

TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Report

For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Needham, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts (the Town), as of and for the year ended June 30, 2014, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts, as of June 30, 2014, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2013), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis appearing on the following pages, and Employee's Retirement System and Other Post-employment Benefit Plan Schedules of Funding Progress appearing on page 63, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budget and actual comparisons for Sewer, Water, and Solid Waste funds appearing on pages 64 through 66 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

December 16, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Town of Needham, we offer readers this narrative overview and analysis of the financial activities of the Town of Needham for the fiscal year ended June 30, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured workers compensation programs and property and casualty insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 solid waste operations, all of which 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 Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A complete copy of the Needham Contributory Retirement System financial statements can be obtained from the Retirement Board at Town Hall, Needham, Massachusetts 02492.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$265,364,125 (net position), a change of \$9,850,390 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$45,403,310, a change of \$6,289,536 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$13,245,277, a change of \$(1,904,880) in comparison to the prior year.
- Total long-term bonds and loans payable, including unamortized bond premium, at the close of the current fiscal year was \$102,505,844, a change of \$1,419,615 in comparison to the prior year.
- Total short-term notes payable at the close of the current fiscal year was \$1,607,000, a change of \$(8,910,125) 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.

Net Position Summary (000s)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 67,084	\$ 70,341	\$ 17,714	\$ 18,482	\$ 84,798	\$ 88,823
Capital assets	<u>237,752</u>	<u>233,377</u>	<u>60,997</u>	<u>58,832</u>	<u>298,749</u>	<u>292,209</u>
Total assets	304,836	303,718	78,711	77,314	383,547	381,032
Long-term liabilities outstanding	91,031	89,175	16,759	16,530	107,790	105,705
Notes payable	1,607	10,517	-	-	1,607	10,517
Other liabilities	7,649	8,306	1,121	991	8,770	9,297
Deferred inflows	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>	<u>-</u>
Total liabilities and deferred inflows	100,303	107,998	17,880	17,521	118,183	125,519
Net position:						
Net investment in capital assets	150,581	138,428	47,316	44,369	197,897	182,797
Restricted	14,568	13,162	-	-	14,568	13,162
Unrestricted	<u>39,384</u>	<u>44,130</u>	<u>13,515</u>	<u>15,424</u>	<u>52,899</u>	<u>59,554</u>
Total net position	<u>\$ 204,533</u>	<u>\$ 195,720</u>	<u>\$ 60,831</u>	<u>\$ 59,793</u>	<u>\$ 265,364</u>	<u>\$ 255,513</u>

Changes in Net Position Summary (000s)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 10,470	\$ 9,418	\$ 16,013	\$ 16,269	\$ 26,483	\$ 25,687
Operating grants and contributions	25,975	25,819	31	-	26,006	25,819
Capital grants and contributions	1,979	670	-	-	1,979	670
General revenues:						
Property taxes	107,351	101,761	-	-	107,351	101,761
Excises	4,984	4,736	-	-	4,984	4,736
Penalties and interest on taxes	1,645	1,333	-	-	1,645	1,333
Grants and contributions not restricted to specific programs	2,020	1,935	-	-	2,020	1,935
Investment income	552	470	14	15	566	485
Other	<u>295</u>	<u>559</u>	<u>-</u>	<u>-</u>	<u>295</u>	<u>559</u>
Total revenues	155,271	146,701	16,058	16,284	171,329	162,985

(continued)

(continued)

Changes in Net Position Summary (000s)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Expenses:						
General government	6,240	5,554	-	-	6,240	5,554
Public safety	14,758	14,158	-	-	14,758	14,158
Education	87,858	82,705	-	-	87,858	82,705
Public works	6,387	7,031	-	-	6,387	7,031
Maintenance	11,802	10,563	-	-	11,802	10,563
Human services	1,885	1,518	-	-	1,885	1,518
Culture and recreation	3,371	3,183	-	-	3,371	3,183
Interest on long-term debt	3,030	2,459	-	-	3,030	2,459
Intergovernmental	1,271	1,181	-	-	1,271	1,181
Other unallocated costs	9,880	8,675	-	-	9,880	8,675
Sewer operations	-	-	7,757	7,798	7,757	7,798
Water operations	-	-	4,981	4,354	4,981	4,354
Solid waste operations	-	-	2,258	1,901	2,258	1,901
Total expenses	<u>146,482</u>	<u>137,027</u>	<u>14,996</u>	<u>14,053</u>	<u>161,478</u>	<u>151,080</u>
Change in net position before transfers	8,789	9,674	1,062	2,231	9,851	11,905
Transfers	<u>24</u>	<u>538</u>	<u>(24)</u>	<u>(538)</u>	<u>-</u>	<u>-</u>
Change in net position	8,813	10,212	1,038	1,693	9,851	11,905
Net position - beginning of year	<u>195,720</u>	<u>185,508</u>	<u>59,793</u>	<u>58,100</u>	<u>255,513</u>	<u>243,608</u>
Net position - end of year	<u>\$ 204,533</u>	<u>\$ 195,720</u>	<u>\$ 60,831</u>	<u>\$ 59,793</u>	<u>\$ 265,364</u>	<u>\$ 255,513</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The largest portion of net position \$197,896,819 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$14,568,079 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$52,899,317 may be used to meet the government's ongoing obligations to citizens and creditors.

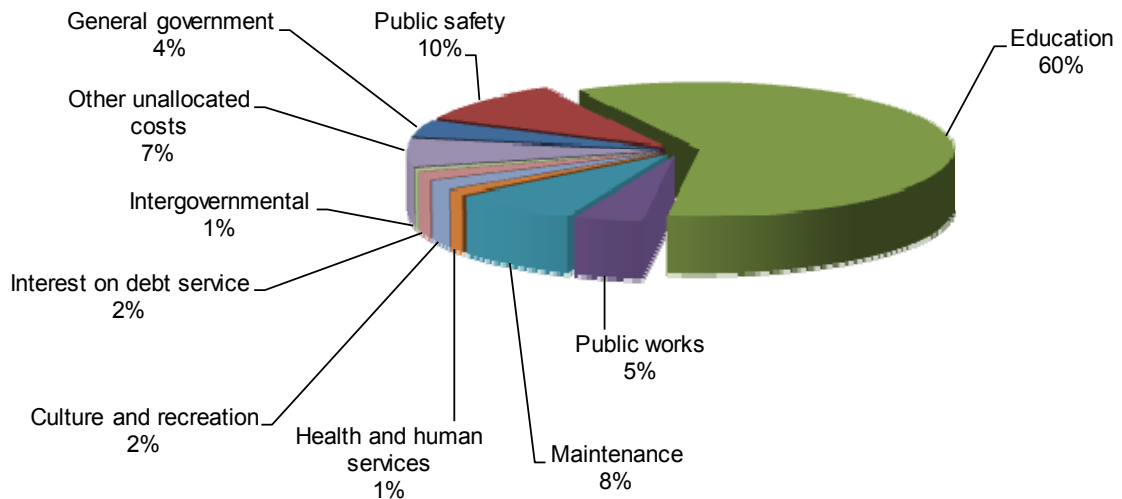
Governmental Activities

Governmental activities for the year resulted in a change in net position of \$8,812,789. Key elements of this change are as follows (in thousands):

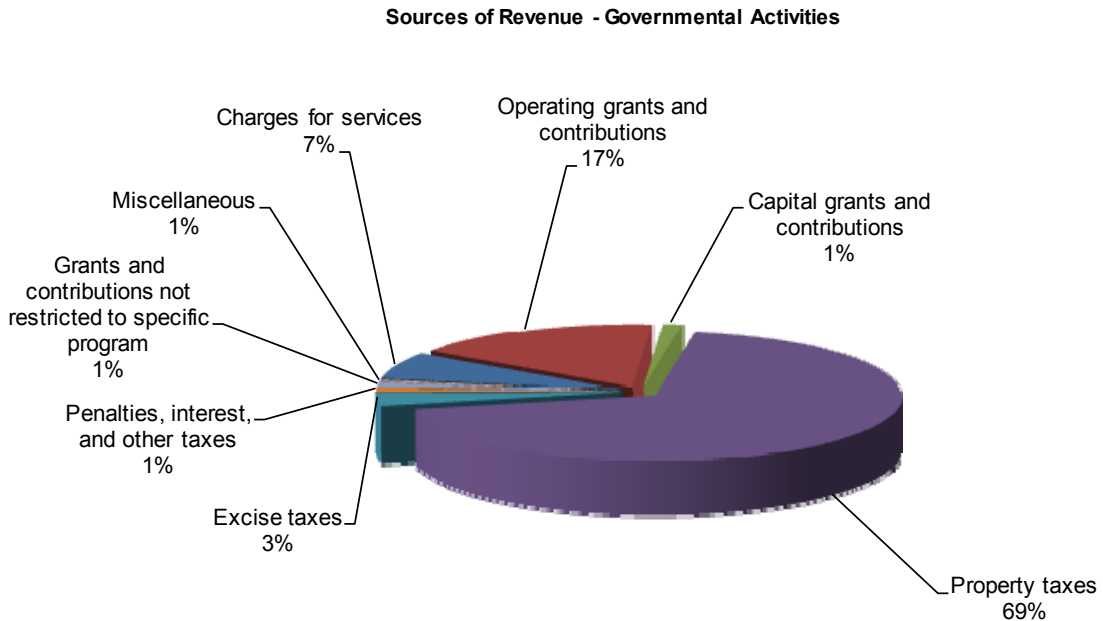
General fund excess of revenues over expenditures - fund basis	\$ 5,531
CPA fund excess of revenues over non capitalized expenses	1,946
Increase in net OPEB asset	1,129
Capital grants and contributions used to acquire capital assets	2,674
Increase in allowance for uncollectibles	(428)
Increase in accrual for compensated absences	(779)
Reduction in receivable from MSBA	(502)
Other	<u>(758)</u>
Total	<u>\$ 8,813</u>

The following graph presents the users of resources of the governmental activities. The total cost of all governmental programs and services increased by \$9.5M over the previous year or by 6.9%.

Functional Expenses - Governmental Activities



As presented in the following graph, most of the Town's revenue comes from property taxes. Total revenues (excluding transfers) increased by \$8.6M over the prior year or 5.8%.



Business-Type Activities

Business-type activities for the year resulted in a change in net position of \$1,037,601. Positive results are due to strong budgetary performance (softened by the use of fund balance) and the Town's continued practice of financing capital improvements with revenues.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$45,403,310, a change of \$6,289,536 in comparison to the prior year. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 5,531
CPA fund excess of revenues over expenditures	1,946
Capital project funds expenditures in excess of revenues and bond proceeds	(1,593)
Special revenue funds revenues in excess of expenditures	235
Other	<u>171</u>
Total	<u>\$ 6,290</u>

General Fund

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$13,245,277, while total fund balance was \$28,564,772. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>6/30/12</u>
Unassigned fund balance	\$ 13,245,277	\$ 15,150,157	\$ 10,846,842
Total fund balance	28,564,772	29,595,859	25,624,410
	<u>6/30/14</u>	<u>6/30/13</u>	<u>6/30/12</u>
Unassigned fund balance as of % of total General Fund expenditures	9.9%	12.1%	9.0%
Total fund balance as of % total General Fund expenditures	21.3%	23.6%	21.3%

The total fund balance of the general fund changed by \$(1,031,087) during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves	\$ (9,342)
Increase in stabilization accounts	707
Revenues in excess of budget	3,100
Expenditures less than budget	2,478
Unused overlay allowance	1,925
Other	<u>101</u>
Total	<u>\$ (1,031)</u>

Included in the total general fund balance are the Town's committed accounts with the following balances:

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 3,815,322	\$ 3,729,614	\$ 85,708
Capital stabilization	2,847,202	2,225,419	621,783
Capital projects	2,467,260	2,077,665	389,595
Compensated absences	195,060	219,388	(24,328)
Continuing appropriations	<u>2,703,684</u>	<u>464,527</u>	<u>2,239,157</u>
Total	<u>\$ 12,028,528</u>	<u>\$ 8,716,613</u>	<u>\$ 3,311,915</u>

Other Major Funds

State legislation allows Community Preservation Act fund property taxes and state matching funds to finance projects such as preservation of historical buildings. The Town did not have considerable expenditures in the current year in the fund, other than the \$411,766 for land improvements and the transfer of \$711,000 to the general fund for eligible debt service.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$13,514,845, a change of \$(1,909,783) in comparison to the prior year. While total net position increased from operating results, unrestricted net position decreased as the Town voted to use certified retained earnings (a component of unrestricted net position) for the acquisition of capital assets.

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

Most budgeted appropriations occur at the Annual Town Meeting which is held prior to the start of a fiscal year. Subsequent appropriations and line item amendments are made at a special town meeting usually held in the fall. Often the subsequent actions are known or expected at the time of the Annual Town Meeting, but are not presented or acted upon at that time because additional information or other requisite action is needed. Usually in May, prior to the June 30 fiscal year end, Town Meeting acts on other requests for budget line transfers and reallocation of operating resources to capital, other financial warrant articles, and formal reserves. The final budget total for fiscal year 2014 was amended upward by \$471,113. The original budget was approved at \$123,630,136. The Town increased its appropriation by \$807,677 to make an additional payment towards its other post-employment benefit (OPEB) costs. This increase was partially offset by a reduction of \$500,000 in the Town's health insurance budget. The Town also appropriated an additional \$75,000 to its budgetary reserve fund which is under the control of the Finance Committee. The other Town Meeting budgetary adjustment was \$88,436 to the general fund debt service budget to apply against certain excluded from the levy limit debt service with funds received as a premium on Notes sold, and as noted in section G of this analysis, in the fall of 2013 the Town voted to transfer an additional \$5M to the Capital Project funds.

During fiscal year 2014, the Town realized revenue in excess of budget of \$3.1 million, and realized budget savings of \$2.5 million relative to expenditures. Revenues in excess of budget were higher than fiscal year 2013 results of approximately \$2.8 million, but the budget return was lower than the fiscal year 2013 return of approximately \$2.7 million. The overall results were within the range of the past few years.

Motor vehicle excise tax revenue continued to grow, but slowing, came in at \$1.1 million over budget. Revenue from licenses and permits also continued to grow as new construction activity in Needham remained strong. Total revenue in license and permit activity was approximately \$1.0 million in excess of budget, and was \$250,000 more than fiscal year 2013. Revenue from penalties, interest, and other taxes was more than \$540,000 in excess of budget. The combination of motor vehicle excise, permit and license revenue, and other local tax receipts contributed approximately 85% of the total General Fund surplus.

The General Fund operating budget returned \$2,424,332 or approximately 2.0% of the total appropriation. Town saw savings in the group health insurance programs with a budget surplus of more than \$570,000 or 5.7% of budget. However, as noted earlier the Town transferred \$500,000 of this savings to the Town's OPEB fund as advance payment on the unfunded liability. The budgetary reserve fund returned \$590,157 as demand on the reserve was lower than expected. The Town also realized a budgetary return of \$192,627 from the unemployment as the amount of claims has continued to remain low. Town departments returned a total of \$1,413,076 or appropriately 1.6% of the total amended departmental budgets. The highest turn back amount was from the Public Facilities Depart-

ment in the amount of \$339,075 of which approximately 2/3 of the amount was unspent salary and wage expenses due to vacancies. The Needham Public Schools returned \$322,124 or approximately 0.60% of the original school budget of \$53,995,587 (excluding Minuteman Regional appropriation). The public safety departments returned in total \$310,962. The Finance Department returned \$166,829 driven in part by lower than expected outside professional service costs and some long term vacancies. The other 17 departmental budgets returned in total \$274,086 or appropriately 2.5% of their combined amended budget for FY2014.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$298,748,687 (net of accumulated depreciation), a change of \$6,539,774 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following (in thousands):

Governmental Activities:

Senior center design, feasibility study, construction	\$ 2,173
Salt shed	1,708
Chestnut street property acquisitions	1,455
Michell school modular classrooms	1,221
Department of public works administration building	810
Fire department ladder truck	747
Pollard school boiler replacement	670
R/B/S/ID/B/C improvements	540

Business-Type Activities:

St. Mary's pump station	\$ 1,306
Sewer system rehab	1,080

Debt. At the end of the current fiscal year, total long-term bonds and loans outstanding, including unamortized bond premium, were \$102,505,844. The bonds are backed by the full faith and credit of the government. The Town's general obligation bond rating continues to carry the highest rating possible, AAA, a rating that has been assigned by Standards & Poor's to the Town debt since 2000.

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

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

The General Fund balance for fiscal year 2014 was lower, as expected, due to the much higher Free Cash figure certified by the Department of Revenue. Free Cash is essentially the portion of unassigned General Fund balance that the Massachusetts Department of Revenue will allow to be appropriated by the Town. The Free Cash certified for fiscal 2014 was \$10,133,912 which compared to the \$2,153,808 certified for fiscal 2013 was a very significant increase. The increase was expected due to timing of certain capital project financing and reimbursements in the prior year and an improvement in the economy. The Town used a significant amount of the Free Cash for capital investment and additional reserves. The Town did not use any more Free Cash than in past years for funding the subsequent fiscal year operating budget. In the fall of 2013 the Town appropriated \$5,032,357 for various capital projects, including \$2,729,276 for modular classrooms at the Mitchell School and \$650,000 for a study in partnership with the Massachusetts School Building Authority (MSBA) looking to the replacement of the Hillside School. The Town also appropriated \$566,530 to its Athletic Facility Improvement Stabilization Fund, an additional \$307,677 towards its OPEB liabilities, and \$75,000 to its fiscal 2014 budgetary reserve fund. The balance of \$10,133,912 (\$4,152,348) was appropriated at the 2014 Annual Town Meeting of which \$1,650,088 was used to fund the fiscal 2015 operating budget; \$2,467,260 was used to fund cash capital investment, and \$35,000 was used to fund a one-time special appropriation article. Management will continue to recommend that the Free Cash certified be directed to cash capital investment, formal reserves, and other non-recurring expenses and that a limited amount be used for the operating budget.

The Town expected a better than average increase in New Growth property tax revenue for 2014 as build out of the Needham Crossing commercial park continued and this happened. We still anticipate above average New Growth property tax revenue for 2015 and into 2016. Needham Crossing is located off Highland Avenue and abuts Interstate 95 (Rte. 128). The greater construction activity is due in part to TripAdvisor, Inc. moving its world headquarters to Needham. The Town entered into a tax incremental financing (TIF) agreement with TripAdvisor, Inc. in 2012, in exchange a portion of the New Growth property tax revenue that its development will generate will be exempted over thirteen years. Most of the exemption occurs during the first five years. Construction of the facility was approved and opening of the facility is expected in 2015. The Town has also seen an increase in room and meals excise revenue as the local economy remained strong, and the opening of a new hotel has increased the number of rooms available in Needham. The local restaurant business seems vibrant and strong, reflective in the increase in the meals tax revenue.

The Town is continuing its study of school building improvement options, particularly the replacement of the Hillside elementary school, and then a renovation and or expansion of the Mitchell elementary and the Pollard middle schools. The Board of Selectmen has indicated that a question will not be put forward to the

voters for either the Hillside or Mitchell schools without financial assistance from the MSBA.

The Town is also studying options relative to the upgrade, expansion, and or replacement of the Department of Public Works facility, the Police/Fire Station complex, the Rosemary Pool facility and the School Administration building.

The Town made no draw against any of its appropriated stabilization accounts: Athletic Facility Improvement Fund, Capital Improvement Fund, Capital Facility Fund, and General Stabilization Fund, and it appropriated \$40,695 to the Athletic Facility Improvement Fund at the May 2014 Annual Town Meeting.

The outlook for the fiscal year 2015 year end results are expected to be stable with greater tax revenues but state revenue may be impacted negatively based on reports, which should not materially affect the Town's financial position in the next two years. The Town's longer-term outlook does factor in reductions in Federal and State revenue as a share of resources beyond 2016 and is weighing options that may be available to address this situation.

We anticipate that local resources will grow at a five to six percent rate during the next 12 to 24 months. The Town maintains an adequate reserve for property tax abatements and exemptions for the fiscal year as well as for uncollected taxes from prior fiscal years. We again caution that actions at the Federal level will have national consequences and may impact the regional economy.

Our outlook last year stated that the water and sewer rates may need to be modified. The Town increased its water and sewer rates for the first time in more than eight years in part to comply with the Department of Environmental Protection (DEP) permit to the Town to reduce average residential water use and to offset expected revenue loss due to conservation efforts. Depending on the impact of these efforts, rates may need to be increased again within the next 12 to 24 months.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Needham'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:

Assistant Town Manager/
Director of Finance
Town of Needham, Massachusetts
Town Hall
Needham, Massachusetts 02492

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 28,064,404	\$ 12,828,178	\$ 40,892,582
Investments	26,027,708	-	26,027,708
Receivables, net:			
Property taxes	1,679,439	-	1,679,439
Excises	511,227	-	511,227
Utilities	-	4,446,640	4,446,640
Departmental	312,843	-	312,843
Intergovernmental	1,162,449	439,314	1,601,763
Other	46,390	-	46,390
Noncurrent:			
Receivables, net:			
Property taxes	1,287,575	-	1,287,575
Intergovernmental	5,963,056	-	5,963,056
OPEB asset	2,028,657	-	2,028,657
Capital assets:			
Non-depreciable capital assets	55,589,619	17,861,869	73,451,488
Depreciable assets, net of accumulated depreciation	182,162,124	43,135,075	225,297,199
TOTAL ASSETS	304,835,491	78,711,076	383,546,567
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	1,513,743	787,895	2,301,638
Accrued liabilities	5,529,772	58,817	5,588,589
Refunds payable	402,764	274,458	677,222
Notes payable	1,607,000	-	1,607,000
Other liabilities	201,772	-	201,772
Current portion of long-term liabilities:			
Bonds payable	8,422,498	1,980,036	10,402,534
Compensated absences	1,064,123	244,522	1,308,645
Landfill liability	48,950	-	48,950
Noncurrent:			
Bonds payable, net of current portion	77,569,016	14,534,294	92,103,310
Compensated absences, net of current portion	3,192,367	-	3,192,367
Landfill liability, net of current portion	734,250	-	734,250
TOTAL LIABILITIES	100,286,255	17,880,022	118,166,277
Deferred Inflows of Resources	16,075	-	16,075
Net Position:			
Net investment in capital assets	150,580,610	47,316,209	197,896,819
Restricted for:			
Permanent funds:			
Nonexpendable	188,478	-	188,478
Expendable	2,260,565	-	2,260,565
Grants and other statutory restrictions	12,119,036	-	12,119,036
Unrestricted	39,384,472	13,514,845	52,899,317
TOTAL NET POSITION	204,533,161	60,831,054	265,364,215
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 304,835,491	\$ 78,711,076	\$ 383,546,567

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

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 6,240,408	\$ 573,909	\$ 30,224	\$ -	\$ (5,636,275)	\$ -	\$ (5,636,275)
Public safety	14,757,836	3,033,667	62,270	-	(11,661,899)	-	(11,661,899)
Education	87,857,562	5,696,598	25,177,807	-	(56,983,157)	-	(56,983,157)
Public works	6,387,297	248,768	46,314	-	(6,092,215)	-	(6,092,215)
Maintenance	11,801,717	102,097	-	1,978,579	(9,721,041)	-	(9,721,041)
Health and human services	1,885,329	184,043	454,808	-	(1,246,478)	-	(1,246,478)
Culture and recreation	3,370,890	630,724	202,149	-	(2,538,017)	-	(2,538,017)
Interest on debt service	3,029,580	-	-	-	(3,029,580)	-	(3,029,580)
Intergovernmental	1,270,948	-	-	-	(1,270,948)	-	(1,270,948)
Other unallocated costs	9,879,857	-	1,862	-	(9,877,995)	-	(9,877,995)
Total Governmental Activities	146,481,424	10,469,806	25,975,434	1,978,579	(108,057,605)	-	(108,057,605)
Business-Type Activities:							
Sewer services	7,757,198	8,076,499	30,589	-	-	349,890	349,890
Water services	4,980,502	6,349,798	-	-	-	1,369,296	1,369,296
Solid waste services	2,258,298	1,586,383	-	-	-	(671,915)	(671,915)
Total Business-Type Activities	14,995,998	16,012,680	30,589	-	-	1,047,271	1,047,271
Total	\$ 161,477,422	\$ 26,482,486	\$ 26,006,023	\$ 1,978,579	(108,057,605)	1,047,271	(107,010,334)
General Revenues and Transfers:							
Property taxes					107,350,602	-	107,350,602
Excise taxes					4,983,891	-	4,983,891
Penalties, interest, and other taxes					1,644,724	-	1,644,724
Grants and contributions not restricted to specific programs					2,020,191	-	2,020,191
Investment income					552,408	14,400	566,808
Miscellaneous					294,508	-	294,508
Total general revenues					116,846,324	14,400	116,860,724
Excess before transfers					8,788,719	1,061,671	9,850,390
Transfers, net					24,070	(24,070)	-
Change in Net Position					8,812,789	1,037,601	9,850,390
Net Position:							
Beginning of year					195,720,372	59,793,453	255,513,825
End of year					\$ 204,533,161	\$ 60,831,054	\$ 265,364,215

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

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 17,219,039	\$ 442,653	\$ 8,795,450	\$ 26,457,142
Investments	16,957,683	6,612,103	2,457,922	26,027,708
Receivables:				
Property taxes	3,752,853	13,706	-	3,766,559
Excises	857,407	-	-	857,407
Departmental	1,069,181	-	21,175	1,090,356
Intergovernmental	6,256,332	-	869,172	7,125,504
Other	46,390	-	-	46,390
	<u>46,158,885</u>	<u>7,068,462</u>	<u>12,143,719</u>	<u>65,371,066</u>
TOTAL ASSETS	\$ 46,158,885	\$ 7,068,462	\$ 12,143,719	\$ 65,371,066
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 884,602	\$ 8,441	\$ 615,196	\$ 1,508,239
Accrued liabilities	4,373,846	1,811	104,733	4,480,390
Refunds payable	402,764	-	-	402,764
Notes payable	-	-	1,607,000	1,607,000
Other liabilities	200,191	-	1,581	201,772
	<u>5,861,403</u>	<u>10,252</u>	<u>2,328,510</u>	<u>8,200,165</u>
TOTAL LIABILITIES	5,861,403	10,252	2,328,510	8,200,165
Deferred Inflows of Resources	11,732,710	13,706	21,175	11,767,591
Fund Balances:				
Nonspendable	-	-	188,478	188,478
Restricted	869,983	7,044,504	7,762,480	15,676,967
Committed	9,561,267	-	4,325,665	13,886,932
Assigned	4,888,245	-	-	4,888,245
Unassigned (see note 19)	13,245,277	-	(2,482,589)	10,762,688
	<u>28,564,772</u>	<u>7,044,504</u>	<u>9,794,034</u>	<u>45,403,310</u>
TOTAL FUND BALANCES	28,564,772	7,044,504	9,794,034	45,403,310
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 46,158,885	\$ 7,068,462	\$ 12,143,719	\$ 65,371,066

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

TOWN OF NEEDHAM, MASSACHUSETTS
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND
 BALANCES TO NET POSITION OF GOVERNMENTAL
 ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	\$ 45,403,310
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	237,751,743
<ul style="list-style-type: none"> • Net other post employment benefits asset is reported on the Statement of Net Position, and not reported in the funds. 	2,028,657
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	9,828,277
<ul style="list-style-type: none"> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. 	1,468,658
<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. 	(916,280)
<ul style="list-style-type: none"> • Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. 	<u>(91,031,204)</u>
Net position of governmental activities	<u>\$ 204,533,161</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 105,482,632	\$ 1,791,323	\$ -	\$ 107,273,955
Excise taxes	4,923,980	-	-	4,923,980
Penalties, interest, and other taxes	1,642,864	1,860	-	1,644,724
Charges for services	975,393	-	6,268,448	7,243,841
Departmental	695,239	-	-	695,239
Licenses and permits	2,306,750	-	-	2,306,750
Intergovernmental	22,891,596	886,498	6,906,632	30,684,726
Investment income	166,796	56,252	329,361	552,409
Fines and forfeitures	196,181	-	-	196,181
Contributions	-	-	484,046	484,046
Other	165,670	-	82,353	248,023
Total Revenues	<u>139,447,101</u>	<u>2,735,933</u>	<u>14,070,840</u>	<u>156,253,874</u>
Expenditures:				
Current:				
General government	4,699,929	790,054	95,935	5,585,918
Public safety	14,678,174	-	44,317	14,722,491
Education	73,372,843	-	10,329,315	83,702,158
Public works	6,842,282	-	109,866	6,952,148
Maintenance	7,957,103	-	12,483,541	20,440,644
Health and human services	1,253,052	-	434,590	1,687,642
Culture and recreation	2,109,233	-	843,280	2,952,513
Employee benefits	10,638,023	-	-	10,638,023
Other	507,278	-	-	507,278
Debt service:				
Principal	7,786,979	-	-	7,786,979
Interest	2,800,219	-	-	2,800,219
Intergovernmental	1,270,948	-	-	1,270,948
Total Expenditures	<u>133,916,063</u>	<u>790,054</u>	<u>24,340,844</u>	<u>159,046,961</u>
Excess (deficiency) of revenues over expenditures	5,531,038	1,945,879	(10,270,004)	(2,793,087)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	8,912,000	8,912,000
Bond premium	146,553	-	-	146,553
Transfers in	2,553,023	53,478	7,627,396	10,233,897
Transfers out	(9,261,701)	(711,000)	(237,126)	(10,209,827)
Total Other Financing Sources (Uses)	<u>(6,562,125)</u>	<u>(657,522)</u>	<u>16,302,270</u>	<u>9,082,623</u>
Net change in fund balances	(1,031,087)	1,288,357	6,032,266	6,289,536
Fund Balances, at beginning of year	<u>29,595,859</u>	<u>5,756,147</u>	<u>3,761,768</u>	<u>39,113,774</u>
Fund Balances, at end of year	<u>\$ 28,564,772</u>	<u>\$ 7,044,504</u>	<u>\$ 9,794,034</u>	<u>\$ 45,403,310</u>

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

TOWN OF NEEDHAM, 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, 2014

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 6,289,536

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

Capital outlay purchases	12,170,471
Depreciation	(7,704,603)

- 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 (real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.

(1,127,411)

- Change in net OPEB asset

1,128,657

- The issuance of long-term debt (bonds and loans) 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 affect net position:

Issuance of debt, net	(8,912,000)
Bond premium	(146,553)
Bond premium amortization	47,886
Repayments of debt	7,786,979

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

(229,361)

- Some expenses reported in the Statement of Activities, such as compensated absences and landfill liability, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

(632,058)

- Internal service funds are used by management to account for self-insurance activities. The net activity of internal service funds is reported with Governmental Activities.

141,246

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 8,812,789

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

TOWN OF NEEDHAM, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues:				
Property taxes	\$ 103,851,847	\$ 103,856,480	\$ 103,856,480	\$ -
Excise taxes	3,850,000	3,850,000	4,923,980	1,073,980
Penalties, interest, and other taxes	1,100,025	1,100,025	1,642,864	542,839
Charges for services	810,450	810,450	975,393	164,943
Departmental	594,525	594,525	695,239	100,714
Licenses and permits	1,300,000	1,300,000	2,306,750	1,006,750
Intergovernmental	10,367,894	10,367,894	10,395,315	27,421
Investment income	67,500	67,500	77,523	10,023
Fines and forfeits	179,500	179,500	194,944	15,444
Other revenue	8,133	8,133	165,670	157,537
Total Revenues	122,129,874	122,134,507	125,234,158	3,099,651
Expenditures				
General government	3,943,011	4,022,078	3,796,068	226,010
Land use	411,156	418,043	408,858	9,185
Public safety	13,027,952	13,034,403	12,723,441	310,962
Education	54,729,548	54,729,548	54,407,424	322,124
Public works	5,309,956	6,016,591	5,926,541	90,050
Public facilities	8,003,190	8,073,190	7,734,115	339,075
Community services	3,182,254	3,182,254	3,066,584	115,670
Debt service	12,108,851	12,197,287	12,129,006	68,281
Employee benefits	20,990,975	21,298,652	20,938,108	360,544
Other appropriated expenses	1,923,243	1,129,203	507,278	621,925
Intergovernmental	1,273,564	1,273,564	1,270,948	2,616
Other amounts provided	12,500	12,500	1,141	11,359
Total Expenditures	124,916,200	125,387,313	122,909,512	2,477,801
Excess of revenues over expenditures	(2,786,326)	(3,252,806)	2,324,646	5,577,452
Other Financing Sources (Uses)				
Bond premium	-	-	146,553	146,553
Transfers in	2,419,967	2,419,967	2,553,023	133,056
Use of free cash	2,153,808	8,135,372	-	(8,135,372)
Use of bond premium	122,507	206,310	-	(206,310)
Use of overlay surplus	1,000,000	1,000,000	-	(1,000,000)
Transfers out	(2,909,956)	(8,508,843)	(8,562,321)	(53,478)
Total Other Financing Sources (Uses)	2,786,326	3,252,806	(5,862,745)	(9,115,551)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (3,538,099)	\$ (3,538,099)

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Total	Governmental
	Sewer Fund	Water Fund	Solid Waste Fund		Internal Service Funds
ASSETS					
Current:					
Cash and short-term investments	\$ 3,850,562	\$ 7,021,709	\$ 1,955,907	\$ 12,828,178	\$ 1,607,264
User fees receivable	2,342,558	1,873,059	231,023	4,446,640	-
Intergovernmental receivable	439,315	-	-	439,315	-
Total current assets	6,632,435	8,894,768	2,186,930	17,714,133	1,607,264
Noncurrent:					
Land and construction in progress	7,969,510	4,884,916	5,007,443	17,861,869	-
Other capital assets, net of accumulated depreciation	16,312,800	25,038,713	1,783,562	43,135,075	-
Total noncurrent assets	24,282,310	29,923,629	6,791,005	60,996,944	-
TOTAL ASSETS	30,914,745	38,818,397	8,977,935	78,711,077	1,607,264
LIABILITIES					
Current:					
Accounts payable	17,783	606,480	163,633	787,896	5,505
Accrued payroll	21,707	24,479	12,631	58,817	-
Accrued liabilities	-	-	-	-	133,101
Refunds payable	71,059	7,782	195,617	274,458	-
Current portion of long-term liabilities:					
Bonds payable	1,020,201	859,835	100,000	1,980,036	-
Compensated absences	84,658	106,307	53,557	244,522	-
Total current liabilities	1,215,408	1,604,883	525,438	3,345,729	138,606
Noncurrent:					
Bonds payable, net of current portion	8,586,417	5,727,877	220,000	14,534,294	-
Total noncurrent liabilities	8,586,417	5,727,877	220,000	14,534,294	-
TOTAL LIABILITIES	9,801,825	7,332,760	745,438	17,880,023	138,606
NET POSITION					
Net investment in capital assets	15,071,300	25,407,246	6,837,663	47,316,209	-
Unrestricted	6,041,620	6,078,391	1,394,834	13,514,845	1,468,658
TOTAL NET POSITION	\$ 21,112,920	\$ 31,485,637	\$ 8,232,497	\$ 60,831,054	\$ 1,468,658

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

TOWN OF NEEDHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 8,076,499	\$ 6,341,098	\$ 1,586,383	\$ 16,003,980	\$ -
Other	-	8,700	-	8,700	295,384
Total Operating Revenues	8,076,499	6,349,798	1,586,383	16,012,680	295,384
Operating Expenses:					
Personnel services	885,835	1,039,531	618,296	2,543,662	154,138
Non-personnel services	353,104	1,369,399	1,355,749	3,078,252	-
Depreciation	875,526	1,113,936	280,106	2,269,568	-
Intergovernmental assessments	5,423,810	1,271,018	-	6,694,828	-
Total Operating Expenses	7,538,275	4,793,884	2,254,151	14,586,310	154,138
Operating Income (Loss)	538,224	1,555,914	(667,768)	1,426,370	141,246
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	30,589	-	-	30,589	-
Investment income	4,687	8,198	1,515	14,400	-
Interest expense	(218,923)	(186,618)	(4,147)	(409,688)	-
Total Nonoperating Revenues (Expenses), Net	(183,647)	(178,420)	(2,632)	(364,699)	-
Income (Loss) Before Transfers	354,577	1,377,494	(670,400)	1,061,671	141,246
Transfers in	858,439	-	801,458	1,659,897	-
Transfers out	(429,205)	(962,891)	(291,871)	(1,683,967)	-
Change in Net Position	783,811	414,603	(160,813)	1,037,601	141,246
Net Position at Beginning of Year	20,329,109	31,071,034	8,393,310	59,793,453	1,327,412
Net Position at End of Year	\$ 21,112,920	\$ 31,485,637	\$ 8,232,497	\$ 60,831,054	\$ 1,468,658

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds				Governmental
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Activities Internal Service Fund
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 7,963,368	\$ 6,366,199	\$ 1,724,799	\$ 16,054,366	\$ -
Employer contributions	-	-	-	-	295,384
Payments of utility assessments	(5,423,810)	(1,271,018)	-	(6,694,828)	-
Payments to vendors and contractors	(857,357)	(982,566)	(1,235,985)	(3,075,908)	-
Payments of employee salaries, benefits, and related expenses	(899,430)	(1,004,489)	(602,892)	(2,506,811)	(205,764)
Net Cash Provided By (Used For) Operating Activities	782,771	3,108,126	(114,078)	3,776,819	89,620
Cash Flows From Noncapital Financing Activities:					
Operating grants received	30,589	-	-	30,589	-
Transfers from other funds	858,439	-	801,458	1,659,897	-
Transfers to other funds	(429,205)	(962,891)	(291,871)	(1,683,967)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	459,823	(962,891)	509,587	6,519	-
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,636,006)	(2,493,307)	(305,496)	(4,434,809)	-
Issuance of bonds and loans	1,070,490	1,995,000	210,000	3,275,490	-
Principal payments on bonds and loans	(1,194,926)	(744,148)	(70,000)	(2,009,074)	-
Interest expense	(218,922)	(186,618)	(4,147)	(409,687)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,979,364)	(1,429,073)	(169,643)	(3,578,080)	-
Cash Flows From Investing Activities:					
Investment income	4,687	8,198	1,515	14,400	-
Net Cash Provided By Investing Activities	4,687	8,198	1,515	14,400	-
Net Change in Cash and Short-Term Investments	(732,083)	724,360	227,381	219,658	89,620
Cash and Short-Term Investments, Beginning of Year	4,582,645	6,297,349	1,728,526	12,608,520	1,517,644
Cash and Short-Term Investments, End of Year	\$ 3,850,562	\$ 7,021,709	\$ 1,955,907	\$ 12,828,178	\$ 1,607,264
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:					
Operating income (loss)	\$ 538,224	\$ 1,555,914	\$ (667,768)	\$ 1,426,370	\$ 141,246
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	875,526	1,113,936	280,106	2,269,568	-
Changes in assets and liabilities:					
User fees	(133,115)	16,768	33,285	(83,062)	-
Accounts payable	(504,254)	386,833	119,764	2,343	5,506
Accrued liabilities	(1,752)	6,734	(602)	4,380	(57,132)
Refunds payable	19,984	(367)	105,131	124,748	-
Compensated absences	(11,842)	28,308	16,006	32,472	-
Net Cash Provided By (Used For) Operating Activities	\$ 782,771	\$ 3,108,126	\$ (114,078)	\$ 3,776,819	\$ 89,620

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

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (As of <u>December 31, 2013</u>)	Private Purpose Trust <u>Fund</u>	Other Post- Employment Benefit <u>Trust Fund</u>	Other Agency <u>Funds</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 1,070,656	\$ 181,232	\$ 269,066	\$ 1,228,611
Investments	127,454,695	3,946,512	15,200,468	-
Receivables	<u>204,889</u>	<u>-</u>	<u>-</u>	<u>294,989</u>
Total Assets	128,730,240	4,127,744	15,469,534	1,523,600
<u>LIABILITIES AND NET POSITION</u>				
Accounts payable	-	146,850	-	43,771
Accrued liabilities	55,246	-	-	31,295
Refunds payable	-	-	-	8,505
Other liabilities	<u>1,494</u>	<u>-</u>	<u>-</u>	<u>1,440,029</u>
Total Liabilities	<u>56,740</u>	<u>146,850</u>	<u>-</u>	<u>1,523,600</u>
<u>NET POSITION</u>				
Total net position held in trust for pension benefits and other purposes	<u>\$ 128,673,500</u>	<u>\$ 3,980,894</u>	<u>\$ 15,469,534</u>	<u>\$ -</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (For the Year Ended December 31, 2013)	Private Purpose Trust Fund	Other Post- Employment Benefit Trust Fund
Additions:			
Contributions:			
Employers	\$ 5,420,454	\$ -	\$ 5,838,866
Plan members	3,308,014	-	-
Other	368,608	161,799	-
Total contributions	<u>9,097,076</u>	<u>161,799</u>	<u>5,838,866</u>
Investment Income:			
Increase (decrease) in fair value of investments	17,197,230	567,914	2,105,443
Less: management fees	(671,177)	-	-
Net investment income	<u>16,526,053</u>	<u>567,914</u>	<u>2,105,443</u>
Total additions	25,623,129	729,713	7,944,309
Deductions:			
Benefit payments to plan members and beneficiaries	10,454,269	-	2,570,033
Refunds to plan members	328,699	-	-
Administrative expenses	257,395	-	-
Other	194,118	152,962	-
Total deductions	<u>11,234,481</u>	<u>152,962</u>	<u>2,570,033</u>
Net increase	14,388,648	576,751	5,374,276
Net position:			
Beginning of year	<u>114,284,852</u>	<u>3,404,143</u>	<u>10,095,258</u>
End of year	<u>\$ 128,673,500</u>	<u>\$ 3,980,894</u>	<u>\$ 15,469,534</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Needham (the Town) 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 Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 expendi-

tures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* was adopted on November 2, 2004 by a state-wide act enabling legislation to allow Cities and Towns to choose to create a new funding source that can be used to address three core community concerns:
 - Acquisition and preservation of open space
 - Creation and support of affordable housing
 - Acquisition and preservation of historic buildings and landscapes

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

The government reports the following major proprietary funds:

- The *Sewer Fund* is used to report the Town's sewer enterprise fund operations.
- The *Water Fund* is used to report the Town's water enterprise fund operations.
- The *Solid Waste Fund* is used to report the Town's transfer station enterprise fund operations.

The self-insured employee workers compensation is reported as an *Internal Service Fund* in the accompanying financial statements.

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

The *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *Other Post-Employment Benefits Trust Fund* is used to accumulate resources for health and life insurance benefits for retired employees.

The *Agency Funds* include *Student Activity Funds, Police, Fire and Maintenance Detail Funds, Traffic Mitigation Fund, Sewer Impact Fees and other Miscellaneous Funds* and *Needham Retirement Board Fund*.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as “Proposition 2½” limits 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 2014 tax levy reflected an excess capacity of approximately \$28,000.

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 estimated useful life in excess of five years. The Town has a capitalization policy with the following established thresholds for capitalization:

<u>Assets</u>	<u>Threshold</u>
Land improvements	\$ 5,000
Buildings and facilities	\$ 50,000
Building improvements	\$ 25,000
Furniture, fixtures, machinery, and equipment	\$ 5,000
Vehicles	\$ 5,000
Road work	\$ 75,000
Water and sewer systems	\$ 75,000

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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	40 - 50
Machinery, equipment, and furnishings	5 - 10
Vehicles	5
Infrastructure	20 - 40

H. Compensated Absences

Based on provisions contained in the Town’s personnel policy or collective bargaining agreement, employees are eligible to accumulate earned but unused vacation and sick leave benefits. Vacation time accrues either annually or monthly based on years of service and is considered vested at the time it is earned. Employees are limited in their ability to carry unused vacation leave from one year to the next. Personal leave is not cumulative and is not carried forward to the next year. Sick leave is accrued either monthly or annually and accumulates without limit. Some employees whose employment terminates by retirement, disability, or death are entitled to payment upon termination at their current rate of pay for twenty-five percent of accrued sick leave. Some employees are subject to a 960 hour cap for the purposes of sick leave buy-back, and some employees are ineligible to participate in the program.

All vested personal and vacation pay is accrued when incurred in the government-wide financial statements. Twenty-five percent of vested sick leave is accrued when incurred in the government-wide financial statements, based on an estimate number of employees expected to retire. A liability for these amounts is reported in governmental funds only if the employee has met the requirements to be eligible for buy-back of sick leave upon a qualifying event.

I. Long-Term Obligations

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

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific

future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic

financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, 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 special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. “Extraordinary” includes expenses which are not in the usual line, or are great or exceptional. “Unforeseen” includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 139,447,101	\$ 133,916,063
Other financing sources/uses (GAAP Basis)	<u>2,699,576</u>	<u>9,261,701</u>
Subtotal (GAAP Basis)	142,146,677	143,177,764
To adjust property tax revenue to the budgetary basis	(1,626,152)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,846,848)
Add end-of-year appropriation carryforwards from expenditures	-	2,811,453
Reverse GASB 24 MTRS	(12,488,635)	(12,488,635)
Less nonbudgeted funds	(90,510)	825,736
Less MWPAT subsidy	<u>(7,646)</u>	<u>(7,646)</u>
Budgetary Basis	<u>\$ 127,933,734</u>	<u>\$ 131,471,824</u>

D. Deficit Fund Equity

The Town reflects several special revenue and capital project fund deficits, primarily caused by grant expenses occurring in advance of grant reimbursements and the use of bond anticipation notes to finance construction activities or in anticipation of future use of bond anticipation notes or issuance of long-term debt authorized at Town Meetings.

The deficits in these funds will be eliminated through future intergovernmental revenues, transfers from other funds and issuance of long-term debt.

The following funds had deficits as of June 30, 2014:

Nonmajor Governmental Funds:	
Special Revenue Funds:	
2014 Mass DOT WRRRP	\$ 53,178
2013 911 Dept Support & Incentive	33,538
2014 911 Dept Support & Incentive	12,825
2014 911 Training & Emd Grant	12,343
2014 NCLB Title I/305	7,967
2014 Shine Duals One Care	7,790
2013 911 Training & Emd Grant	3,793
Capital Project Funds	
Chestnut Street	1,455,491
Public works infrastructure	515,374
RBS/DBC improvement	190,000
Newman School repair	169,686
DPW complex renovation	10,237
Rosemary design	9,982
Subtotal Nonmajor Governmental Funds	<u>2,482,204</u>
Fiduciary Funds:	
Fire outside detail	28,814
Needham retirement board	19,279
Subtotal Fiduciary Funds	<u>48,093</u>
Total	<u>\$ 2,530,297</u>

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 Town's deposits may not be returned. Massachusetts General Law (MGL) Chapter 44, Section 55, limits 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 Town's custodial credit risk policy allows unlimited amounts to be deposited in certificates of deposits with a maximum maturity as set by Massachusetts General Laws (MGL) and full collateralization through a third-party agreement. The policy also allows unlimited deposits in Massachusetts State pooled fund and limits the remaining unsecured deposits to 5% of any institution's assets and no more than 25% of the Town's assets. The Town's policy was designed to limit exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and the tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing

individual CUSIP numbers for each security. The Contributory Retirement System (the System) does not have a deposit policy for custodial credit risk.

As of June 30, 2014, \$11,051,769 of the Town's bank balance of \$44,852,042 was exposed to custodial credit risk as uninsured or uncollateralized. Of the Town's exposed risk, \$1,854,197 was mitigated by SIPC and \$5,273,518 was invested in MMDT.

As of December 31, 2013, \$836,424 of the Contributory Retirement System's bank balance of \$933,908 was exposed to custodial credit risk as uninsured or uncollateralized. Of the System's exposed risk, \$518,354 was invested in MMDT and \$318,070 was invested in PRIT.

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, MGL, Chapter 44, Section 55, limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Rating as of Year-end</u>
Certificates of deposits	\$ 13,739,420	N/A
State investment pool	15,200,468	N/A
Corporate equities	3,165,694	N/A
Mutual funds	4,591,968	N/A
Federal agency securities	4,636,272	AAA
US Treasury notes	1,483,824	AAA
Corporate bonds	2,174,783	A2
Municipal bonds	<u>182,259</u>	Aa1
Total investments	\$ <u>45,174,688</u>	

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings

banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

At December 31, 2013, the System maintained its investments in the State Investment Pool* with a fair value of \$127,454,695. This investment type is not rated.

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

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's custodial credit risk policy allows unlimited investments in U.S. Agency obligations, certificates of deposits secured through a third party, and other investments allowable by MGL. The Retirement System does not have policies for custodial credit risk.

As of June 30, 2014, \$31,435,269 out of the Town's investments of \$45,174,689 was exposed to custodial credit risk as uninsured and uncollateralized. The Town manages this risk with Securities Investor Protection Corporation (SIPC) and excess SIPC coverage for \$16,159,200 and \$15,200,468 was held in the State investment pool (PRIT).

As of December 31, 2013, the System's investments of \$127,454,695 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in PRIT.

C. Concentration of Credit Risk

The Town manages concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any type of security or issuer will be minimized. With the exception U.S. Treasury obligations or investments fully collateralized by U.S. agencies, and State Pool (MMDT), no more than 10% of the Town's investments shall be invested in a single financial institution. The Retirement System places no limit on the amount invested in any one issuer.

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT fund.

The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Per Massachusetts general law, investments of operating cash or bond paydown amounts should be placed in investments with a one year or less maturity date or in shares issued by money market funds registered with the Securities and Exchange Commission. The Town addresses interest rate risk by managing duration. The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the Town’s investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Debt-related Securities:			
Corporate bonds	\$ 2,174,783	\$ 75,230	\$ 2,099,553
Federal agency securities	4,636,272	-	4,636,272
US Treasury notes	1,483,824	-	1,483,824
Municipal bonds	<u>182,259</u>	<u>182,259</u>	<u>-</u>
Total	<u>\$ 8,477,138</u>	<u>\$ 257,489</u>	<u>\$ 8,219,649</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town will not invest in any investment exposed to foreign currency risk. The System does not have policies for foreign currency risk.

5. Accounts Receivable

A. Property Taxes

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 Town 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, 2014 consist of the following (in thousands):

Real Estate		
2014		\$ 617
Personal Property		
2014	254	
2013	204	
2012	181	
2011	217	
2010	254	
Prior	<u>298</u>	
	Subtotal	1,408
	Tax Liens	1,184
	Deferred Taxes	538
	Tax Roll Backs	6
	CPA	<u>14</u>
	Total	<u>\$ 3,767</u>

B. Allowance for Uncollectibles

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

	<u>Governmental</u>
Property taxes	\$ 800
Excises	346
Ambulance	778

The allowance amount is estimated using varying percentages that the Town believes are not collectible based on year of levy.

C. Departmental

Departmental receivables are primarily comprised of ambulance receivables.

D. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014 and future reimbursements from the MSBA.

6. Interfund Transfers

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,553,023	\$ 9,261,701
Community Preservation Fund	53,478	711,000
Nonmajor Funds:		
Special Revenue Funds:		
Receipts reserved for appropriation	-	40,000
Revolving funds	-	133,056
Trust funds	-	11,000
Other special revenue funds	11,000	-
Capital Project Funds:	<u>7,616,396</u>	<u>53,070</u>
Subtotal Nonmajor Funds	7,627,396	237,126
<u>Business-Type Funds:</u>		
Sewer Fund	858,439	429,205
Water Fund	-	962,891
Solid Waste Fund	<u>801,458</u>	<u>291,871</u>
Subtotal Business-Type Funds:	<u>1,659,897</u>	<u>1,683,967</u>
Grand Total	<u>\$ 11,893,794</u>	<u>\$ 11,893,794</u>

The transfers from the sewer, water, and solid waste funds to the general fund are made to cover indirect costs incurred by general fund. The \$7,616,396 transfer from the General fund to the various Capital Project funds represents the Town's practice of funding certain capital activity from General fund revenues. The \$1,659,897 transfer (from General Fund) into the Enterprise Funds represents a subsidy to the RTS fund and a Sewer Fund reimbursement to General Fund for the drainage program related work

performed by the Department of Public Works. Other transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

7. Capital Assets

Capital asset activity for the year ended June 30, 2014 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	\$ 192,024	\$ 10,926	\$ -	\$ 202,950
Machinery, equipment, and furnishings	11,374	2,500	(675)	13,199
Vehicles	4,413	603	(337)	4,679
Infrastructure	32,410	1,067	-	33,477
Total capital assets, being depreciated	<u>240,221</u>	<u>15,096</u>	<u>(1,012)</u>	<u>254,305</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,786)	(4,552)	-	(42,338)
Machinery, equipment, and furnishings	(7,712)	(1,357)	641	(8,428)
Vehicles	(4,389)	(582)	279	(4,692)
Infrastructure	(15,471)	(1,214)	-	(16,685)
Total accumulated depreciation	<u>(65,358)</u>	<u>(7,705)</u>	<u>920</u>	<u>(72,143)</u>
Total capital assets, being depreciated, net	174,863	7,391	(92)	182,162
Capital assets, not being depreciated:				
Land	21,668	537	-	22,205
Works of Art	120	-	-	120
Construction in progress	36,726	2,733	(6,194)	33,265
Total capital assets, not being depreciated	<u>58,514</u>	<u>3,270</u>	<u>(6,194)</u>	<u>55,590</u>
Governmental activities capital assets, net	<u>\$ 233,377</u>	<u>\$ 10,661</u>	<u>\$ (6,286)</u>	<u>\$ 237,752</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	\$ 8,904	\$ 46	\$ -	\$ 8,950
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	4,596	429	(20)	5,005
Vehicles	1,552	248	-	1,800
Infrastructure	<u>69,897</u>	<u>263</u>	<u>-</u>	<u>70,160</u>
Total capital assets, being depreciated	91,549	986	(20)	92,515
Less accumulated depreciation for:				
Buildings and improvements	(4,090)	(251)	-	(4,341)
Plant	(2,717)	(228)	-	(2,945)
Machinery, equipment, and furnishings	(3,306)	(281)	20	(3,567)
Vehicles	(1,116)	(296)	-	(1,412)
Infrastructure	<u>(35,901)</u>	<u>(1,214)</u>	<u>-</u>	<u>(37,115)</u>
Total accumulated depreciation	<u>(47,130)</u>	<u>(2,270)</u>	<u>20</u>	<u>(49,380)</u>
Total capital assets, being depreciated, net	44,419	(1,284)	-	43,135
Capital assets, not being depreciated:				
Land	5,275	-	-	5,275
Construction in progress	<u>9,138</u>	<u>3,449</u>	<u>-</u>	<u>12,587</u>
Total capital assets, not being depreciated	<u>14,413</u>	<u>3,449</u>	<u>-</u>	<u>17,862</u>
Business-type activities capital assets, net	<u>\$ 58,832</u>	<u>\$ 2,165</u>	<u>\$ -</u>	<u>\$ 60,997</u>

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

Governmental Activities:

General government	\$ 671
Public safety	466
Education	3,584
Maintenance	1,214
Public works	834
Health and human services	325
Culture and recreation	<u>611</u>

Total depreciation expense - governmental activities \$ 7,705

Business-Type Activities:

Sewer	\$ 876
Water	1,114
Solid waste	<u>280</u>

Total depreciation expense - business-type activities \$ 2,270

8. Warrants and Accounts Payable

Warrants and accounts payable represent 2014 expenditures paid after June 30, 2014.

9. Accrued Liabilities

Accrued liabilities represent primary accrued payroll and withholdings. On the government-wide Statement of Net Position, accrued liabilities also include accrued interest for bonds and anticipation notes.

Accrued liabilities reported in the Internal Service Fund represent an estimate of incurred but not reported workers compensation claims.

10. Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

11. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2014:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 5,008,000	\$ -	\$ (5,008,000)	\$ -
Bond anticipation	3,299,125	-	(3,299,125)	-
Bond anticipation	2,210,000	-	(2,210,000)	-
Bond anticipation	-	4,300,000	(4,300,000)	-
Bond anticipation	-	325,800	(325,800)	-
Bond anticipation	-	635,500	(635,500)	-
Bond anticipation	-	1,607,000	-	1,607,000
Total	\$ 10,517,125	\$ 6,868,300	\$ (15,778,425)	\$ 1,607,000

The following are notes payable outstanding at year-end:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/14</u>
Chestnut Street Land Acquisition	0.50%	06/02/14	12/01/14	\$ 1,458,000
Newman School Repairs	0.50%	06/02/14	12/01/14	139,000
Rosemary Pool Complex Design	0.50%	06/02/14	12/01/14	<u>10,000</u>
Total				<u>\$ 1,607,000</u>

12. Long-Term Debt

A. Long-Term Debt Supporting Activities

General obligation bonds, issued by the Town, are repaid with general and enterprise fund revenues and the use of unassigned fund balance or unrestricted retained earnings. Compensated absences are paid from the fund responsible for the employee's compensation - the general fund and the enterprise funds.

B. General Obligation Bonds

The Town 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>Original Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount Outstanding as of 6/30/14</u>
MA Water Pollution Abatement Trust	\$ 393,951	Various	06/01/95	02/01/15	\$ 30,979
MA Water Pollution Abatement Trust	85,894	Various	12/09/98	08/01/18	28,430
MA Water Pollution Abatement Trust	91,400	Various	12/09/98	08/01/18	28,200
MA Water Pollution Abatement Trust	243,300	Various	12/09/98	08/01/18	74,700
MA Water Pollution Abatement Trust	1,261,272	Various	12/09/98	08/01/18	423,100
MA Water Pollution Abatement Trust	496,276	Various	12/09/98	08/01/18	166,813
MA Water Pollution Abatement Trust	175,500	Various	12/09/98	08/01/18	54,000
Library	12,649,000	3.00 - 4.75	12/01/04	12/01/19	815,000
Municipal Purpose FY 2005	6,827,000	3.25 - 4.20	06/01/05	06/01/25	3,125,000
Municipal Purpose FY 2006	3,097,000	3.24 - 3.66	12/15/05	02/15/15	200,000
High School	10,000,000	3.75 - 4.50	11/01/06	11/01/26	6,250,000
Municipal Purpose FY 2007	5,525,000	3.75 - 4.50	11/01/06	11/11/19	2,940,000

(continued)

(continued)

	Original Amount	Interest Rate(s) %	Date of Issue	Date of Maturity	Amount Outstanding as of 6/30/14
Municipal Purpose FY 2008	4,470,000	4.05 - 5.00	06/15/07	06/15/23	1,800,000
Municipal Purpose FY 2009	12,600,000	3.25 - 5.00	06/03/08	12/01/26	8,270,000
Municipal Purpose FY 2009	5,600,000	4.61	11/01/08	08/01/27	3,675,000
Municipal Purpose FY 2010	6,842,000	2.94	06/01/09	06/01/28	3,380,000
Municipal Purpose FY 2010	15,815,000	2.00 - 4.00	12/15/09	08/01/28	12,100,000
Municipal Purpose FY 2010	4,000,000	2.00 - 3.00	06/15/10	12/01/24	1,905,000
MA Water Resources Authority	215,710	0.00	02/22/10	02/15/10	43,142
MA Water Resources Authority	283,305	0.00	05/17/10	05/15/15	56,661
MA Water Resources Authority	57,613	0.00	11/15/10	11/15/15	23,045
Municipal Purpose FY 2011	4,635,000	1.00 - 3.00	10/15/10	04/01/17	950,000
Municipal Purpose FY 2011	11,750,000	2.00 - 5.00	05/19/11	10/01/28	7,775,000
GOB - Municipal Purpose FY2012	2,460,000	2.00 - 3.125	10/05/11	08/01/26	2,025,000
GOB - Refunding FY2012	10,995,000	2.00 - 4.00	06/06/12	11/01/23	10,840,000
MA Water Pollution Abatement Trust	1,064,706	2.08	07/08/10	07/15/30	697,712
MA Water Resources Authority	220,990	0.00	02/27/12	02/15/17	132,595
Municipal Purpose FY 2013	12,244,000	2.00 - 4.00	10/03/12	07/15/32	11,325,000
MA Water Pollution Abatement Trust	6,034,290	2.00	05/22/13	01/15/33	5,790,197
Municipal Purpose FY 2013	5,945,000	2.00 - 4.00	06/18/13	11/01/32	5,595,000
Municipal Purpose FY 2014	6,085,000	3.00 - 4.00	12/02/13	07/15/33	6,085,000
Municipal Purpose FY 2014	5,032,000	2.00 - 2.50	06/02/14	05/15/34	5,032,000
					<u>\$ 101,636,574</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 8,374,612	\$ 2,710,762	\$ 11,085,374
2016	7,817,526	2,464,511	10,282,037
2017	7,567,526	2,253,632	9,821,158
2018	6,882,526	2,038,914	8,921,440
2019	6,467,526	1,819,988	8,287,514
2020 - 2024	27,847,527	5,902,054	33,749,581
2025 - 2029	15,650,000	1,874,018	17,524,018
2030 - 2034	4,515,000	339,894	4,854,894
Total	<u>\$ 85,122,243</u>	<u>\$ 19,403,773</u>	<u>\$ 104,526,016</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,980,036	\$ 467,504	\$ 2,447,540
2016	1,688,674	411,067	2,099,741
2017	1,681,704	356,599	2,038,303
2018	1,602,393	297,664	1,900,057
2019	1,597,319	244,761	1,842,080
2020 - 2024	3,320,492	771,323	4,091,815
2025 - 2029	2,631,041	415,332	3,046,373
2030 - 2034	<u>2,012,672</u>	<u>133,659</u>	<u>2,146,331</u>
Total	\$ <u>16,514,331</u>	\$ <u>3,097,909</u>	\$ <u>19,612,240</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2014 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 2000	Rosemary Pool Complex Design	\$ 17,500
November 2010	Pollard School Roof Repair	65,000
November 2011	Senior Center Construction	383,808
May 2012	Roads, Bridges, Sidewalks and Intersection Improvement Program	190,000
October 2005	Public Service Administration Building	64,000
May 2009	Town Hall (GF Portion) 22%	465,000
May 2009	Town Hall (CPA Portion) 78%	1,210,000
May 2009	Stormwater Master Plan Drainage Improvements (Latern & Gayland)	157,000
November 2009	Newman School Extraordinary Repairs	320,179
May 2007	Sewer System Rehabilitation I/I Work	338,093
May 2008	Wastewater Pump Station at GPA (2nd)	18,000
May 2009	Sewer Pump Station Design (Reservoir B)	50,497
November 2011	Sewer Pump Station Construction (Reservoir B)	265,710
May 2005	Water System Rehabilitation (Warren Street)	30,000
May 2008	Water Main Improvements	600,294
May 2011	RTS Construction Equipment - Forklift	12,000
May 2011	RTS Semi-Tractor Equipment	152,000
October 2012	RTS Soil Remediation	168,000
May 2013	RTS Waste Handler Construction Equipment	114,400
May 2013	Pollard Boiler Replacement	440,000
May 2013	Public Works Infrastructure Program	500,000
May 2013	DPW Complex Renovation	300,000
May 2013	St. Marys Pump Station	3,570,100
November 2013	Property Acquisition 66-70 Chestnut Street	<u>1,458,000</u>
Total		\$ <u>10,889,581</u>

E. Changes in General Long-term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/14</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 83,997	\$ 8,912	\$ (7,787)	\$ 85,122	\$ (8,375)	\$ 76,747
Unamortized bond premium	771	147	(48)	870	(48)	822
Subtotal bonds payable	<u>84,768</u>	<u>9,059</u>	<u>(7,835)</u>	<u>85,992</u>	<u>(8,423)</u>	<u>77,569</u>
Other:						
Accrued employee benefits	3,588	668	-	4,256	(1,064)	3,192
Landfill closure	<u>819</u>	<u>-</u>	<u>(36)</u>	<u>783</u>	<u>(49)</u>	<u>734</u>
Totals	<u>\$ 89,175</u>	<u>\$ 9,727</u>	<u>\$ (7,871)</u>	<u>\$ 91,031</u>	<u>\$ (9,536)</u>	<u>\$ 81,495</u>

	Total Balance <u>7/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/14</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>6/30/14</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 16,318	\$ 2,205	\$ (2,009)	\$ 16,514	\$ (1,980)	\$ 14,534
Other:						
Accrued employee benefits	<u>212</u>	<u>33</u>	<u>-</u>	<u>245</u>	<u>(245)</u>	<u>-</u>
Totals	<u>\$ 16,530</u>	<u>\$ 2,238</u>	<u>\$ (2,009)</u>	<u>\$ 16,759</u>	<u>\$ (2,225)</u>	<u>\$ 14,534</u>

F. Prior Year Refundings

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2014, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$14,005,000.

13. Landfill Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$783,200 reported as postclosure care liability at June 30, 2014 represents the estimated costs to maintain and monitor the site for the remainder of the thirty years. These amounts are based on what it would cost to perform

all postclosure care in 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. Deferred Inflows of Resources

The Town has implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Governmental funds report *unavailable 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 *unavailable revenues* account is equal to the total of all June 30, 2014 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

15. Restricted Net Position

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

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

16. Governmental Funds - Balances

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

The following types of fund balances are reported at June 30, 2014:

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional

provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and various special revenue funds.

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

Following is a breakdown of the Town's fund balances at June 30, 2014:

	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 188,478	\$ 188,478
Total Nonspendable	-	-	188,478	188,478
Restricted				
Debt service	869,983	-	-	\$ 869,983
Bonded projects	-	-	427,383	427,383
Special revenue funds:				
Community preservation	-	7,044,504	-	7,044,504
Expendable trust funds	-	-	2,260,565	2,260,565
School lunch	-	-	988,819	988,819
Kindergarten after school enrichment program	-	-	718,281	718,281
Pupil transportation	-	-	513,783	513,783
Summer School	-	-	364,307	364,307
RRFA - parking meter fund	-	-	241,835	241,835
Insurance loss replacement	-	-	138,635	138,635
Parks and recreation revolving	-	-	119,702	119,702
Library equalization	-	-	113,476	113,476
Other special revenue funds	-	-	1,875,694	1,875,694
Total Restricted	869,983	7,044,504	7,762,480	15,676,967

(continued)

(continued)

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed				
Continuing appropriations articles	236,424	-	-	236,424
Compensated absences	195,060	-	-	195,060
General and capital stabilization	6,662,523	-	-	6,662,523
Capital projects	2,467,260	-	4,325,665	6,792,925
Total Committed	9,561,267	-	4,325,665	13,886,932
Assigned				
Encumbrances	2,690,657	-	-	2,690,657
For next year's expenditures	2,197,588	-	-	2,197,588
Total Assigned	4,888,245	-	-	4,888,245
Unassigned	13,245,277	-	(2,482,589)	10,762,688
Total Fund Balance	\$ 28,564,772	\$ 7,044,504	\$ 9,794,034	\$ 45,403,310

17. **General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). Major differences include an estimate for future potential tax refunds included in these financial statements, which is not recognized under UMAS.

18. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town'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 Town expects such amounts, if any, to be immaterial.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the Town's counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

19. Subsequent Events

On November 14, 2014 the Town issued \$1,330,000 in General Obligation Bond Anticipation Notes due on April 15, 2015.

20. Post-Employment Healthcare and Life Insurance Benefits (Other Post-Employment Benefits)

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2013, the actuarial valuation date, approximately 696 retirees and 1,117 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 32 - 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pre-funded basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2014 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 Town's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB asset (obligation) based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 4,727,462
Interest on net OPEB obligation	(72,000)
Adjustment to ARC	<u>54,747</u>
Annual OPEB cost	4,710,209
Contributions made	<u>5,838,866</u>
Increase in net OPEB asset	1,128,657 *
Net OPEB asset - beginning of year	<u>900,000</u>
Net OPEB asset - end of year	<u>\$ 2,028,657</u>

* represents funding in excess of ARC

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

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset
2014	\$ 4,710,209	118%	\$ 2,028,657
2013	\$ 4,523,887	109%	\$ 900,000
2012	\$ 3,906,275	113%	\$ 500,000
2011	\$ 3,626,375	100%	\$ -
2010	\$ 3,446,556	100%	\$ -
2009	\$ 3,102,311	100%	\$ -

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 62,345,026
Actuarial value of plan assets	<u>15,496,964</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 46,848,062</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>24.9%</u>
Covered payroll (active plan members)	<u>\$ 68,551,814</u>
UAAL as a percentage of covered payroll	<u>68.3%</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 Town 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 Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included an 8% investment rate of return and an initial annual healthcare cost trend rate of 8% which decreases to a 4.5% long-term rate for all healthcare benefits after 8 years. The amortization costs for the initial UAAL is a level percentage of payroll for a remaining period of 26 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.25%.

21. Contributory Retirement System

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

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Needham Contributory Retirement System (NCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the NCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the NCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The NCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission. The System also issues a stand-alone financial report, which can be obtained from the System located at 1471 Highland Avenue, Needham, Massachusetts 02492.

Membership of each plan consisted of the following at December 31, 2013:

Retirees and beneficiaries receiving benefits	464
Terminated plan members entitled to but not yet receiving benefits	143
Active plan members	<u>631</u>
Total	<u>1,238</u>
Number of participating employers	2

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

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

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

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2014	\$ 5,420,454	100%
2013	\$ 4,997,421	100%
2012	\$ 4,722,775	100%
2011	\$ 4,552,978	100%
2010	\$ 4,271,094	100%
2009	\$ 4,121,326	100%
2008	\$ 3,979,000	100%

B. Summary of Significant Accounting Policies

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

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

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

C. Funded Status and Funding Progress

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

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) -</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as</u> <u>a Percent-</u> <u>age of</u> <u>Covered</u> <u>Payroll</u> <u>[(b-a)/c]</u>
1/1/14	\$122,085	\$179,834	\$57,749	67.9%	\$32,605	177.1%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the individual entry age normal actuarial cost method. The actuarial assumptions included (a) 8.00 % investment rate of return and (b) a projected salary increase of 5.25 to 5.50% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.00 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2013, the unfunded actuarially accrued liability is being amortized over 18 years using 4.0 % increasing payment method.

E. Teachers

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

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

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

January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

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

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

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$12,488,635 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

F. Other Employees

Certain retired employees of the Town were exempted from membership or elected not to participate in the System. The Town pays retirement benefits to these employees from the General Fund appropriations. These employees are not included in the Town's actuarial liability. The Town's fiscal 2014 pension expense relating to these employees was approximately \$34,060.

22. Self-Insurance

Workers Compensation - The Town's personnel Department administers a self-insured workers compensation program. In addition to in-house administration, the Town utilizes a third-party administrator, CCMSI, to process claims, produce workers compensation vouchers, and conduct follow-up medical case management on individuals receiving workers compensation benefits.

As of June 30, 2014, the Town's workers compensation fund had a balance of \$1,468,658 in net position (a component of Total Net Position). This amount is generated from the remainder of the workers compensation budget voted each year by the Town Meeting. The Town appropriated \$400,000 for workers compensation line item in fiscal year 2011. These funds are used to pay workers compensation related expenses throughout the year, with the unexpended balance rolling into the trust fund noted above. The Town also purchases stop-loss reinsurance as part of its workers compensation program from New York Marine and General Insurance Company. Under the terms of its excess workers compensation coverage, the Town is liable for up to \$400,000 per accident per employee to an aggregate limit of \$1,000,000 per accident. The Town's maximum aggregate liability for all claims paid within one year is \$4,000,000. The Town has no excess liability coverage for public safety employees and no reasonable estimate of claims liability has been determined.

A liability for unpaid claims at June 30, 2014 has been recorded in the Internal Service Fund. This represents the Town's estimate of future payments based on historical information on active cases.

Changes in the aggregate liability for claims for the year ended June 30, 2014 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 190,232
Claims incurred/recognized in fiscal year 2014	154,138
Claims paid in fiscal year 2014	<u>(211,269)</u>
Claims liability, end of year	<u>\$ 133,101</u>

23. Risk Management

The Town 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.

24. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2014, as defined by GASB Statement 34, have changed from the previous fiscal year. Also, GASB Statement 54 has redefined fund types. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/13 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/13 (as restated)
Senior Center	\$ (5,094,588)	\$ 5,094,588	\$ -
Nonmajor Governmental Funds	<u>8,856,356</u>	<u>(5,094,588)</u>	<u>3,761,768</u>
Total	<u>\$ 3,761,768</u>	<u>\$ -</u>	<u>\$ 3,761,768</u>

25. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement 68 Accounting and Financial Reporting for Pensions, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Needham Contributory Retirement System's actuarially accrued liability.

**TOWN OF NEEDHAM, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2014
(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/14	\$ 122,084,535	\$ 179,834,295	\$ 57,749,760	67.9%	\$ 32,605,497	177.1%
01/01/13	112,131,508	168,935,280	56,803,772	66.4%	31,597,470	179.8%
01/01/12	114,445,376	156,914,866	42,469,490	72.9%	28,963,004	146.6%
01/01/11	116,465,717	149,577,973	33,112,256	77.9%	28,057,204	118.0%
01/01/10	115,771,921	148,011,244	32,239,323	78.2%	30,285,518	106.5%
01/01/09	102,420,630	139,054,020	36,633,390	73.7%	28,012,825	130.8%
01/01/07	102,235,876	128,668,586	26,432,710	79.5%	26,120,560	101.2%

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]
07/01/13	\$ 15,496,964	\$ 62,345,026	\$ 46,848,062	24.9%	\$ 68,551,814	68.3%
07/01/11	6,423,760	59,122,322	52,698,562	10.9%	60,859,276	86.6%
07/01/09	5,008,484	48,888,127	43,879,643	10.2%	61,582,295	71.3%
07/01/07	3,075,317	46,672,308	43,596,991	6.6%	59,616,565	73.1%
07/01/05	2,131,044	43,172,705	41,041,661	4.9%	51,915,780	79.1%

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

Schedule of Revenues and Other Sources, and
Expenditures and Other Uses -
Sewer Enterprise Fund Budget vs. Actual Comparison

For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Adjusted Actual</u>	Variance Positive <u>(Negative)</u>
Revenues:			
Current service charges	\$ 7,711,265	\$ 7,943,384	\$ 232,119
Interest income	<u>4,700</u>	<u>4,687</u>	<u>(13)</u>
Total Revenues	7,715,965	7,948,071	232,106
Expenditures:			
Sewer expenditures	1,361,086	1,341,221	19,865
Intergovernmental	5,423,810	5,423,810	-
Debt service	<u>1,500,000</u>	<u>1,390,516</u>	<u>109,484</u>
Total Expenditures	<u>8,284,896</u>	<u>8,155,547</u>	<u>129,349</u>
Excess of revenues over expenditures	(568,931)	(207,476)	361,455
Other Financing Sources and Uses:			
Transfers in	858,439	858,439	-
Use of unrestricted net position	787,597	-	(787,597)
Transfers out	<u>(1,077,105)</u>	<u>(1,077,105)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>568,931</u>	<u>(218,666)</u>	<u>(787,597)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (426,142)</u>	<u>\$ (426,142)</u>

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

Schedule of Revenues and Other Sources, and
Expenditures and Other Uses -
Water Enterprise Fund Budget vs. Actual Comparison

For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 5,618,977	\$ 6,357,866	\$ 738,889
Interest income	6,230	8,198	1,968
Other revenue	<u>1,578</u>	<u>8,700</u>	<u>7,122</u>
Total Revenues	5,626,785	6,374,764	747,979
Expenditures:			
Water expenditures	2,202,443	2,133,315	69,128
Intergovernmental	1,271,018	1,271,018	-
Debt service	<u>1,550,000</u>	<u>1,535,767</u>	<u>14,233</u>
Total Expenditures	<u>5,023,461</u>	<u>4,940,100</u>	<u>83,361</u>
Excess of revenues over expenditures	603,324	1,434,664	831,340
Other Financing Sources and Uses:			
Use of unrestricted net position	1,922,667	-	(1,922,667)
Transfers out	<u>(2,525,991)</u>	<u>(2,525,991)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(603,324)</u>	<u>(2,525,991)</u>	<u>(1,922,667)</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ (1,091,327)</u>	<u>\$ (1,091,327)</u>

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

Schedule of Revenues and Other Sources, and
Expenditures and Other Uses -
Solid Waste Enterprise Fund Budget vs. Actual Comparison

For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,512,749	\$ 1,619,667	\$ 106,918
Interest income	<u>1,395</u>	<u>1,515</u>	<u>120</u>
Total Revenues	1,514,144	1,621,182	107,038
Expenditures:			
Transfers station expenditures	1,973,731	2,022,207	(48,476)
Debt service	<u>150,000</u>	<u>149,147</u>	<u>853</u>
Total Expenditures	<u>2,123,731</u>	<u>2,171,354</u>	<u>(47,623)</u>
Excess of revenues over expenditures	(609,587)	(550,172)	59,415
Other Financing Sources and Uses:			
Transfers in	801,458	801,458	-
Use of unrestricted net position	193,100	-	(193,100)
Transfers out	<u>(384,971)</u>	<u>(384,971)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>609,587</u>	<u>416,487</u>	<u>(193,100)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (133,685)</u>	<u>\$ (133,685)</u>

See Independent Auditors' Report.