

CITY OF NEWBURYPORT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Newburyport, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newburyport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Additional Offices:

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

In our opinion, except for the effects of not including financial information of the Newburyport Contributory Retirement System, as discussed above, the financial statements referred to above present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate remaining fund information of the City of Newburyport, Massachusetts, as of June 30, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing on page 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2011 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 23, 2011

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, 2010. Unless otherwise noted, all amounts in this Management's Discussion and Analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 107,865 (i.e., net assets), a change of \$ (2,831) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 15,689, a change of \$ (671) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,083, a change of \$ (2) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 42,056, a change of \$ 1,573 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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 21,535	\$ 21,907	\$ 16,565	\$ 15,504	\$ 38,100	\$ 37,411
Capital assets	68,961	69,294	61,143	56,901	130,104	126,195
Total assets	<u>90,496</u>	<u>91,201</u>	<u>77,708</u>	<u>72,405</u>	<u>168,204</u>	<u>163,606</u>
Long-term liabilities	29,139	26,154	25,807	22,166	54,946	48,320
Other liabilities	4,339	4,304	1,054	286	5,393	4,590
Total liabilities	<u>33,478</u>	<u>30,458</u>	<u>26,861</u>	<u>22,452</u>	<u>60,339</u>	<u>52,910</u>
Net assets:						
Invested in capital assets, net	52,936	52,973	36,595	35,343	89,531	88,316
Restricted	6,452	6,892	-	-	6,452	6,892
Unrestricted	(2,370)	878	14,252	14,610	11,882	15,488
Total net assets	<u>\$ 57,018</u>	<u>\$ 60,743</u>	<u>\$ 50,847</u>	<u>\$ 49,953</u>	<u>\$ 107,865</u>	<u>\$ 110,696</u>

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 4,123	\$ 3,624	\$ 8,996	\$ 8,614	\$ 13,119	\$ 12,238
Operating grants and contributions	12,023	13,654	50	50	12,073	13,704
Capital grants and contributions	960	1,104	1,186	-	2,146	1,104
General revenues:						
Property taxes	39,099	37,800	-	-	39,099	37,800
Excises	2,077	1,993	-	-	2,077	1,993
Penalties, interest and other taxes	963	1,072	-	-	963	1,072
Grants and contributions not restricted to specific programs	2,600	3,305	-	-	2,600	3,305
Investment income	229	(120)	94	20	323	(100)
Other	472	339	-	-	472	339
Total revenues	<u>62,546</u>	<u>62,771</u>	<u>10,326</u>	<u>8,684</u>	<u>72,872</u>	<u>71,455</u>
Expenses:						
General government	4,674	4,821	-	-	4,674	4,821
Public safety	8,832	8,818	-	-	8,832	8,818
Education	40,262	40,685	-	-	40,262	40,685
Public works	3,835	3,975	-	-	3,835	3,975
Human services	2,452	2,537	-	-	2,452	2,537
Culture and recreation	3,032	2,776	-	-	3,032	2,776
Interest on long-term debt	860	434	-	-	860	434
Intergovernmental	2,356	2,479	-	-	2,356	2,479
Sewer operations	-	-	4,926	4,709	4,926	4,709
Water operations	-	-	4,172	4,170	4,172	4,170
Harbor operations	-	-	302	234	302	234
Total expenses	<u>66,303</u>	<u>66,525</u>	<u>9,400</u>	<u>9,113</u>	<u>75,703</u>	<u>75,638</u>
Change in net assets before transfers	(3,757)	(3,754)	926	(429)	(2,831)	(4,183)
Transfers, net	<u>32</u>	<u>2</u>	<u>(32)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(3,725)</u>	<u>(3,752)</u>	<u>894</u>	<u>(431)</u>	<u>(2,831)</u>	<u>(4,183)</u>
Net assets - beginning 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>
Net assets - end of year	<u>\$ 57,018</u>	<u>\$ 60,743</u>	<u>\$ 50,847</u>	<u>\$ 49,953</u>	<u>\$ 107,865</u>	<u>\$ 110,696</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 107,865, a change of \$ (2,831) from the prior year.

The largest portion of net assets \$ 89,531 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 \$ 6,452 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 11,882 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 \$ (3,725). Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 514
Special revenue fund expenditures in excess of revenues	(414)
Trust fund revenues in excess of expenditures	113
Depreciation expense in excess of principal debt service	(1,451)
Increase in net OPEB obligation	(4,523)
Capital asset additions from current year revenues	1,701
Other	<u>335</u>
Total	\$ <u><u>(3,725)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 894.

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

Sewer	\$ 951
Water	34
Other	<u>(91)</u>
Total	\$ <u><u>894</u></u>

The majority of the Sewer increase resulted from the receipt of a \$ 1,186 ARRA debt forgiveness grant through the MWPAT.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

Such information is useful in assessing financing requirements. In particular, 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 \$ 15,689, a change of \$ (671) in comparison with the prior year. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 514
Special revenue fund expenditures in excess of revenues	(414)
Capital project fund expenditures in excess of revenues	(916)
Trust fund revenues in excess of expenditures	113
Transfer from Harbormaster	32
Total	<u>\$ (671)</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 \$ 2,083, while total fund balance was \$ 3,060. 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 5.7 percent of that same amount.

The fund balance of the general fund changed by \$ 786 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus	\$ (818)
Revenues less than budget	247
Expenditures less than budget	723
Property tax collections less than budget	(153)
Change in encumbrances	787
Total	<u>\$ 786</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 \$ 14,252, a change of \$ (358) 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 \$ 885. The reasons for these amendments include:

Paid parking program	\$ 278
Stabilization fund transfer	200
Fuel and oil	75
Snow and ice	54
Property revaluation	49
Other various supplemental appropriations	<u>229</u>
Total	\$ <u>885</u>

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

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 130,104 (net of accumulated depreciation), a change of \$ 3,909 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 \$ 42,056, 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 economy of Newburyport is diverse - ranging from boutique retail space in the historic downtown to an industrial park which supports businesses in the financial, professional services, manufacturing, and pharmaceutical sectors. Newburyport boasts a highly-educated workforce, supportive government, and business infrastructure.

The City's residential/commercial/industrial tax base continues to be strong. Currently, several subdivisions are under construction, and many new residents are double income families with incomes well above the median. The continued demand for residential property has motivated homeowners to invest in the current property.

Newburyport has an active industrial and commercial economy. This is a result of a successful transition from a ship building and domestic manufacturing community to one of the broadest based and recession proof economies in New England. Newburyport's current industrial tax base includes such entities as manufacturers of semi-conductors, navigation equipment, exotic chemicals, fine desserts, and marine-dependent businesses.

The tax rate for Fiscal Year 2011 is a single rate of \$ 10.09 per \$ 1,000 of value. This represents a drop of 17 cents from the prior year's rate of \$ 10.26.

The FY 2011 approved City budget is \$ 58,181,560.69. This represents an increase of .8% over the previous fiscal year. The major portion of the budget is for education (40%), followed by Public Works and General Government 22%, Public Safety 11%, Human Services 5%, and Debt Service 4%. The property tax continues to be the primary source of budget revenues followed by local receipts, and state aid.

In the last two years the City Bond rating has increased from A to AA according to both of the major credit rating agencies, Moody's and Standard and Poor's. This reflects the City's solid financial position and sound financial management practices, as evidenced by healthy reserve funds and year-end budgeting results.

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, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 17,254,687	\$ 5,303,416	\$ 22,558,103
Investments	2,047,321	-	2,047,321
Receivables, net of allowance for uncollectibles:			
Property taxes	1,214,393	-	1,214,393
Excises	278,237	-	278,237
User fees	-	2,658,266	2,658,266
Betterments	-	688,102	688,102
Intergovernmental	197,747	-	197,747
Other	-	1,827	1,827
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	542,137	-	542,137
Betterments	-	7,913,177	7,913,177
Capital assets, being depreciated, net	59,842,708	54,353,574	114,196,282
Capital assets, not being depreciated	9,118,323	6,789,891	15,908,214
TOTAL ASSETS	90,495,553	77,708,253	168,203,806
LIABILITIES			
Current:			
Warrants and accounts payable	3,196,745	-	3,196,745
Accrued liabilities	547,741	1,050,827	1,598,568
Other liabilities	594,227	3,574	597,801
Current portion of long-term liabilities:			
Bonds payable	1,869,070	1,541,016	3,410,086
Compensated absences	295,651	12,174	307,825
Noncurrent:			
Bonds payable, net of current portion	15,266,205	23,380,008	38,646,213
Compensated absences, net of current portion	2,660,860	109,563	2,770,423
Net OPEB obligation	9,046,836	763,928	9,810,764
TOTAL LIABILITIES	33,477,335	26,861,090	60,338,425
NET ASSETS			
Invested in capital assets, net of related debt	52,935,701	36,594,971	89,530,672
Restricted for:			
Grants and other statutory restrictions	4,670,003	-	4,670,003
Permanent funds			
Nonexpendable	1,649,087	-	1,649,087
Expendable	133,489	-	133,489
Unrestricted	(2,370,062)	14,252,192	11,882,130
TOTAL NET ASSETS	\$ 57,018,218	\$ 50,847,163	\$ 107,865,381

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	<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	\$ 4,673,840	\$ 1,235,335	\$ 554,226	\$ 255,842	\$ (2,628,437)	\$ -	\$ (2,628,437)
Public safety	8,832,032	584,952	155,080	-	(8,092,000)	-	(8,092,000)
Education	40,261,664	1,715,691	11,087,717	-	(27,458,256)	-	(27,458,256)
Public works	3,835,431	155,876	97,764	660,039	(2,921,752)	-	(2,921,752)
Health and human services	2,451,988	180,159	128,013	-	(2,143,816)	-	(2,143,816)
Culture and recreation	3,031,712	250,860	-	43,892	(2,736,960)	-	(2,736,960)
Interest on debt service	860,363	-	-	-	(860,363)	-	(860,363)
Intergovernmental	2,356,280	-	-	-	(2,356,280)	-	(2,356,280)
Total Governmental Activities	66,303,310	4,122,873	12,022,800	959,773	(49,197,864)	-	(49,197,864)
Business-Type Activities:							
Sewer services	4,925,911	4,577,445	25,000	1,186,142	-	862,676	862,676
Water services	4,171,635	4,175,692	25,000	-	-	29,057	29,057
Other services	302,996	243,048	-	-	-	(59,948)	(59,948)
Total Business-Type Activities	9,400,542	8,996,185	50,000	1,186,142	-	831,785	831,785
Total	<u>\$ 75,703,852</u>	<u>\$ 13,119,058</u>	<u>\$ 12,072,800</u>	<u>\$ 2,145,915</u>	(49,197,864)	831,785	(48,366,079)
General Revenues and Transfers:							
Property taxes					39,099,029	-	39,099,029
Excises					2,077,268	-	2,077,268
Penalties, interest and other taxes					963,038	-	963,038
Grants and contributions not restricted to specific programs					2,599,865	-	2,599,865
Investment income					229,291	93,988	323,279
Other					472,496	-	472,496
Transfers, net					32,000	(32,000)	-
Total general revenues and transfers					<u>45,472,987</u>	<u>61,988</u>	<u>45,534,975</u>
Change in Net Assets					(3,724,877)	893,773	(2,831,104)
Net Assets:							
Beginning of year					60,743,095	49,953,390	110,696,485
End of year					<u>\$ 57,018,218</u>	<u>\$ 50,847,163</u>	<u>\$ 107,865,381</u>

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 6,354,505	\$ 10,900,182	\$ 17,254,687
Investments	264,745	1,782,576	2,047,321
Receivables:			
Property taxes	2,374,131	18,173	2,392,304
Excises	589,862	-	589,862
Intergovernmental	-	197,747	197,747
TOTAL ASSETS	\$ 9,583,243	\$ 12,898,678	\$ 22,481,921
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants and accounts payable	\$ 3,196,745	\$ -	\$ 3,196,745
Deferred revenue	2,588,692	18,173	2,606,865
Accrued liabilities	144,723	250,079	394,802
Other liabilities	593,255	971	594,226
TOTAL LIABILITIES	6,523,415	269,223	6,792,638
Fund Balances:			
Restricted for:			
Encumbrances and continuing appropriations	976,501	-	976,501
Perpetual (nonexpendable) permanent funds	-	1,649,087	1,649,087
Unreserved:			
Undesignated, reported in:			
General fund (see note 16)	2,083,327	-	2,083,327
Special revenue funds	-	9,539,187	9,539,187
Capital project funds	-	1,307,692	1,307,692
Permanent funds	-	133,489	133,489
TOTAL FUND BALANCES	3,059,828	12,629,455	15,689,283
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,583,243	\$ 12,898,678	\$ 22,481,921

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

JUNE 30, 2010

Total governmental fund balances	\$ 15,689,283
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	68,961,031
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,659,465
<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.	(152,939)
<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>(29,138,622)</u>
Net assets of governmental activities	<u><u>\$ 57,018,218</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 38,855,986	\$ -	\$ 38,855,986
Excise taxes	2,083,674	-	2,083,674
Interest, penalties, & other taxes	357,524	605,514	963,038
Charges for services	114,321	3,375,217	3,489,538
Licenses and permits	539,394	-	539,394
Intergovernmental	11,462,225	4,120,213	15,582,438
Investment income	96,929	132,362	229,291
Fines and forfeitures	93,941	-	93,941
Contributions	-	155,680	155,680
Other	213,072	103,744	316,816
Total Revenues	<u>53,817,066</u>	<u>8,492,730</u>	<u>62,309,796</u>
Expenditures:			
Current:			
General government	2,335,551	2,161,644	4,497,195
Public safety	6,326,829	227,095	6,553,924
Education	26,146,268	4,785,559	30,931,827
Public works	1,947,250	1,223,490	3,170,740
Health & human services	1,667,590	213,098	1,880,688
Culture and recreation	1,242,053	630,823	1,872,876
Employee benefits	9,078,580	104,054	9,182,634
Debt service	2,202,918	364,006	2,566,924
Intergovernmental	2,356,280	-	2,356,280
Total Expenditures	<u>53,303,319</u>	<u>9,709,769</u>	<u>63,013,088</u>
Excess (deficiency) of revenues over expenditures	513,747	(1,217,039)	(703,292)
Other Financing Sources (Uses):			
Transfers in	479,996	429,566	909,562
Transfers out	(208,000)	(669,562)	(877,562)
Total Other Financing Sources (Uses)	<u>271,996</u>	<u>(239,996)</u>	<u>32,000</u>
Change in fund balances	785,743	(1,457,035)	(671,292)
Fund Balance, at Beginning of Year	<u>2,274,085</u>	<u>14,086,490</u>	<u>16,360,575</u>
Fund Balance, at End of Year	<u>\$ 3,059,828</u>	<u>\$ 12,629,455</u>	<u>\$ 15,689,283</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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (671,292)**

- 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 2,968,484

Depreciation (3,301,063)

- 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.

236,637

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

Repayments of debt 1,850,000

Loss on refunding (170,275)

Increase in net OPEB obligation (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.

26,836

- 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.

(140,786)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (3,724,877)**

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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 39,008,964	\$ 39,008,964	\$ 39,008,964	\$ -
Excise taxes	2,060,000	2,060,000	2,083,674	23,674
Charges for services	105,000	105,000	114,321	9,321
Interest, penalties, and other taxes	550,000	550,000	357,524	(192,476)
Licenses and permits	480,000	480,000	539,394	59,394
Intergovernmental	6,148,539	6,148,539	6,483,501	334,962
Investment income	172,000	172,000	96,929	(75,071)
Fines and forfeits	90,000	90,000	93,941	3,941
Other	188,000	188,000	213,072	25,072
Transfers in	355,371	422,087	479,996	57,909
Other sources	-	818,117	818,117	-
Total Revenues and Other Sources	49,157,874	50,042,707	50,289,433	246,726
Expenditures and Other Uses:				
General government	2,375,362	2,542,927	2,436,300	106,627
Public safety	6,394,115	6,695,625	6,601,792	93,833
Education	21,479,012	21,479,012	21,478,572	440
Public works	1,815,586	2,023,513	1,901,579	121,934
Health and human service	1,826,958	1,832,190	1,799,508	32,682
Culture and recreation	1,256,035	1,258,634	1,242,053	16,581
Employee benefits	9,367,615	9,367,615	9,092,580	275,035
Debt service	2,291,754	2,291,754	2,202,918	88,836
Intergovernmental	2,338,437	2,338,437	2,356,280	(17,843)
Transfers out	13,000	213,000	208,000	5,000
Total Expenditures and Other Uses	49,157,874	50,042,707	49,319,582	723,125
Excess revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 969,851	\$ 969,851

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities - Enterprise Funds			
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Other Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 3,070,788	\$ 2,025,376	\$ 207,252	\$ 5,303,416
User fee receivables	1,372,019	1,263,680	22,567	2,658,266
Betterment receivables	461,200	226,902	-	688,102
Other assets	1,827	-	-	1,827
Noncurrent:				
Betterment receivables	5,303,804	2,609,373	-	7,913,177
Capital assets, being depreciated, net	22,832,234	31,348,435	172,905	54,353,574
Capital assets, not being depreciated	<u>5,797,332</u>	<u>822,559</u>	<u>170,000</u>	<u>6,789,891</u>
TOTAL ASSETS	38,839,204	38,296,325	572,724	77,708,253
<u>LIABILITIES</u>				
Current:				
Accrued liabilities	956,063	94,764	-	1,050,827
Other liabilities	832	2,624	118	3,574
Current portion of long-term liabilities:				
Bonds payable	808,867	707,149	25,000	1,541,016
Compensated absences	3,191	8,983	-	12,174
Noncurrent:				
Bonds payable, net of current portion	14,066,986	9,238,022	75,000	23,380,008
Compensated absences, net of current portion	28,717	80,846	-	109,563
Net OPEB Obligation	<u>397,974</u>	<u>365,954</u>	<u>-</u>	<u>763,928</u>
TOTAL LIABILITIES	16,262,630	10,498,342	100,118	26,861,090
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	14,048,896	22,303,170	242,905	36,594,971
Unrestricted	<u>8,527,678</u>	<u>5,494,813</u>	<u>229,701</u>	<u>14,252,192</u>
TOTAL NET ASSETS	\$ <u>22,576,574</u>	\$ <u>27,797,983</u>	\$ <u>472,606</u>	\$ <u>50,847,163</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, 2010

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Other Funds	Total
Operating Revenues:				
Charges for services	\$ 4,577,445	\$ 4,175,692	\$ 243,048	\$ 8,996,185
Total Operating Revenues	4,577,445	4,175,692	243,048	8,996,185
Operating Expenses:				
Personnel services	1,770,592	1,627,993	232,953	3,631,538
Non-personnel services	1,544,297	1,171,894	55,276	2,771,467
Depreciation	1,186,656	1,029,816	9,942	2,226,414
Total Operating Expenses	4,501,545	3,829,703	298,171	8,629,419
Operating Income (loss)	75,900	345,989	(55,123)	366,766
Nonoperating Revenues (Expenses):				
Intergovernmental	25,000	25,000	-	50,000
Interest income	78,542	4,464	10,982	93,988
Interest expense	(424,366)	(341,932)	(4,825)	(771,123)
Total Nonoperating Revenues (Expenses), Net	(320,824)	(312,468)	6,157	(627,135)
Income (loss) before transfers and capital contributions	(244,924)	33,521	(48,966)	(260,369)
Transfers and Capital Contributions:				
Capital contributions	1,186,142	-	-	1,186,142
Transfers in	10,000	-	-	10,000
Transfers out	-	-	(42,000)	(42,000)
Change in Net Assets	951,218	33,521	(90,966)	893,773
Net Assets at Beginning of Year	21,625,356	27,764,462	563,572	49,953,390
Net Assets at End of Year	\$ 22,576,574	\$ 27,797,983	\$ 472,606	\$ 50,847,163

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds			
	Sewer Fund	Water Fund	Other Funds	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 4,635,464	\$ 4,203,326	\$ 234,135	\$ 9,072,925
Payments to employees	(1,571,605)	(1,445,016)	(232,953)	(3,249,574)
Payments to vendors	(1,533,289)	(1,163,970)	(55,276)	(2,752,535)
Net Cash Provided By (Used For) Operating Activities	1,530,570	1,594,340	(54,094)	3,070,816
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers in	10,000	-	-	10,000
Transfers out	-	-	(42,000)	(42,000)
Intergovernmental	25,000	25,000	-	50,000
Betterments	115,125	196,313	-	311,438
Net Cash Provided By (Used For) Noncapital Financing Activities	150,125	221,313	(42,000)	329,438
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(5,093,363)	(527,195)	(93,098)	(5,713,656)
Capital contributions	1,186,142	-	-	1,186,142
Proceeds from issuance of bonds and notes	8,825,800	83,925	-	8,909,725
Principal payments on bonds and notes	(4,953,828)	(673,063)	(30,000)	(5,656,891)
Interest expense	(424,366)	(341,932)	(4,825)	(771,123)
Net Cash (Used For) Capital and Related Financing Activities	(459,615)	(1,458,265)	(127,923)	(2,045,803)
Cash Flows From Investing Activities:				
Investment income	78,542	4,464	10,982	93,988
Net Cash Provided By Investing Activities	78,542	4,464	10,982	93,988
Net Change in Cash and Short-Term Investments	1,299,622	361,852	(213,035)	1,448,439
Cash and Short-Term Investments, Beginning of Year	1,771,166	1,663,524	420,287	3,854,977
Cash and Short-Term Investments, End of Year	\$ 3,070,788	\$ 2,025,376	\$ 207,252	\$ 5,303,416
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 75,900	\$ 345,989	\$ (55,123)	\$ 366,766
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,186,656	1,029,816	9,942	2,226,414
Changes in assets and liabilities:				
User fees	58,019	27,634	(8,913)	76,740
Accrued liabilities	8,657	3,200	-	11,857
OPEB	198,987	182,977	-	381,964
Other liabilities	2,351	4,724	-	7,075
Net Cash Provided By (Used For) Operating Activities	\$ 1,530,570	\$ 1,594,340	\$ (54,094)	\$ 3,070,816

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>121,525</u>
Total Assets	121,525
<u>LIABILITIES</u>	
Other liabilities	<u>121,525</u>
Total Liabilities	\$ <u><u>121,525</u></u>

See notes to financial statements.

CITY OF NEWBURYPORT, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded

from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

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

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

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

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

The government reports the following major proprietary funds:

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

F. Property Tax Limitations

Legislation known as "Proposition 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 2010 tax levy reflected an excess capacity of approximately \$ 47,150.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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)	\$ 53,817,066	\$ 53,303,319
Other financing sources/uses (GAAP basis)	<u>479,996</u>	<u>208,000</u>
Subtotal (GAAP Basis)	54,297,062	53,511,319
		(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
To adjust property tax revenue to the budgetary basis	152,978	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(189,514)
Add end of year appropriation carryforwards to expenditures	-	976,501
To record use of free cash and overlay surplus	818,117	-
To reverse the effect of non-budgeted State contributions for teachers retirement	<u>(4,978,724)</u>	<u>(4,978,724)</u>
Budgetary basis	\$ <u>50,289,433</u>	\$ <u>49,319,582</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, 2010, \$ 1,157,146 of the City's bank balances of \$ 24,527,614 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>
Federal agency securities	\$ 459	\$ -	\$ 459	\$ -	\$ -
Corporate equities	284	284	-	-	-
Mutual funds	691	691	-	-	-
Bond mutual funds	<u>613</u>	<u>-</u>	<u>-</u>	<u>584</u>	<u>29</u>
Total investments	<u>\$ 2,047</u>	<u>\$ 975</u>	<u>\$ 459</u>	<u>\$ 584</u>	<u>\$ 29</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 \$ 2,047,321, the government has a custodial credit risk exposure of \$ 2,047,321 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	\$ 459,058
Mellon Intermediate Bond Fund	310,163
Mellon Bond Fund	272,301
BNY Mellon U.S. Core Equity Fund	130,216

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>
Federal agency securities	\$ 459	\$ 459	\$ -
Bond mutual funds	613	-	613

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, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 1,025	
2009	257	
2008	107	
2007	71	
Prior	<u>147</u>	
		1,607
Personal Property		
2010	38	
2009	8	
2008	4	
2007	7	
Prior	<u>109</u>	
		166
Tax Liens and other		601
CPA		<u>18</u>
Total		<u>\$ 2,392</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	\$ 636
Excises	312

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

8. **Capital Assets**

Capital asset activity for the year ended June 30, 2010 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	\$ 66,452	\$ 2,790	\$ -	\$ 69,242
Infrastructure	26,679	-	-	26,679
Machinery and equipment	<u>3,545</u>	<u>193</u>	<u>-</u>	<u>3,738</u>
Total capital assets, being depreciated	96,676	2,983	-	99,659
Less accumulated depreciation for:				
Buildings and improvements	(16,295)	(2,298)	-	(18,593)
Infrastructure	(18,501)	(657)	-	(19,158)
Machinery and equipment	<u>(1,719)</u>	<u>(346)</u>	<u>-</u>	<u>(2,065)</u>
Total accumulated depreciation	<u>(36,515)</u>	<u>(3,301)</u>	<u>-</u>	<u>(39,816)</u>
Total capital assets, being depreciated, net	60,161	(318)	-	59,843
Capital assets, not being depreciated:				
Land	9,118	-	-	9,118
Construction in progress	<u>15</u>	<u>-</u>	<u>(15)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>9,133</u>	<u>-</u>	<u>(15)</u>	<u>9,118</u>
Governmental activities capital assets, net	<u>\$ 69,294</u>	<u>\$ (318)</u>	<u>\$ (15)</u>	<u>\$ 68,961</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	\$ 1,134	\$ 224	\$ -	\$ 1,358
Infrastructure	80,511	226	-	80,737
Machinery and equipment	<u>1,488</u>	<u>543</u>	<u>-</u>	<u>2,031</u>
Total capital assets, being depreciated	83,133	993	-	84,126
Less accumulated depreciation for:				
Buildings and improvements	(48)	(62)	-	(110)
Infrastructure	(26,948)	(2,018)	-	(28,966)
Machinery and equipment	<u>(551)</u>	<u>(146)</u>	<u>-</u>	<u>(697)</u>
Total accumulated depreciation	<u>(27,547)</u>	<u>(2,226)</u>	<u>-</u>	<u>(29,773)</u>
Total capital assets, being depreciated, net	55,586	(1,233)	-	54,353
Capital assets, not being depreciated:				
Land	1,221	-	-	1,221
Construction in progress	<u>94</u>	<u>5,569</u>	<u>(94)</u>	<u>5,569</u>
Total capital assets, not being depreciated	<u>1,315</u>	<u>5,569</u>	<u>(94)</u>	<u>6,790</u>
Business-type activities capital assets, net	<u>\$ 56,901</u>	<u>\$ 4,336</u>	<u>\$ (94)</u>	<u>\$ 61,143</u>

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

Governmental Activities:	
General government	\$ 292
Public safety	364
Education	1,093
Public works	803
Health and human services	22
Culture and recreation	<u>727</u>
Total depreciation expense - governmental activities	<u>\$ 3,301</u>
Business-Type Activities:	
Sewer	\$ 1,187
Water	1,030
Harbor	<u>9</u>
Total depreciation expense - business-type activities	<u>\$ 2,226</u>

9. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010.
Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

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, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

11. Other Liabilities

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

12. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2010 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
<u>Bond anticipation notes</u>				
Sewer notes	\$ -	\$ 4,380	\$ (4,380)	\$ -

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 Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>
Getty/Cherry	4.710%	2018	\$ 30,000
Brownstone	4.710%	2020	20,000
High school	3.760%	2025	2,080,000
Boardwalk	4.710%	2015	15,000
Boardwalk	3.760%	2017	240,000
Boardwalk	3.760%	2017	230,000
Boardwalk	3.760%	2017	70,000
Library	4.710%	2020	205,000
Bullnose	4.710%	2015	10,000
High school	3.50 - 5.00%	2025	4,310,000
School demountables	3.50 - 5.00%	2025	400,000
Recreation	3.50 - 5.00%	2025	30,000
City hall	4.00 - 7.00%	2019	1,350,000
Land acquisition	4.00 - 7.00%	2019	875,000
Equipment	4.25 - 5.00%	2017	455,000
Drainage	4.25 - 5.00%	2017	335,000
Central server - IT	4.25 - 5.00%	2015	65,000
Recreational facility	4.25 - 5.00%	2017	50,000
School renovations	4.25 - 5.00%	2017	345,000
Fire Truck	3.50 - 6.00%	2018	450,000
Sidewalk repairs	3.50 - 3.75%	2013	120,000
Inn street electrical	3.50 - 6.00%	2018	90,000
Stormwater management	3.50 - 6.00%	2018	385,000
Street paving	3.50 - 6.00%	2018	450,000
Relocation of N. Res Terr.	3.50 - 6.00%	2018	65,000
City hall restrooms	3.50 - 6.00%	2016	30,000
Ferry road sidewalks	3.50 - 3.75%	2013	175,000
School building impr.	3.50 - 6.00%	2018	475,000
Police station refunding	2.00 - 2.50%	2015	520,520

(continued)

(continued)

<u>Governmental Activities</u>	Interest		Principal
<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>
City Hall refunding	2.00 - 2.50%	2013	96,230
School refunding	2.00 - 2.50%	2015	446,275
School refunding	2.00 - 2.50%	2017	218,700
Library refunding	2.00 - 2.50%	2017	291,010
Library renov. refunding	2.00 - 3.00%	2021	1,765,300
Land acquisition refunding	2.00 - 3.00%	2018	224,070
Recreation refunding	2.00 - 2.50%	2015	79,350
Recreation refunding	2.00 - 2.50%	2015	42,340
City Hall refunding	2.00 - 3.00%	2020	96,480
Total Governmental Activities Debt:			<u>\$ 17,135,275</u>

<u>Business-Type Activities</u>	Interest		Principal
<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>
Plum Island	3.50 - 5.00%	2025	\$ 410,000
Sewer	3.50 - 5.00%	2025	605,000
MWPAT	3.50 - 5.00%	2038	4,145,243
Sewer	4.74%	2021	85,000
Sewer	4.00 - 7.00%	2019	300,000
Sewer	4.00 - 7.00%	2019	1,365,000
Sewer	4.00 - 7.00%	2019	630,000
MWPAT	7.50%	2019	410,000
Plum Island	2.00%	2036	1,129,810
Sewer	4.25 - 5.00%	2017	135,000
Sewer mains	4.25 - 5.00%	2017	240,000
Sewer refunding	2.00 - 2.50%	2014	66,500
Sewer refunding	2.00 - 2.50%	2014	61,500
Wastewater plant refund.	2.00 - 3.25%	2021	912,800
Sewer	2.00 - 4.00%	2028	4,380,000
Water	4.17%	2021	90,000
Water	3.50 - 5.00%	2025	495,000
MWPAT	3.40 - 5.25%	2025	2,159,800
MWPAT	3.00 - 5.25	2025	2,922,244
Plum Island	2.00%	2037	753,206
Water	4.00 - 7.00%	2019	585,000
Water	4.00 - 7.00%	2012	10,000
Water	4.00 - 7.00%	2019	720,000
MWPAT	0.00%	2024	265,996
Water refunding	2.00 - 2.50%	2017	917,250
Water improv. refunding	2.00 - 3.25%	2021	944,675
Water refunding	2.00 - 2.50%	2014	82,000
Public wharf	3.50 - 5.00%	2025	100,000
Total Business-Type Activities Debt			<u>\$ 24,921,024</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,869,070	\$ 611,776	\$ 2,480,846
2012	1,869,930	552,934	2,422,864
2013	1,849,000	495,541	2,344,541
2014	1,817,300	433,978	2,251,278
2015	1,670,975	372,394	2,043,369
2016-2020	6,084,000	982,147	7,066,147
2021-2025	<u>1,975,000</u>	<u>225,112</u>	<u>2,200,112</u>
Total	\$ <u>17,135,275</u>	\$ <u>3,673,882</u>	\$ <u>20,809,157</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, 2010:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,541,016	\$ 979,283	\$ 2,520,299
2012	1,536,149	929,616	2,465,765
2013	1,531,703	875,356	2,407,059
2014	1,543,421	814,846	2,358,267
2015	1,471,684	750,995	2,222,679
2016-2020	7,308,199	2,734,736	10,042,935
2021-2025	5,944,268	1,324,561	7,268,829
2026-2030	2,608,429	483,404	3,091,833
2031-2035	1,294,578	102,634	1,397,212
2036-2038	<u>141,577</u>	<u>503</u>	<u>142,080</u>
Total	\$ <u>24,921,024</u>	\$ <u>8,995,934</u>	\$ <u>33,916,958</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2010 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	26,380,000
Total		<u>\$ 27,626,175</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 18,815	\$ -	\$ (1,680)	\$ 17,135	\$ (1,869)	\$ 15,266
Compensated absences	2,816	422	(281)	2,957	(296)	2,661
Net OPEB obligation	<u>4,523</u>	<u>6,576</u>	<u>(2,052)</u>	<u>9,047</u>	<u>-</u>	<u>9,047</u>
Totals	<u>\$ 26,154</u>	<u>\$ 6,998</u>	<u>\$ (4,013)</u>	<u>\$ 29,139</u>	<u>\$ (2,165)</u>	<u>\$ 26,974</u>

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/10</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 21,668	\$ 4,530	\$ (1,277)	\$ 24,921	\$ (1,541)	\$ 23,380
Compensated Absences	116	17	(11)	122	(12)	110
Net OPEB obligation	<u>382</u>	<u>560</u>	<u>(178)</u>	<u>764</u>	<u>-</u>	<u>764</u>
Totals	<u>\$ 22,166</u>	<u>\$ 5,107</u>	<u>\$ (1,466)</u>	<u>\$ 25,807</u>	<u>\$ (1,553)</u>	<u>\$ 24,254</u>

E. Advanced Refundings

Current Year

On January 1, 2010, the City issued general obligation bonds in the amount of \$ 6,765,000 with interest rates ranging from 2.0% to 3.25% to current refund \$ 1,250,000 of the December 15, 1996 bonds, comprised of serial bonds with interest rates ranging 5.25% to 5.375%, partially current refund \$ 1,400,000 of the April 15, 1999 bonds, comprised of serial bonds with interest rates ranging from 4.40% to 4.75% and to advance refund \$ 3,795,000 of the May 1, 2010 bonds, comprised of serial bonds with interest rates ranging from 4.625% to 5.125%. The 1996 serial bonds

mature on February 1, 2011 through February 1, 2015 and were callable on February 8, 2010. The 1999 serial bonds mature on April 15, 2011 through April 15, 2017 and were callable on February 8, 2010. The 2001 serial bonds mature on May 1, 2012 through May 1, 2021 and are callable on May 1, 2011.

The general obligation bonds were issued at a true interest cost of 2.14265%. \$ 6,719,071 of the net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on February 8, 2010, with respect to the 1996 bonds and 1999 bonds and May 1, 2011 with respect to the 2001 Bonds. The refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the current refunding, the City reduced its total debt service cash flow requirements by \$ 116,744, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 113,155.

As a result of the partial current refunding, the City reduced its total debt service cash flow requirements by \$ 135,806, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$ 121,064.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$ 301,587, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$ 255,996.

Defeased debt for the 1996 issue still outstanding at June 30, 2010 is \$ 0.

Defeased debt for the 1999 issue still outstanding at June 30, 2010 is \$ 0.

Defeased debt for the 2001 issue still outstanding at June 30, 2010 is \$ 3,795,000.

14. Restricted Net Assets

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

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

15. 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, 2010:

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.

16. Subsequent Events

Use of Free Cash

Subsequent to June 30, 2010, the City voted to appropriate \$ 200,000 of its July 1, 2010 certified free cash to fund the fiscal year 2011 budget.

Debt

Subsequent to June 30, 2010, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Water bond anticipation notes	\$ 1,166,000	1.50%	01/21/11	01/20/12

17. 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.

18. **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 2010 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, 2010, 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>4,905,382</u>
Net OPEB obligation - end of year	<u><u>\$ 9,810,764</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>
2010	\$ 7,136,512	31.3%	\$ 9,810,764
2009	\$ 7,136,512	31.3%	\$ 4,905,382

The City's net OPEB obligation as of June 30, 2010 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><u>\$ 74,485,260</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 27,055,000</u></u>
UAAL as a percentage of covered payroll	<u><u>275.3%</u></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%.

19. Risk Management

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

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

June 30, 2010
(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.