<u>136,217</u>
TOTAL FUND BALANCES	<u>2,274,085</u>	<u>14,086,490</u>	<u>16,360,575</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,724,090</u>	<u>\$ 14,102,066</u>	<u>\$ 22,826,156</u>

See notes to financial statements.

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

JUNE 30, 2009

Total governmental fund balances	\$ 16,360,575
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	69,293,610
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,422,828
<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.	(179,775)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, and the OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(26,154,143)</u>
Net assets of governmental activities	<u>\$ 60,743,095</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>ARRA</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 37,695,688	\$ -	\$ -	\$ 37,695,688
Excise taxes	2,176,805	-	-	2,176,805
Interest, penalties, & other taxes	454,155	-	617,491	1,071,646
Charges for services	127,766	-	2,909,915	3,037,681
Licenses and permits	493,353	-	-	493,353
Intergovernmental	11,971,636	356,309	5,734,920	18,062,865
Investment income (loss)	230,924	-	(350,969)	(120,045)
Fines and forfeitures	93,460	-	-	93,460
Contributions	-	-	56,668	56,668
Other	134,387	-	147,681	282,068
Total Revenues	<u>53,378,174</u>	<u>356,309</u>	<u>9,115,706</u>	<u>62,850,189</u>
Expenditures:				
Current:				
General government	2,465,125	-	1,836,280	4,301,405
Public safety	6,280,682	-	733,687	7,014,369
Education	26,250,806	356,309	4,403,875	31,010,990
Public works	2,119,304	-	668,930	2,788,234
Health & human services	1,717,153	-	245,590	1,962,743
Culture and recreation	1,240,815	-	467,547	1,708,362
Employee benefits	9,158,410	-	102,661	9,261,071
Debt service	2,065,351	-	-	2,065,351
Intergovernmental	2,479,089	-	-	2,479,089
Total Expenditures	<u>53,776,735</u>	<u>356,309</u>	<u>8,458,570</u>	<u>62,591,614</u>
Excess (deficiency) of revenues over expenditures	(398,561)	-	657,136	258,575
Other Financing Sources (Uses):				
Issuance of bond	-	-	2,500,000	2,500,000
Transfers in	333,794	-	7,450	341,244
Transfers out	(5,000)	-	(334,294)	(339,294)
Total Other Financing Sources (Uses)	<u>328,794</u>	<u>-</u>	<u>2,173,156</u>	<u>2,501,950</u>
Change in fund balances	(69,767)	-	2,830,292	2,760,525
Fund Balance, at Beginning of Year	<u>2,343,852</u>	<u>-</u>	<u>11,256,198</u>	<u>13,600,050</u>
Fund Balance, at End of Year	<u>\$ 2,274,085</u>	<u>\$ -</u>	<u>\$ 14,086,490</u>	<u>\$ 16,360,575</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,760,525

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay purchases 2,300,930

Depreciation (3,207,421)

- 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. (79,333)

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

Issuances of debt (2,500,000)

Repayments of debt 1,615,000

Increase in OPEB liability (4,523,418)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 15,932

- 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. (134,083)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (3,751,868)

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property taxes	\$ 37,792,587	\$ 37,792,587	\$ 37,792,587	\$ -
Excise taxes	2,116,000	2,116,000	2,176,805	60,805
Charges for services	122,000	122,000	127,766	5,766
Interest, penalties, and other taxes	446,000	446,000	454,155	8,155
Licenses and permits	610,500	610,500	493,353	(117,147)
Intergovernmental	7,489,839	7,489,839	7,241,956	(247,883)
Investment income	280,000	280,000	230,924	(49,076)
Fines and forfeits	105,000	105,000	93,460	(11,540)
Other	179,268	179,268	134,387	(44,881)
Transfers in	199,104	315,022	333,794	18,772
Other sources	65,000	427,719	427,719	-
Total Revenues and Other Sources	49,405,298	49,883,935	49,506,906	(377,029)
Expenditures and Other Uses:				
General government	2,509,329	2,559,509	2,392,192	167,317
Public safety	6,424,843	6,424,843	6,284,405	140,438
Education	21,349,766	21,349,766	21,258,762	91,004
Public works	1,940,181	2,299,720	2,176,964	122,756
Health and human service	1,710,761	1,825,634	1,728,936	96,698
Culture and recreation	1,349,230	1,251,357	1,232,556	18,801
Employee benefits	9,631,092	9,631,092	9,161,910	469,182
Debt service	2,013,435	2,065,353	2,065,353	-
Intergovernmental	2,432,307	2,432,307	2,479,089	(46,782)
Transfers out	5,000	5,000	5,000	-
Other uses	39,354	39,354	39,354	-
Total Expenditures and Other Uses	49,405,298	49,883,935	48,824,521	1,059,414
Excess revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 682,385	\$ 682,385

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Other Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 1,771,166	\$ 1,663,524	\$ 420,287	\$ 3,854,977
User fee receivables	1,430,038	1,291,314	13,654	2,735,006
Betterment receivables	460,299	243,259	-	703,558
Other assets	1,827	-	-	1,827
Noncurrent:				
Betterment receivables	5,419,830	2,789,329	-	8,209,159
Capital assets, being depreciated, net	23,728,960	31,771,736	84,989	55,585,685
Capital assets, not being depreciated	<u>238,464</u>	<u>901,879</u>	<u>174,760</u>	<u>1,315,103</u>
TOTAL ASSETS	33,050,584	38,661,041	693,690	72,405,315
<u>LIABILITIES</u>				
Current:				
Accrued liabilities	191,971	91,564	-	283,535
Other liabilities	-	2,178	118	2,296
Current portion of long-term liabilities:				
Bonds payable	573,828	673,063	30,000	1,276,891
Compensated absences	3,039	8,555	-	11,594
Noncurrent:				
Bonds payable, net of current portion	10,430,053	9,861,246	100,000	20,391,299
Compensated absences, net of current portion	27,350	76,996	-	104,346
OPEB	<u>198,987</u>	<u>182,977</u>	<u>-</u>	<u>381,964</u>
TOTAL LIABILITIES	11,425,228	10,896,579	130,118	22,451,925
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	12,963,703	22,247,532	131,855	35,343,090
Unrestricted	<u>8,661,653</u>	<u>5,516,930</u>	<u>431,717</u>	<u>14,610,300</u>
TOTAL NET ASSETS	\$ <u>21,625,356</u>	\$ <u>27,764,462</u>	\$ <u>563,572</u>	\$ <u>49,953,390</u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Other Funds</u>	<u>Total</u>
Operating Revenues:				
Charges for services	\$ <u>4,202,338</u>	\$ <u>4,139,211</u>	\$ <u>272,164</u>	\$ <u>8,613,713</u>
Total Operating Revenues	4,202,338	4,139,211	272,164	8,613,713
Operating Expenses:				
Personnel services	1,749,133	1,559,939	184,552	3,493,624
Non-personnel services	1,501,048	1,323,961	40,668	2,865,677
Depreciation	<u>1,171,194</u>	<u>976,571</u>	<u>4,481</u>	<u>2,152,246</u>
Total Operating Expenses	<u>4,421,375</u>	<u>3,860,471</u>	<u>229,701</u>	<u>8,511,547</u>
Operating Income (loss)	(219,037)	278,740	42,463	102,166
Nonoperating Revenues (Expenses):				
Intergovernmental	25,000	25,000	-	50,000
Interest income	8,938	8,580	2,607	20,125
Interest expense	<u>(287,349)</u>	<u>(309,977)</u>	<u>(3,902)</u>	<u>(601,228)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(253,411)</u>	<u>(276,397)</u>	<u>(1,295)</u>	<u>(531,103)</u>
Income (loss) before transfers	(472,448)	2,343	41,168	(428,937)
Transfers:				
Transfers out	-	-	(2,000)	(2,000)
Transfers in	<u>-</u>	<u>-</u>	<u>50</u>	<u>50</u>
Change in Net Assets	(472,448)	2,343	39,218	(430,887)
Net Assets at Beginning of Year	<u>22,097,804</u>	<u>27,762,119</u>	<u>524,354</u>	<u>50,384,277</u>
Net Assets at End of Year	\$ <u><u>21,625,356</u></u>	\$ <u><u>27,764,462</u></u>	\$ <u><u>563,572</u></u>	\$ <u><u>49,953,390</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Other Funds	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 4,286,685	\$ 4,249,170	\$ 258,510	\$ 8,794,365
Payments to employees	(1,749,133)	(1,559,939)	(184,552)	(3,493,624)
Payments to vendors	(1,270,427)	(1,143,418)	(42,553)	(2,456,398)
Net Cash Provided By (Used For) Operating Activities	1,267,125	1,545,813	31,405	2,844,343
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	-	-	50	50
Transfers out	-	-	(2,000)	(2,000)
Intergovernmental	25,000	25,000	-	50,000
Betterments	603,972	302,830	-	906,802
Net Cash Provided By (Used For) Noncapital Financing Activities	628,972	327,830	(1,950)	954,852
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(610,999)	(511,586)	(4,760)	(1,127,345)
Principal payments on bonds and notes	(650,555)	(668,839)	(30,000)	(1,349,394)
Interest expense	(287,349)	(309,977)	(3,902)	(601,228)
Net Cash (Used For) Capital and Related Financing Activities	(1,548,903)	(1,490,402)	(38,662)	(3,077,967)
Cash Flows From Investing Activities:				
Investment income	8,938	8,580	2,607	20,125
Net Cash Provided By Investing Activities	8,938	8,580	2,607	20,125
Net Change in Cash and Short-Term Investments	356,132	391,821	(6,600)	741,353
Cash and Short-Term Investments, Beginning of Year	1,415,034	1,271,703	426,887	3,113,624
Cash and Short-Term Investments, End of Year	\$ 1,771,166	\$ 1,663,524	\$ 420,287	\$ 3,854,977
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (219,037)	\$ 278,740	\$ 42,463	\$ 102,166
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,171,194	976,571	4,481	2,152,246
Changes in assets and liabilities:				
User fees	84,347	109,959	(13,654)	180,652
Accrued liabilities	30,568	(6,322)	(1,973)	22,273
Other liabilities	200,053	186,865	88	387,006
Net Cash Provided By (Used For) Operating Activities	\$ 1,267,125	\$ 1,545,813	\$ 31,405	\$ 2,844,343

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>150,047</u>
Total Assets	150,047
<u>LIABILITIES</u>	
Other liabilities	<u>150,047</u>
Total Liabilities	\$ <u><u>150,047</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Mayor and City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal "stimulus" funds awarded the community to replace some of the fiscal year 2009 Chapter 70 State aid reductions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from

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

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

The government reports the following major proprietary funds:

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" 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 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2009 tax levy reflected an excess capacity of approximately \$ 28,999.

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 is depreciated using the straight-line method over the following estimated useful lives:

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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 with 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)	\$ 53,378,174	\$ 53,776,735
Other financing sources/uses (GAAP basis)	<u>333,794</u>	<u>5,000</u>
Subtotal (GAAP Basis)	53,711,968	53,781,735
To adjust property tax revenue to the budgetary basis	96,899	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(513,584)
Add end of year appropriation carryforwards to expenditures	-	189,514
To record use of free cash and overlay surplus	427,719	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(4,729,680)	(4,729,680)
Other	<u>-</u>	<u>96,536</u>
Budgetary basis	\$ <u><u>49,506,906</u></u>	\$ <u><u>48,824,521</u></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, 2009 and December 31, 2008, \$ 625 of the City's bank balances of \$ 22,042,914 were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
			<u>Aaa</u>	<u>AA</u>	<u>B</u>
Corporate equities	\$ 770	\$ 770	\$ -	\$ -	\$ -
Bond mutual funds	<u>1,225</u>	<u>-</u>	<u>705</u>	<u>474</u>	<u>46</u>
Total investments	<u>\$ 1,995</u>	<u>\$ 770</u>	<u>\$ 705</u>	<u>\$ 474</u>	<u>\$ 46</u>

B. Custodial Credit Risk

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

Of the City's investment of \$ 1,995, the government has a custodial credit risk exposure of \$ 1,995 because the related securities are uninsured, unregistered and held by the City's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

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

Mellon Short-Term US Govnt securities	\$ 209,123
Mellon Intermediate Bond Fund	473,533
Mellon Bond Fund	496,309

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>1-5</u>	<u>6-10</u>
Bond mutual funds	\$ 1,225	\$ 728	\$ 497

E. Foreign Currency Risk

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

5. Taxes Receivable

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

Taxes receivable at June 30, 2009 consist of the following (in thousands):

Real Estate		
2009	\$ 967	
2008	208	
2007	83	
2006	50	
Prior	<u>122</u>	
		1,430
Personal Property		
2009	10	
2008	4	
2007	7	
2006	8	
Prior	<u>100</u>	
		129
Tax Liens		<u>550</u>
Total		<u>\$ 2,109</u>

6. **Allowance for Doubtful Accounts**

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

Property taxes	\$ 527
Excises	392

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

8. **Capital Assets**

Capital asset activity for the year ended June 30, 2009 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	\$ 70,912	\$ 755	\$ (5,215)	\$ 66,452
Infrastructure	26,984	565	(870)	26,679
Machinery and equipment	<u>5,876</u>	<u>637</u>	<u>(2,968)</u>	<u>3,545</u>
Total capital assets, being depreciated	103,772	1,957	(9,053)	96,676
Less accumulated depreciation for:				
Buildings and improvements	(19,303)	(2,207)	5,215	(16,295)
Infrastructure	(18,706)	(665)	870	(18,501)
Machinery and equipment	<u>(4,352)</u>	<u>(335)</u>	<u>2,968</u>	<u>(1,719)</u>
Total accumulated depreciation	<u>(42,361)</u>	<u>(3,207)</u>	<u>9,053</u>	<u>(36,515)</u>
Total capital assets, being depreciated, net	61,411	(1,250)	-	60,161
Capital assets, not being depreciated:				
Land	8,789	329	-	9,118
Construction in progress	<u>-</u>	<u>15</u>	<u>-</u>	<u>15</u>
Total capital assets, being depreciated, net	<u>8,789</u>	<u>344</u>	<u>-</u>	<u>9,133</u>
Governmental activities capital assets, net	<u>\$ 70,200</u>	<u>\$ (906)</u>	<u>\$ -</u>	<u>\$ 69,294</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	\$ 120	\$ 1,023	\$ (9)	\$ 1,134
Infrastructure	81,095	17	(601)	80,511
Machinery and equipment	<u>1,447</u>	<u>810</u>	<u>(769)</u>	<u>1,488</u>
Total capital assets, being depreciated	82,662	1,850	(1,379)	83,133
Less accumulated depreciation for:				
Buildings and improvements	(27)	(30)	9	(48)
Infrastructure	(25,534)	(2,015)	601	(26,948)
Machinery and equipment	<u>(1,213)</u>	<u>(107)</u>	<u>769</u>	<u>(551)</u>
Total accumulated depreciation	<u>(26,774)</u>	<u>(2,152)</u>	<u>1,379</u>	<u>(27,547)</u>
Total capital assets, being depreciated, net	55,888	(302)	-	55,586
Capital assets, not being depreciated:				
Land	1,221	-	-	1,221
Construction in progress	<u>817</u>	<u>94</u>	<u>(817)</u>	<u>94</u>
Total capital assets, not being depreciated, net	<u>2,038</u>	<u>94</u>	<u>(817)</u>	<u>1,315</u>
Business-type activities capital assets, net	<u>\$ 57,926</u>	<u>\$ (208)</u>	<u>\$ (817)</u>	<u>\$ 56,901</u>

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

Governmental Activities:	
General government	\$ 245
Public safety	346
Education	1,084
Public works	795
Health and human services	22
Culture and recreation	<u>715</u>
Total depreciation expense - governmental activities	\$ <u>3,207</u>
Business-Type Activities:	
Sewer	\$ 1,171
Water	977
Harbor	<u>4</u>
Total depreciation expense - business-type activities	\$ <u>2,152</u>

9. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

10. Deferred Revenue

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

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2009 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

11. Other Liabilities

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

12. 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>	Interest		Principal
<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>
Getty/Cherry	4.712%	2018	\$ 270,000
City hall	5.060%	2013	126,000
Brownstone	4.712%	2020	110,000
High school	3.765%	2023	2,240,000
Boardwalk	4.712%	2015	70,000
Boardwalk	3.765%	2017	275,000
Boardwalk	3.765%	2017	265,000
Boardwalk	3.765%	2017	85,000
Library	4.470%	2017	325,000
Library	4.712%	2020	2,060,000
School bonds	5.060%	2015	536,000
School bonds	4.470%	2017	250,000
Police station	5.060%	2015	618,000
Bullnose	4.712%	2015	115,000
High school	3.500 - 5.000%	2025	4,590,000
School demountables	3.500 - 5.000%	2025	450,000
Recreation	3.500 - 5.000%	2025	40,000
City hall	4.000 - 7.000%	2019	1,500,000
Land acquisition	4.000 - 7.000%	2019	975,000
Equipment	4.250 - 5.000%	2017	515,000
Drainage	4.250 - 5.000%	2017	380,000
Central server - IT	4.250 - 5.000%	2015	80,000
Recreational facility	4.250 - 5.000%	2017	65,000
School renovations	4.250 - 5.000%	2017	375,000
Fire Truck	3.500 - 6.000%	2018	500,000
Sidewalk repairs	3.500 - 3.750%	2013	150,000
Inn street electrical	3.500 - 6.000%	2018	100,000
Stormwater management	3.500 - 6.000%	2018	420,000
Street paving	3.500 - 6.000%	2018	500,000
Relocation of N. Res Terr.	3.500 - 6.000%	2018	75,000
City hall restrooms	3.500 - 6.000%	2016	35,000
Ferry road sidewalks	3.500 - 3.750%	2013	220,000
School building impr.	3.500 - 6.000%	2018	500,000
Total Governmental Activities Debt:			<u>\$ 18,815,000</u>

<u>Business-Type Activities</u> <u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Principal</u> <u>Amount</u>
Plum Island	3.500 - 5.000%	2025	\$ 435,000
Sewer	3.500 - 5.000%	2025	645,000
MWPAT	3.500 - 5.000%	2034	4,249,450
Sewer	5.07%	2014	85,000
Sewer	5.07%	2014	75,000
Sewer	4.74%	2021	1,020,000
Sewer	4.000 - 7.000%	2019	325,000
Sewer	4.000 - 7.000%	2019	1,450,000
Sewer	4.000 - 7.000%	2019	670,000
MWPAT	7.50%	2019	444,764
Plum Island	2.00%	2036	1,169,667
Sewer	4.250 - 5.000%	2017	160,000
Sewer mains	4.250 - 5.000%	2017	275,000
Water	5.07%	2014	100,000
Water	4.490%	2017	1,025,000
Water	4.172%	2021	1,060,000
Water	3.500 - 5.000%	2025	530,000
MWPAT	3.400 - 5.250%	2025	2,270,605
MWPAT	3.000 - 5.250%	2025	3,070,197
Plum Island	2.00%	2037	779,778
Water	4.000 - 7.000%	2019	630,000
Water	4.000 - 7.000%	2019	15,000
Water	4.000 - 7.000%	2019	770,000
MWPAT	0.000%	2024	283,729
Public wharf	3.500 - 5.000%	2025	130,000
Total Business-Type Activities Debt			\$ <u>21,668,190</u>
Grand Total Bonds Payable			\$ <u>40,483,190</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,850,000	\$ 805,767	\$ 2,655,767
2011	1,855,000	731,470	2,586,470
2012	1,825,000	656,973	2,481,973
2013	1,820,000	582,748	2,402,748
2014	1,800,000	507,048	2,307,048
2015-2019	7,170,000	1,404,088	8,574,088
2020-2024	2,200,000	335,976	2,535,976
2025	295,000	13,276	308,276
Total	\$ <u>18,815,000</u>	\$ <u>5,037,346</u>	\$ <u>23,852,346</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, 2009:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,276,891	\$ 890,956	\$ 2,167,847
2011	1,276,016	839,343	2,115,359
2012	1,276,149	790,587	2,066,736
2013	1,286,703	740,686	2,027,389
2014	1,300,946	686,219	1,987,165
2015-2019	6,139,550	2,531,188	8,670,738
2020-2024	5,160,143	1,226,907	6,387,050
2025-2029	2,229,464	418,168	2,647,632
2030-2034	1,508,339	155,408	1,663,747
2035-2038	213,989	1,130	215,119
Total	<u>\$ 21,668,190</u>	<u>\$ 8,280,592</u>	<u>\$ 29,948,782</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2009 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	<u>26,380,000</u>
Total		<u>\$ 27,626,175</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/09</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 17,930	\$ 2,500	\$ (1,615)	\$ 18,815	\$ (1,850)	\$ 16,965
Compensated absences	2,682	402	(268)	2,816	(282)	2,534
OPEB	-	4,523	-	4,523	-	4,523
Totals	<u>\$ 20,612</u>	<u>\$ 7,425</u>	<u>\$ (1,883)</u>	<u>\$ 26,154</u>	<u>\$ (2,132)</u>	<u>\$ 24,022</u>

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Long-Term Portion <u>6/30/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 23,018	\$ -	\$ (1,350)	\$ 21,668	\$ (1,277)	\$ 20,391
Compensated Absences	110	17	(11)	116	(12)	104
OPEB	-	382	-	382	-	382
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	\$ <u>23,128</u>	\$ <u>399</u>	\$ <u>(1,361)</u>	\$ <u>22,166</u>	\$ <u>(1,289)</u>	\$ <u>20,877</u>

13. Restricted Net Assets

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

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

14. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2009:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Permanent Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

15. Subsequent Events

Debt

Subsequent to June 30, 2009, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Sewer Bond anticipation notes	\$ 4,380,000	1.25%	07/30/09	02/26/10
General Obligation Refunding bonds	\$ 6,765,000	2.00 - 3.25%	01/01/10	01/01/21

16. **Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits 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.

17. **Post-Employment Health Care 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 revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment health care 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 January 1, 2008, the actuarial valuation date, approximately 359 retirees and 612 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 2009 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, 2009, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2008.

Annual Required Contribution (ARC)	\$ 6,862,031
Interest on net OPEB obligation	<u>274,481</u>
Annual OPEB cost	7,136,512
Contributions made	<u>(2,231,130)</u>
Increase in net OPEB obligation	4,905,382
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u><u>\$ 4,905,382</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 7,136,512	31.3%	\$ 4,905,382

The City's net OPEB obligation as of June 30, 2009 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2008, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 74,485,260
Actuarial value of plan assets	<u>-</u>
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>\$ 27,055,000</u>
UAAL as a percentage of covered payroll	<u>275.3%</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 the 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 January 1, 2008 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 10.00% which decreases to a 5.00% long-term rate for all healthcare benefits after five 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%.

18. 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.

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

June 30, 2009
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 74,485,260	\$ 74,485,260	0.0%	\$ 27,055,000	275.3%

See Independent Auditors' Report.