

**TOWN OF NEEDHAM, MASSACHUSETTS**

**Annual Financial Report**

**For the Year Ended June 30, 2012**

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# MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Needham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts, as of and for the year ended June 30, 2012, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Needham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, as of June 30, 2012, (except the Needham Contributory Retirement system which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis appearing on the following pages, and Employees' 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Needham, Massachusetts's basic financial statements. The budget and actual comparisons for Sewer, Water, and Solid Waste funds on pages 64 - 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.

*Melanson, Heath + Company P.C.*  
February 7, 2013

## **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, 2012.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, 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. 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 are 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 \$ 243,607,488 (i.e., net assets), a change of \$ 16,697,926 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 25,163,788, a change of \$ (15,092,915) in comparison to the prior year, primarily due to Newman School capital improvements exceeding MSBA reimbursements by \$ (13,816,830) in the current year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 10,846,842, a change of \$ 1,982,894 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 85,101,440, a change of \$ (6,001,944) in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 9,864,646, a change of \$ 9,052,541 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 Assets Summary (000s)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	Current and other assets	\$ 55,317	\$ 59,506	\$ 16,819	\$ 17,212	\$ 72,136
Capital assets	<u>225,274</u>	<u>199,654</u>	<u>55,701</u>	<u>54,450</u>	<u>280,975</u>	<u>254,104</u>
Total assets	280,591	259,160	72,520	71,662	353,111	330,822
Long-term liabilities outstanding	77,514	82,249	12,183	13,364	89,697	95,613
Notes payable	8,315	-	1,550	812	9,865	812
Other liabilities	<u>9,254</u>	<u>7,128</u>	<u>687</u>	<u>359</u>	<u>9,941</u>	<u>7,487</u>
Total liabilities	95,083	89,377	14,420	14,535	109,503	103,912
Net assets:						
Invested in capital assets, net	144,126	128,342	43,454	42,121	187,580	170,463
Restricted	2,319	2,576	-	-	2,319	2,576
Unrestricted	<u>39,063</u>	<u>38,865</u>	<u>14,646</u>	<u>15,006</u>	<u>53,709</u>	<u>53,871</u>
Total net assets	<u>\$ 185,508</u>	<u>\$ 169,783</u>	<u>\$ 58,100</u>	<u>\$ 57,127</u>	<u>\$ 243,608</u>	<u>\$ 226,910</u>

**Changes in Net Assets Summary (000s)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	Revenues:					
Program revenues:						
Charges for services	\$ 9,616	\$ 9,017	\$ 14,862	\$ 16,363	\$ 24,478	\$ 25,380
Operating grants and contributions	24,653	24,243	225	99	24,878	24,342
Capital grants and contributions	7,030	1,044	-	-	7,030	1,044
General revenues:						
Property taxes	97,032	94,749	-	-	97,032	94,749
Excises	4,301	4,353	-	-	4,301	4,353
Penalties and interest on taxes	1,207	1,282	-	-	1,207	1,282
Grants and contributions not restricted to specific programs	2,006	2,032	-	-	2,006	2,032
Investment income	322	540	15	30	337	570
Other	<u>1,241</u>	<u>686</u>	<u>-</u>	<u>-</u>	<u>1,241</u>	<u>686</u>
Total revenues	147,408	137,946	15,102	16,492	162,510	154,438

(continued)

(continued)

**Changes in Net Assets Summary (000s)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Expenses:						
General government	4,919	4,770	-	-	4,919	4,770
Public safety	13,673	13,972	-	-	13,673	13,972
Education	81,241	78,242	-	-	81,241	78,242
Public works	7,391	8,682	-	-	7,391	8,682
Maintenance	8,177	9,055	-	-	8,177	9,055
Human services	1,540	1,563	-	-	1,540	1,563
Culture and recreation	3,463	3,226	-	-	3,463	3,226
Interest on long-term debt	2,656	2,316	-	-	2,656	2,316
Intergovernmental	1,165	1,113	-	-	1,165	1,113
Other unallocated costs	8,039	7,399	-	-	8,039	7,399
Sewer operations	-	-	7,477	6,925	7,477	6,925
Water operations	-	-	4,115	3,485	4,115	3,485
Solid waste operations	-	-	1,956	1,767	1,956	1,767
Total expenses	<u>132,264</u>	<u>130,338</u>	<u>13,548</u>	<u>12,177</u>	<u>145,812</u>	<u>142,515</u>
Change in net assets before transfers	15,144	7,608	1,554	4,315	16,698	11,923
Transfers	<u>581</u>	<u>711</u>	<u>(581)</u>	<u>(711)</u>	<u>-</u>	<u>-</u>
Change in net assets	15,725	8,319	973	3,604	16,698	11,923
Net assets - beginning of year	<u>169,783</u>	<u>161,464</u>	<u>57,127</u>	<u>53,523</u>	<u>226,910</u>	<u>214,987</u>
Net assets - end of year	<u>\$ 185,508</u>	<u>\$ 169,783</u>	<u>\$ 58,100</u>	<u>\$ 57,127</u>	<u>\$ 243,608</u>	<u>\$ 226,910</u>

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

The largest portion of net assets \$ 187,579,947 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 2,319,338 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 53,708,203 may be used to meet the government's ongoing obligations to citizens and creditors.

## Governmental Activities

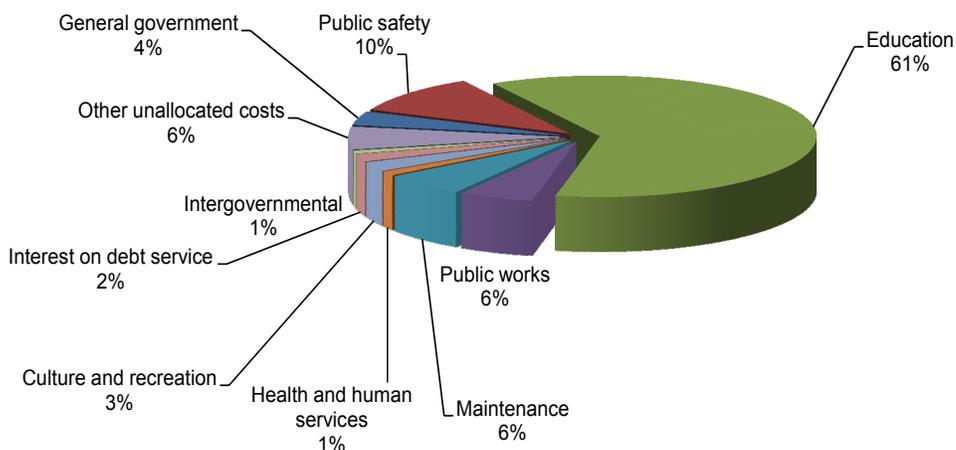
Governmental activities for the year resulted in a change in net assets of \$ 15,725,261. Key elements of this change are as follows (in thousands):

General fund excess of revenues over expenditures - fund basis	\$ 6,507
CPA fund excess of revenues over non capitalized expenses	1,988
Capital grants and contribution revenue used to acquire capital assets	7,030
Other	<u>200</u>
Total	<u>\$ 15,725</u>

- General Fund operations yielded positive results of \$6.5M, principally from revenues in excess of estimated of \$3.5M and unspent and encumbered appropriations of \$2.4M.
- Community Preservation Act fund revenues exceeded the non-capital expenses by \$2M.
- Newman and Pollard Schools MSBA grants of \$7M were recognized as revenues, while the construction costs (expenditures) were capitalized on the statement of net assets.

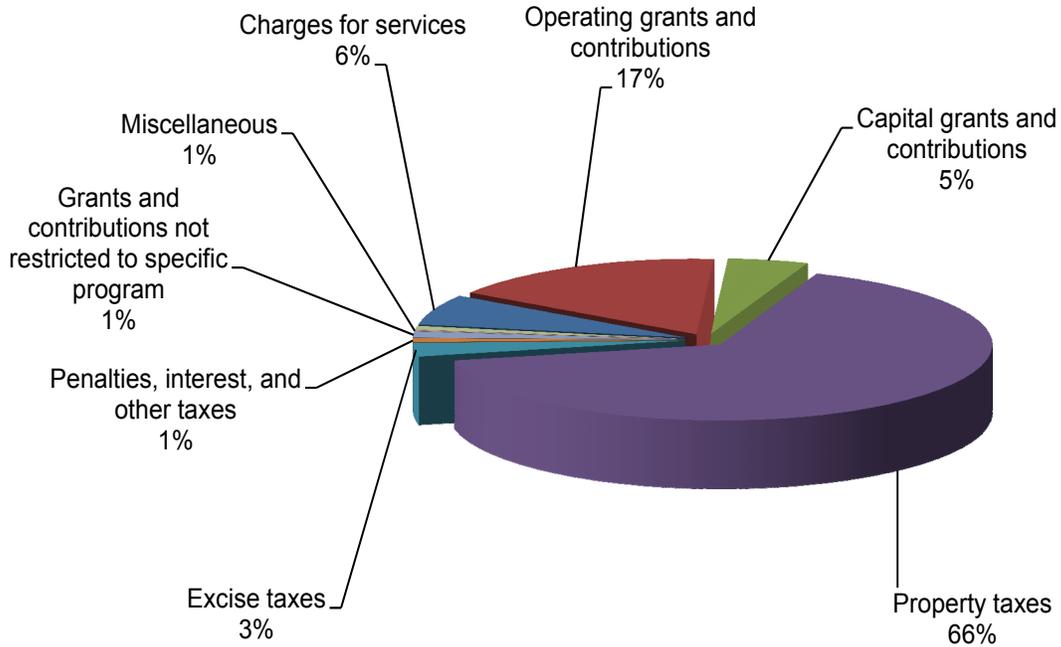
The following graph presents the users of resources of the governmental activities. The total cost of all governmental programs and services increased by \$1,925,277 over the previous year or by 1%.

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 \$9,462,222 over the prior year or 7%. Capital grants and contributions increased by \$5,985,631 over the previous year primarily due to Massachusetts School Building Authority reimbursement for Newman School Repair (see major fund in fund basis financial statements). The Newman School Repair project began in FY10, with initial MSBA reimbursements of \$994,885 recognized in FY11, and \$6,067,548 in FY12.

**Sources of Revenue - Governmental Activities**



**Business-Type Activities**

Business-type activities for the year resulted in a change in net assets of \$ 972,665. Positive results are due to the savings from unexpended budgeted amounts.

**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 \$ 25,163,788, a change of \$ (15,092,915) 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	\$ 6,507
General fund transfers in from Enterprise Funds for indirect costs, net of Sewer and Solid Waste subsidies	565
CPA fund excess of revenues over expenditures	1,918
Newman School repair fund expenditures over MSBA reimbursement	(13,817)
Capital project funds expenditures in excess of revenues and bond proceeds	(9,808)
General fund transfer to internal service fund	(694)
Other	<u>236</u>
Total	<u>\$ (15,093)</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 \$ 10,846,842, while total fund balance was \$ 25,624,410. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Unassigned fund balance	\$ 10,846,842	\$ 8,863,948	\$ 1,982,894
Total fund balance	25,624,410	20,938,703	4,685,707
	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Unassigned fund balance as of % of total General Fund expenditures	9.0%	7.4%	1.6%
Total fund balance as of % total General Fund expenditures	21.3%	17.5%	3.8%

The total fund balance of the general fund changed by \$ 4,685,707 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves	\$ (3,970)
Increase in stabilization accounts	606
Revenues in excess of budget	3,458
Expenditures less than budget	2,357
Unused overlay allowance	1,667
Excess of current year carryforwards over expenditures of prior year carryforwards	334
Other	<u>234</u>
Total	\$ <u><u>4,686</u></u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ 3,656,505	\$ 3,504,230	\$ 152,275
Capital stabilization	1,747,800	1,294,223	453,577
Continuing appropriations	<u>339,915</u>	<u>415,680</u>	<u>(75,765)</u>
Total	\$ <u><u>5,744,220</u></u>	\$ <u><u>5,214,133</u></u>	\$ <u><u>530,087</u></u>

### **Other Major Funds**

Community Preservation Act fund property taxes and other revenues are collected per state legislation that allows those revenues to fund projects such as preservation of historical buildings. The Town did not have considerable expenditures in the current year in the fund, other than the \$300,000 to help fund the historical town hall renovation project.

The Newman School project, which met the definition of a major fund in FY12, was completed in August 2012 with students moving back into the building classrooms in September 2012. The project entailed modernization of the heating and ventilation systems in the school and abandonment of the existing system. Other upgrades involved code compliance, roof, electrical, and information system infrastructure. Students were moved to either temporary leased modular classrooms or other school buildings during construction. The total authorized budget for the Newman School project is \$ 27,412,128. The MSBA share of the project cost was \$ 8,427,981, including final FY13 reimbursement. The Town's share of the project is being financed by debt which has been exempted from the taxation limits of Proposition 2½ by referendum. Needham voters approved the debt exclusion override to cover the cost of the Town's share of the project at a December 8, 2009 special election. Subsequent to year-end, a bond was issued for this project in October 2012. The final bond issue is planned for June 2013.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 14,645,767, a change of \$ (359,696) in comparison to the prior year, primarily due to use of retained earnings.

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 all 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 for fiscal year 2012 remained essentially unchanged from the original budget. The original budget was \$116,878,759 and the final budget was \$116,883,105, a change of \$4,346.

During fiscal year 2012, the Town realized revenue in excess of budget of \$3.1 million, and realized budget savings of \$2.4 million relative to expenditures. The results are due to the consistent conservative budgeting practices.

The Town took in over \$1 million in payments that were considered nonrecurring receipts which contributed \$0.79 million to the surplus. Motor vehicle excise tax revenue was approximately \$0.86 million in excess of budget, and licenses and permits, due mainly to the approximate \$1.7 million in building permits, was \$1.15 million greater than budget. The combination of motor vehicle excise, permit and license revenue, and nonrecurring receipts made up over 80% of the total General Fund surplus.

The General Fund operating budget savings returned \$2,313,341 or 2.1% of the total appropriation. Savings in the group health insurance programs generated savings of more than \$632,000 or 6.6% of budget. The Town transferred \$500,000 of this savings to the Town's Other Post-Employment Benefits (OPEB) fund as advance payment on the unfunded liability. Due to the mild winter Public Works was able to return \$225,847 of its \$400,000 base appropriation for snow and ice removal expenses. Lower energy consumption and prices generated budgetary returns in all the major departments which had gasoline, diesel, electrical, heating oil or natural gas expenses. Returns from energy related expenses total approximately \$0.40 million.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total capital assets for governmental and business-type activities at year-end amounted to \$ 280,974,278 (net of accumulated depreciation), a change of \$ 26,870,862 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:

Newman School repairs	\$	19,884
Pollard School roof replacement and other improvements		2,227
Town Hall design and renovation		5,092
Senior Center design and feasibility study		763
Pollard School parking and access		758

### Business-Type Activities:

Sewer system rehab	\$	425
Reservoir B sewer pump station		1,666
Restore Charles River water treatment facility well		262

**Debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 85,101,440, all of which was 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**

Last year we advised that fund balance would decline in fiscal year 2012 as decisions were made to direct some of the fund balance toward greater capital investment and reserves, which the Town did, but our continued traditional approach towards estimation of revenue helped not only to maintain existing services but also resulted in a greater surplus which offset the capital investment impact on fund balance. The Town's fund balance grew as we maintained a balanced approach towards revenue estimation with the economic driven revenues (e.g., motor vehicle excise, meals and room excises, building permits, and business licenses) being more conservative and other revenues estimated closer to the prior year actual. Fiscal year 2012 recurring local revenues (excluding property taxes) were only two percent more than the fiscal year 2011 actual local

revenues. However, building permit activity continues to be very strong with fiscal year 2012 generating even more revenue than fiscal year 2011, which itself was a strong year. We see fiscal year 2013 and fiscal year 2014 building activity to remain strong which should keep building permit revenue high. Motor vehicle excise is expected to increase modestly over the next two years as sales of higher end fuel-efficient vehicles continue.

The Town recently entered into a tax incremental financing (TIF) agreement with TripAdvisor, Inc. In exchange for a portion of the New Growth property tax revenue that its development would generate being exempted over thirteen years, the Company will move its corporate headquarters to Needham. The company will relocate 450 jobs, and has committed to create an additional 250 jobs in the Needham location over a five-year period after the new building is opened in 2015. The corporate headquarters is being built in the New England Business Center ("Needham Crossing") which is located off of Highland Avenue and abuts Interstate 95 (Rte. 128). This development is viewed as an anchor which will attract other development in the immediate area.

The Town has settlements with all collective bargaining groups for fiscal year 2013 and fiscal year 2014, and has settlements with some groups for fiscal year 2015 and fiscal year 2016. The general increase for COLA is 2% in fiscal year 2013, and 2-1/2% in fiscal year 2014. The collective bargaining agreements with the fire and police unions involved a restructuring of the wage schedules in fiscal year 2013 and fiscal year 2014 rather than COLA's. The School Committee is in negotiations with the Teachers and Professional unions for successor contracts for fiscal year 2014 forward. Fiscal year 2013 will have all employee groups converted over to the higher co-pay health plans called Rate Savers. The Town also will work to have all retirees under age 65 converted to the rate saver plans in fiscal year 2014. The effect of these changes in health offerings should help mitigate the growing Other Post-Employment Benefits (OPEB) liability. The liability has increased due to the new mortality schedule implementation and increased number of benefit eligible employees (particularly in the School Department). The next required OPEB actuarial update is July 2013 and should be available when the fiscal year 2013 audit is completed.

The Town's General Fund unassigned balance (previously referred to as undesignated) showed an increase of \$1,982,894 (compared to an increase of \$2,679,230 last year) from \$8,863,948 in fiscal year 2011 to \$10,846,842 in fiscal year 2012 for the aforementioned reasons. Fiscal year 2012 is the second year of the reporting transition that adopted GSAB Statement 54 which reclassified how certain funds are reported. The new classification now includes the general and capital stabilization fund balances as part of the General Fund rather than other Governmental Funds. One effect of this reporting change was the total fund balance ratio to General Fund revenue increased markedly when compared to fiscal year 2010 and earlier. Fiscal year 2011 ratio was 17%; the ratio for fiscal year 2012 was 20%. The ratio for fiscal year 2012 without the stabilization funds included in the total would be 16%, an improvement over the previous three years (12.8%, 12.3% and 12.1%). The year-end results are in keeping with management's underlying long-term planning goals of sustainability. As noted,

the General Fund balance now includes the stabilizations funds; however, the legal purposes and governance of the stabilization funds do not change and appropriations to and from the Funds still requires a vote of Town Meeting (the Town's legislative body).

Due in part to the methodology which the Massachusetts Department of Revenue (DOR) employs to determine the amount of the General Fund unassigned balance that may be used for appropriations (referred to as Free Cash), we expect that the fund balance will be several million dollars higher than it would otherwise be at the end of fiscal year 2013. The Department of Revenue certified a lesser amount of the fiscal year 2012 fund balance as Free Cash for fiscal year 2013. Therefore, the amount that would have been available for appropriations in fiscal year 2013 will stay in fund balance, and the unassigned fund balance will grow.

The Town had not yet received all the reimbursement for certain expenses related to the two school projects (Newman HVAC and Pollard roof projects) that had been approved for partial funding from the Massachusetts School Building Authority (MSBA) prior to the end of the fiscal year and the Town had a temporary fund deficit in the two school capital project funds as the Bond Anticipation Notes issued in June 2012 were not sufficient to meet the cash flow requirements of the projects. These deficits were eliminated with the Bond and Note issues in October 2012. This will have the following expected outcomes: first, as mentioned previously, the fund balance at the end of fiscal year 2013 will be higher than it would have otherwise been; second, the amount of Free Cash certified for use in fiscal year 2014 will be much higher than the Town has seen (effectively two years of Free Cash in one year), and third, after the funds are certified, and appropriated by Town Meeting, fiscal year 2014 year end results would show a lower fund balance of several million dollars from the fund balance at the end of fiscal year 2013. Management, however, will continue to recommend that the Free Cash certified in each of the years be directed to cash capital investment, formal reserves, and other non-recurring expenses and only a limited amount be used for the operating budget. Again, we would expect the fiscal year 2013 year end results to show an increase of several million dollars in fund balance and fiscal year 2014 year end results to show a decline of several million dollars in fund balance, but that fund balance will be in the normal range that it has been for Needham during the past decade, after adjusting for the Free Cash certifications.

The Town expects to close out the Pollard School and Newman School improvement projects at the end of fiscal year 2013 with a final bond issue for these projects by July 2013.

The Town began construction of a new Senior Center in this past year which has a budget of \$8,075,000. The Town also began its \$6,300,000 Reservoir B sewer pump station replacement project. The Reservoir B pump station is one of nine that services the community and serves a number of residential properties including the Town's commercial park district which abuts Interstate 95. The recon-

struction will also address a number of environmental concerns that have been raised because of its location next to the Charles River.

The Town approved the purchase of four parcels in the upcoming fiscal year for the purposes of increasing parking in the downtown business area and providing an expansion of parking for the public safety facilities, also located in the downtown, with an eye toward the future to renovate and expand the public safety complex. All the parcels that are to be purchased abut improved land that is owned by the Town.

The Town is still moving forward with a condition assessment of the Hillside and Mitchell elementary schools, and possibly expanding the Pollard Middle School. The Town is actively engaged in a public discussion of replacing the Hillside School. The prefeasibility study is looking to replace or otherwise significantly upgrade the last two in service elementary schools (Hillside and Mitchell). The Town expects to file with the MSBA a statement of interest for one or both of these schools by the end of CY2013. Our assumption continues to be that at least one of the two elementary school projects will be eligible for financial assistance from the MSBA. The current estimated cost for the two buildings is approximately \$100 million. The Town will be exploring its options during the next year.

The Town expects to present for a vote of Town Meeting a \$6 million improvement project to its St Mary Street water pump station. This station connects the Massachusetts Water Resources Authority water supply to the Town's water distribution system and serves as a backup to the Town's own water wells. If funded, the project will begin within six months after approval.

The Town again took steps to further shore up reserves by appropriating \$325,000 to its Workers Compensation Reserve Fund (the prior year the Town appropriated \$494,288) for claim contingencies that may exceed the annual appropriation and not be covered by excess loss insurance. The Town made no draws against any of its appropriated stabilization accounts: Capital Improvement Fund, Capital Facility Fund, and General Stabilization Fund, and it appropriated \$640,370 to these funds between the May 2012 and November 2012 Town Meetings. \$450,000 of this amount was a transfer from the Unassigned Fund Balance to the Committed Fund Balance. The Town also established a new reserve, Athletic Facility Improvement Fund with an initial transfer of \$282,728 to this reserve at its May 2012 Town Meeting. The effective date of the transfer was July 1, 2012. Management continues to promote the practice that the non-recurring portion of Free Cash (unassigned fund balance) be used for ongoing capital investment, temporary or extraordinary expenditures, and future reserves rather than for recurring operating expenses.

The outlook for the fiscal year 2013 year-end results are expected to be stable and on par with fiscal year 2012. As mentioned previously, fiscal year 2012 actual General Fund local receipts (\$10,679,567) were higher than fiscal year 2011 local receipts (\$9,867,827), but the growth rate was not as high. State "Cherry Sheet" Aid increased in fiscal year 2012 over fiscal year 2011 by

\$209,391, or two and half percent, but the Town is scheduled to receive \$9,314,364 million in fiscal year 2013, a nine percent increase over fiscal year 2012. Property tax revenues remain strong and collection rates, net of property tax refunds and overlay reserves, are consistently in the 98 to 99 percent range.

Based on the aforementioned reasons, we expect that the overall General Fund balance for fiscal year 2013 will be notably higher than fiscal year 2012, and then decline in fiscal year 2014. We will continue to see local resources grow at a four to five percent level during the next 12 to 24 months. We do caution that actions at the Federal level will have national consequences and may impact the regional economy, which likely will filter down to Needham. If the citizens continue to support Management's balanced, prudent approach toward budgeting and reserves, we believe that Needham's financial resources will buffer temporary shocks to the State and businesses, but the Town would not be immune to a long-term recession. 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.

The Town has held the sewer and water rates stable with no increase for more than seven fiscal years since a rate restructure was approved by the Board of Selectmen in April, 2005. Our outlook last year called for no rate increase for fiscal year 2012, which held. We still offer guidance that the sewer user rate structure may need to be modified for fiscal year 2013, but is more likely for fiscal year 2014. This still holds true. The water enterprise, because of irrigation and production water sales, still remains strong. The rate structure continues to bring revenues in to support the extensive capital improvements necessary over the next several years and buffer against a possible change by Massachusetts Department of Environmental Protection that would mandate a reduction in water use and hence water sales. The sewer enterprise challenges continue as the needed major upgrades and replacement of old systems (some that have been in place for more than seventy years) occur, and meeting the environmental compliance will make keeping rates flat most difficult. Furthermore, if water use is reduced, because the sewer rate structure is based on water use, and with the sewer enterprise running on a tighter annual margin than water, such a limit on the sale of water would likely require a sewer user rate increase above that which may be necessary due to Massachusetts Water Resources Authority assessments.

## **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 ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 22,552,964	\$ 11,376,656	\$ 33,929,620
Investments	19,562,026	-	19,562,026
Receivables, net of allowance for uncollectibles:			
Property taxes	1,708,401	-	1,708,401
Excises	335,448	-	335,448
Utilities	-	4,227,496	4,227,496
Departmental	479,689	-	479,689
Intergovernmental	1,578,805	1,214,647	2,793,452
Other	53,902	-	53,902
Other assets	-	447	447
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,092,233	-	1,092,233
Intergovernmental	7,453,818	-	7,453,818
OPEB asset	500,000	-	500,000
Capital assets:			
Non-depreciable capital assets	59,321,765	10,091,681	69,413,446
Depreciable assets, net of accumulated depreciation	<u>165,951,876</u>	<u>45,608,956</u>	<u>211,560,832</u>
<b>TOTAL ASSETS</b>	<b>280,590,927</b>	<b>72,519,883</b>	<b>353,110,810</b>
<b>LIABILITIES</b>			
Current:			
Warrants and accounts payable	4,065,050	420,828	4,485,878
Accrued liabilities	4,128,794	95,954	4,224,748
Refunds payable	846,316	170,477	1,016,793
Notes payable	8,315,000	1,549,646	9,864,646
Taxes collected in advance	3,102	-	3,102
Other liabilities	210,726	-	210,726
Current portion of long-term liabilities:			
Bonds payable	7,117,979	1,891,127	9,009,106
Compensated absences	884,449	238,230	1,122,679
Landfill liability	45,549	-	45,549
Noncurrent:			
Bonds payable, net of current portion	66,038,221	10,054,113	76,092,334
Compensated absences, net of current portion	2,653,346	-	2,653,346
Landfill liability, net of current portion	<u>774,415</u>	<u>-</u>	<u>774,415</u>
<b>TOTAL LIABILITIES</b>	<b>95,082,947</b>	<b>14,420,375</b>	<b>109,503,322</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	144,126,206	43,453,741	187,579,947
Restricted for:			
Permanent funds:			
Nonexpendable	188,478	-	188,478
Expendable	1,658,496	-	1,658,496
Grants and other statutory restrictions	472,364	-	472,364
Unrestricted	<u>39,062,436</u>	<u>14,645,767</u>	<u>53,708,203</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>185,507,980</u></b>	<b>\$ <u>58,099,508</u></b>	<b>\$ <u>243,607,488</u></b>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 4,919,242	\$ 459,488	\$ 18,998	\$ -	\$ (4,440,756)	\$ -	\$ (4,440,756)
Public safety	13,673,394	2,776,090	39,307	-	(10,857,997)	-	(10,857,997)
Education	81,241,228	5,372,154	23,816,372	-	(52,052,702)	-	(52,052,702)
Public works	7,390,806	238,030	215,524	-	(6,937,252)	-	(6,937,252)
Maintenance	8,176,803	-	-	7,029,639	(1,147,164)	-	(1,147,164)
Health and human services	1,539,594	90,918	340,408	-	(1,108,268)	-	(1,108,268)
Culture and recreation	3,462,502	679,399	220,804	-	(2,562,299)	-	(2,562,299)
Interest on debt service	2,655,643	-	-	-	(2,655,643)	-	(2,655,643)
Intergovernmental	1,165,155	-	-	-	(1,165,155)	-	(1,165,155)
Other unallocated costs	8,039,353	-	1,862	-	(8,037,491)	-	(8,037,491)
Total Governmental Activities	132,263,720	9,616,079	24,653,275	7,029,639	(90,964,727)	-	(90,964,727)
<b>Business-Type Activities:</b>							
Sewer services	7,477,277	7,898,420	212,790	-	-	633,933	633,933
Water services	4,115,476	5,294,880	11,865	-	-	1,191,269	1,191,269
Solid waste services	1,955,282	1,668,642	-	-	-	(286,640)	(286,640)
Total Business-Type Activities	13,548,035	14,861,942	224,655	-	-	1,538,562	1,538,562
Total	\$ 145,811,755	\$ 24,478,021	\$ 24,877,930	\$ 7,029,639	(90,964,727)	1,538,562	(89,426,165)
<b>General Revenues and Transfers:</b>							
Property taxes					97,032,057	-	97,032,057
Excise taxes					4,300,838	-	4,300,838
Penalties, interest, and other taxes					1,207,291	-	1,207,291
Grants and contributions not restricted to specific programs					2,005,591	-	2,005,591
Investment income					322,225	15,471	337,696
Miscellaneous					1,240,618	-	1,240,618
Total general revenues					106,108,620	15,471	106,124,091
Excess before transfers					15,143,893	1,554,033	16,697,926
Transfers, net					581,368	(581,368)	-
Change in Net Assets					15,725,261	972,665	16,697,926
<b>Net Assets:</b>							
Beginning of year					169,782,719	57,126,843	226,909,562
End of year					\$ 185,507,980	\$ 58,099,508	\$ 243,607,488

See notes to financial statements.

## TOWN OF NEEDHAM, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Newman School Repair Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 13,884,305	\$ -	\$ -	\$ 7,374,046	\$ 21,258,351
Investments	13,363,633	4,339,413	-	1,858,981	19,562,027
Due from Newman School fund	4,289,304	-	-	-	4,289,304
Receivables:					
Property taxes	3,178,645	16,655	-	-	3,195,300
Excises	578,901	-	-	-	578,901
Departmental	820,241	-	-	14,054	834,295
Intergovernmental	8,199,192	-	448,832	384,592	9,032,616
Other	54,182	-	-	-	54,182
	<u>44,368,403</u>	<u>4,356,068</u>	<u>448,832</u>	<u>9,631,673</u>	<u>58,804,976</u>
<b>TOTAL ASSETS</b>	<b>\$ 44,368,403</b>	<b>\$ 4,356,068</b>	<b>\$ 448,832</b>	<b>\$ 9,631,673</b>	<b>\$ 58,804,976</b>
 <b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants and accounts payable	\$ 1,912,497	\$ 2,443	\$ 1,054,973	\$ 1,084,293	\$ 4,054,206
Due to general fund	-	-	4,289,304	-	4,289,304
Deferred revenues	12,562,923	16,655	-	14,066	12,593,644
Taxes collected in advance	3,102	-	-	-	3,102
Accrued liabilities	3,213,014	135	-	115,741	3,328,890
Refunds payable	846,316	-	-	-	846,316
Notes payable	-	-	4,734,200	3,580,800	8,315,000
Other liabilities	206,141	-	-	4,585	210,726
	<u>18,743,993</u>	<u>19,233</u>	<u>10,078,477</u>	<u>4,799,485</u>	<u>33,641,188</u>
<b>TOTAL LIABILITIES</b>	<b>18,743,993</b>	<b>19,233</b>	<b>10,078,477</b>	<b>4,799,485</b>	<b>33,641,188</b>
Fund Balances:					
Nonspendable	-	-	-	188,478	188,478
Restricted	448,175	4,336,835	-	7,307,657	12,092,667
Committed	5,744,220	-	-	1,542,872	7,287,092
Assigned	8,585,173	-	-	-	8,585,173
Unassigned	10,846,842	-	(9,629,645)	(4,206,819)	(2,989,622)
	<u>25,624,410</u>	<u>4,336,835</u>	<u>(9,629,645)</u>	<u>4,832,188</u>	<u>25,163,788</u>
<b>TOTAL FUND BALANCES</b>	<b>25,624,410</b>	<b>4,336,835</b>	<b>(9,629,645)</b>	<b>4,832,188</b>	<b>25,163,788</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 44,368,403</b>	<b>\$ 4,356,068</b>	<b>\$ 448,832</b>	<b>\$ 9,631,673</b>	<b>\$ 58,804,976</b>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

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

JUNE 30, 2012

<b>Total governmental fund balances</b>	\$ 25,163,788
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	225,273,641
<ul style="list-style-type: none"><li>• Net other post employment benefits asset is reported on the statement of net assets, and not reported in the funds.</li></ul>	500,000
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	11,600,642
<ul style="list-style-type: none"><li>• 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 Assets.</li></ul>	1,051,087
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(567,219)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(77,513,959)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 185,507,980</u></u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Newman School Repair Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 95,321,535	\$ 1,619,595	\$ -	\$ -	\$ 96,941,130
Excise taxes	4,357,996	-	-	-	4,357,996
Penalties, interest, and other taxes	1,253,898	2,225	-	-	1,256,123
Charges for services	937,946	-	-	5,781,445	6,719,391
Departmental	654,886	-	-	-	654,886
Licenses and permits	1,950,768	-	-	-	1,950,768
Intergovernmental	20,983,554	417,271	6,067,548	6,481,766	33,950,139
Investment income	257,434	52,255	-	12,535	322,224
Fines and forfeitures	235,632	-	-	-	235,632
Contributions	-	-	-	482,130	482,130
Other	625,721	-	-	79,912	705,633
Total Revenues	<u>126,579,370</u>	<u>2,091,346</u>	<u>6,067,548</u>	<u>12,837,788</u>	<u>147,576,052</u>
<b>Expenditures:</b>					
Current:					
General government	4,488,463	172,862	-	71,279	4,732,604
Public safety	13,408,932	-	-	69,349	13,478,281
Education	66,722,685	-	-	10,350,310	77,072,995
Public works	5,567,194	-	-	79,832	5,647,026
Maintenance	7,414,663	-	19,884,378	13,230,234	40,529,275
Health and human services	1,218,079	-	-	323,466	1,541,545
Culture and recreation	2,043,808	-	-	899,221	2,943,029
Employee benefits	7,725,321	-	-	-	7,725,321
Other	455,170	-	-	-	455,170
Debt service:					
Principal	7,203,678	-	-	-	7,203,678
Interest	2,659,206	-	-	-	2,659,206
Intergovernmental	1,165,155	-	-	-	1,165,155
Total Expenditures	<u>120,072,354</u>	<u>172,862</u>	<u>19,884,378</u>	<u>25,023,691</u>	<u>165,153,285</u>
Excess (deficiency) of revenues over expenditures	6,507,016	1,918,484	(13,816,830)	(12,185,903)	(17,577,233)
<b>Other Financing Sources (Uses):</b>					
Issuance of bonds	-	-	-	2,460,000	2,460,000
Issuance of refunded debt	10,995,000	-	-	-	10,995,000
Payment to refunding escrow agent	(11,065,000)	-	-	-	(11,065,000)
Bond premium	207,238	-	-	-	207,238
Transfers in	2,500,159	-	276,005	2,594,553	5,370,717
Transfers out	(4,458,706)	(300,000)	-	(724,931)	(5,483,637)
Total Other Financing Sources (Uses)	<u>(1,821,309)</u>	<u>(300,000)</u>	<u>276,005</u>	<u>4,329,622</u>	<u>2,484,318</u>
Net change in fund balances	4,685,707	1,618,484	(13,540,825)	(7,856,281)	(15,092,915)
Fund Balances, at beginning of year, as reclassified	<u>20,938,703</u>	<u>2,718,351</u>	<u>3,911,180</u>	<u>12,688,469</u>	<u>40,256,703</u>
Fund Balances, at end of year	<u>\$ 25,624,410</u>	<u>\$ 4,336,835</u>	<u>\$ (9,629,645)</u>	<u>\$ 4,832,188</u>	<u>\$ 25,163,788</u>

See notes to 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, 2012

**NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (15,092,915)

- 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	33,033,389
Depreciation	(7,254,497)
Net effect of disposal of assets	(159,091)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (1,034,996)

- Change in net OPEB asset 500,000

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

Issuance of debt, net	(2,460,000)
Repayments of debt	7,203,679

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 267,015

- Some expenses reported in the Statement of Activities, such as compensated absences, and landfill costs, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 78,612

- 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. 644,065

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 15,725,261

See notes to 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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 94,110,985	\$ 94,110,985	\$ 94,110,985	\$ -
Excise taxes	3,500,000	3,500,000	4,357,996	857,996
Penalties, interest, and other taxes	985,000	985,000	1,253,898	268,898
Charges for services	909,500	909,500	937,946	28,446
Departmental	565,500	565,500	654,886	89,386
Licenses and permits	800,000	800,000	1,950,768	1,150,768
Intergovernmental	9,361,641	9,361,641	9,504,573	142,932
Investment income	150,000	150,000	103,130	(46,870)
Fines and forfeits	220,000	220,000	234,085	14,085
Other revenue	350,288	350,288	771,660	421,372
Bond premium	4,859	4,859	137,238	132,379
Transfers in	1,955,715	1,955,715	2,354,224	398,509
Use of free cash	3,380,269	3,380,269	3,380,269	-
Use of bond premium	85,250	85,250	85,250	-
Use of overlay surplus	499,752	504,098	504,098	-
<b>Total Revenues and Other Sources</b>	<b>116,878,759</b>	<b>116,883,105</b>	<b>120,341,006</b>	<b>3,457,901</b>
<b>Expenditures and Other Uses:</b>				
General government	3,687,514	3,691,860	3,546,525	145,335
Land use	375,645	375,645	366,929	8,716
Public safety	12,041,846	12,041,846	11,423,872	617,974
Education	49,094,360	49,154,360	49,009,516	144,844
Public works	5,089,984	5,214,984	4,704,347	510,637
Public facilities	7,754,286	7,819,286	7,539,925	279,361
Community services	2,960,198	2,962,848	2,902,954	59,894
Debt service	10,883,020	10,883,020	10,867,982	15,038
Employee benefits	18,771,474	18,871,474	18,609,709	261,765
Other appropriated expenses	1,076,861	724,211	455,170	269,041
Intergovernmental	1,198,244	1,198,244	1,165,155	33,089
Other amounts provided	12,500	12,500	1,098	11,402
Transfers out	3,932,827	3,932,827	3,932,827	-
<b>Total Expenditures and Other Uses</b>	<b>116,878,759</b>	<b>116,883,105</b>	<b>114,526,009</b>	<b>2,357,096</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 5,814,997	\$ 5,814,997

See notes to financial statements.

## TOWN OF NEEDHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
<b><u>ASSETS</u></b>					
Current:					
Cash and short-term investments	\$ 3,662,762	\$ 6,174,686	\$ 1,539,208	\$ 11,376,656	\$ 1,294,610
User fees receivable	2,284,747	1,751,608	191,141	4,227,496	-
Intergovernmental receivable	1,214,647	-	-	1,214,647	-
Other current assets	-	-	447	447	-
Total current assets	7,162,156	7,926,294	1,730,796	16,819,246	1,294,610
Noncurrent:					
Land and construction in progress	2,963,908	2,120,330	5,007,443	10,091,681	-
Other capital assets, net of accumulated depreciation	17,455,753	26,456,739	1,696,464	45,608,956	-
Total noncurrent assets	20,419,661	28,577,069	6,703,907	55,700,637	-
<b>TOTAL ASSETS</b>	27,581,817	36,503,363	8,434,703	72,519,883	1,294,610
<b><u>LIABILITIES</u></b>					
Current:					
Accounts payable	314,227	102,689	3,912	420,828	10,839
Accrued payroll	17,523	16,437	12,431	46,391	-
Accrued liabilities	23,326	26,237	-	49,563	232,684
Refunds payable	100,340	5,045	65,092	170,477	-
Notes payable	1,549,646	-	-	1,549,646	-
Current portion of long-term liabilities:					
Bonds payable	922,652	883,475	85,000	1,891,127	-
Compensated absences	119,799	82,706	35,725	238,230	-
Total current liabilities	3,047,513	1,116,589	202,160	4,366,262	243,523
Noncurrent:					
Bonds payable, net of current portion	4,677,253	5,336,860	40,000	10,054,113	-
Total noncurrent liabilities	4,677,253	5,336,860	40,000	10,054,113	-
<b>TOTAL LIABILITIES</b>	7,724,766	6,453,449	242,160	14,420,375	243,523
<b><u>NET ASSETS</u></b>					
Invested in capital assets, net of related debt	13,852,029	22,823,775	6,777,937	43,453,741	-
Unrestricted	6,005,022	7,226,139	1,414,606	14,645,767	1,051,087
<b>TOTAL NET ASSETS</b>	\$ 19,857,051	\$ 30,049,914	\$ 8,192,543	\$ 58,099,508	\$ 1,051,087

See notes to financial statements.

## TOWN OF NEEDHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
<b>Operating Revenues:</b>					
Charges for services	\$ 7,898,420	\$ 5,294,880	\$ 1,668,642	\$ 14,861,942	\$ -
Other	-	-	-	-	315,649
Total Operating Revenues	7,898,420	5,294,880	1,668,642	14,861,942	315,649
<b>Operating Expenses:</b>					
Personnel services	851,496	869,405	619,540	2,340,441	365,872
Non-personnel services	328,708	1,265,681	1,111,797	2,706,186	-
Depreciation	824,167	1,124,242	219,584	2,167,993	-
Intergovernmental assessments	5,291,080	610,028	-	5,901,108	-
Total Operating Expenses	7,295,451	3,869,356	1,950,921	13,115,728	365,872
Operating Income (Loss)	602,969	1,425,524	(282,279)	1,746,214	(50,223)
<b>Nonoperating Revenues (Expenses):</b>					
Intergovernmental revenue	212,790	11,865	-	224,655	-
Investment income	6,150	8,048	1,273	15,471	-
Interest expense	(181,826)	(246,120)	(4,361)	(432,307)	-
Total Nonoperating Revenues (Expenses), Net	37,114	(226,207)	(3,088)	(192,181)	-
Income (Loss) Before Transfers	640,083	1,199,317	(285,367)	1,554,033	(50,223)
Transfers in	469,610	-	580,673	1,050,283	694,288
Transfers out	(420,648)	(945,016)	(265,987)	(1,631,651)	-
Change in Net Assets	689,045	254,301	29,319	972,665	644,065
Net Assets at Beginning of Year	19,168,006	29,795,613	8,163,224	57,126,843	407,022
Net Assets at End of Year	\$ 19,857,051	\$ 30,049,914	\$ 8,192,543	\$ 58,099,508	\$ 1,051,087

See notes to financial statements.

## TOWN OF NEEDHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Fund
<b><u>Cash Flows From Operating Activities :</u></b>					
Receipts from customers and users	\$ 7,899,559	\$ 5,444,708	\$ 1,687,407	\$ 15,031,674	\$ -
Employer contributions	-	-	-	-	315,649
Payments of utility assessments	(5,291,080)	(610,028)	-	(5,901,108)	-
Payments to vendors and contractors	(25,861)	(1,200,971)	(1,143,167)	(2,369,999)	-
Payments of employee salaries, benefits, and related expenses	(841,892)	(875,564)	(645,494)	(2,362,950)	(326,871)
Net Cash Provided By (Used For) Operating Activities	1,740,726	2,758,145	(101,254)	4,397,617	(11,222)
<b><u>Cash Flows From Noncapital Financing Activities :</u></b>					
Operating grants received	89,591	-	-	89,591	-
Transfers from other funds	469,610	-	580,673	1,050,283	694,288
Transfers to other funds	(420,647)	(945,016)	(265,987)	(1,631,650)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	138,554	(945,016)	314,686	(491,776)	694,288
<b><u>Cash Flows From Capital and Related Financing Activities :</u></b>					
Acquisition and construction of capital assets	(2,769,054)	(656,185)	-	(3,425,239)	-
Issuance of bonds and notes	679,188	-	-	679,188	-
Principal payments on bonds and notes	(931,559)	(1,187,936)	(90,000)	(2,209,495)	-
Interest expense	(183,244)	(251,003)	(4,360)	(438,607)	-
Net Cash (Used For) Capital and Related Financing Activities	(3,204,669)	(2,095,124)	(94,360)	(5,394,153)	-
<b><u>Cash Flows From Investing Activities :</u></b>					
Investment income	6,150	8,048	1,273	15,471	-
Net Cash Provided By Investing Activities	6,150	8,048	1,273	15,471	-
Net Change in Cash and Short-Term Investments	(1,319,239)	(273,947)	120,345	(1,472,841)	683,066
Cash and Short-Term Investments, Beginning of Year	4,982,001	6,448,633	1,418,863	12,849,497	611,544
Cash and Short-Term Investments, End of Year	\$ 3,662,762	\$ 6,174,686	\$ 1,539,208	\$ 11,376,656	\$ 1,294,610
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities :</u></b>					
Operating income (loss)	\$ 602,969	\$ 1,425,524	\$ (282,279)	\$ 1,746,214	\$ (50,223)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	824,167	1,124,242	219,584	2,167,993	-
Loss on disposal of assets	-	-	6,186	6,186	-
Changes in assets and liabilities:					
User fees	(7,261)	148,614	(6,203)	135,150	-
Accounts payable	302,847	64,710	(37,555)	330,002	(4,800)
Accrued liabilities	(5,161)	(15,422)	(9,864)	(30,447)	43,801
Refunds payable	8,400	1,214	24,967	34,581	-
Compensated absences	14,765	9,263	(16,090)	7,938	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,740,726	\$ 2,758,145	\$ (101,254)	\$ 4,397,617	\$ (11,222)

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (As of <u>December 31, 2011</u> )	Private Purpose Trust Fund	Other Post- Employment Benefit Trust Fund	Other Agency Funds
<b><u>ASSETS</u></b>				
Cash and short-term investments	\$ 2,231,435	\$ -	\$ -	\$ 184,490
Investments	101,362,151	3,240,708	7,622,520	-
Receivables	<u>73,610</u>	<u>-</u>	<u>-</u>	<u>212,613</u>
Total Assets	103,667,196	3,240,708	7,622,520	397,103
<b><u>LIABILITIES AND NET ASSETS</u></b>				
Accounts payable	-	-	-	11,046
Accrued liabilities	-	-	-	29,412
Refunds payable	-	-	-	17,361
Other liabilities	<u>34,425</u>	<u>-</u>	<u>-</u>	<u>339,284</u>
Total Liabilities	<u>34,425</u>	<u>-</u>	<u>-</u>	<u>397,103</u>
<b><u>NET ASSETS</u></b>				
Total net assets held in trust for pension benefits and other purposes	<u>\$ 103,632,771</u>	<u>\$ 3,240,708</u>	<u>\$ 7,622,520</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (For the Year Ended December 31, 2011)	Private Purpose Trust Fund	Other Post- Employment Benefit Trust Fund
<b>Additions:</b>			
Contributions:			
Employers	\$ 4,722,775	\$ -	\$ 4,406,275
Plan members	2,932,989	-	-
Other	426,947	34,108	-
Total contributions	<u>8,082,711</u>	<u>34,108</u>	<u>4,406,275</u>
Investment Income:			
Increase (decrease) in fair value of investments	115,462	1,041,621	(48,164)
Less: management fees	<u>(515,080)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>(399,618)</u>	<u>1,041,621</u>	<u>(48,164)</u>
Total additions	7,683,093	1,075,729	4,358,111
<b>Deductions:</b>			
Benefit payments to plan members and beneficiaries	9,952,379	-	3,405,602
Refunds to plan members	125,334	-	-
Administrative expenses	249,885	-	-
Other	196,963	14,632	-
Total deductions	<u>10,524,561</u>	<u>14,632</u>	<u>3,405,602</u>
Net increase	(2,841,468)	1,061,097	952,509
<b>Net assets:</b>			
Beginning of year	<u>106,474,239</u>	<u>2,179,611</u>	<u>6,670,011</u>
End of year	<u>\$ 103,632,771</u>	<u>\$ 3,240,708</u>	<u>\$ 7,622,520</u>

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

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

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

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

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

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *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
- The *Newman School Repair Fund* was established to account for modernization of the heating and ventilation systems in the school and code compliance, roof, electrical, and information system infrastructure updates financed by issuance of bonds and MSBA subsidy.

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

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

The government reports the following major proprietary funds:

- The *Sewer Fund* is used to report the 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*, and *Police, Fire and Maintenance Detail Funds*.

#### 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 guar-

anted 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 2012 tax levy reflected an excess capacity of approximately \$ 16,000.

*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.

Property, plant, and equipment 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 Assets.

#### *J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The 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 Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

#### K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## **2. Stewardship, Compliance, and Accountability**

### **A. Budgetary Information**

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)	\$ 126,579,370	\$ 120,072,354
Other financing sources/uses (GAAP Basis)	<u>13,702,397</u>	<u>15,523,706</u>
Subtotal (GAAP Basis)	140,281,767	135,596,060
To adjust property tax revenue to the budgetary basis	(1,210,550)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,719,691)
Add end-of-year appropriation carryforwards from expenditures	-	2,706,496
Recognize use of free cash	3,380,269	-
Recognize use of bond premium	85,250	-
Recognize use of overlay surplus	504,098	-
Reverse GASB 24 MTRS	(11,471,074)	(11,471,074)
Reverse effect of refunding	(11,065,000)	(11,065,000)
Less nonbudgeted funds	(155,847)	487,125
Less MWPAT subsidy	<u>(7,907)</u>	<u>(7,907)</u>
Budgetary Basis	<u>\$ 120,341,006</u>	<u>\$ 114,526,009</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.

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

The following funds had deficits as of June 30, 2012:

Major Governmental Funds:	
Newman School Repair	\$ 9,629,645
Nonmajor Governmental Funds:	
Special Revenue Funds:	
2012 911 PASAP & Recc Support	17,975
Police Bullet Proof Vests	17,366
2012 911 Training & Emd Grant	4,345
2011 Formula (COA)	1,124
Capital Project Funds	
Pollard Roof Replacement	873,537
Senior Center design and feasibility	149,100
Pollard School parking and access	55,800
Booth Street reconstruction	44,143
Senior Center	739,316
Town Hall Renovation	1,131,581
Fire engine	399,206
DPW Administrative Building	57,040
RBS Improvement	249,333
RBS/DBC Improvement	352,046
Flooring replacement and asbestos abatement	114,907
Fiduciary Funds:	
Police outside detail	197,843
Fire outside detail	82,748
	\$ 14,117,055

### 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, 2012, \$ 7,428,531 of the Town's bank balance of \$ 35,622,139 was exposed to custodial credit risk as uninsured or uncollateralized.

As of December 31, 2011, \$ 2,026,110 of the Contributory Retirement System's bank balance of \$ 2,105,952 was exposed to custodial credit risk as uninsured or uncollateralized. Of the System's exposed risk, \$ 1,639,229 was invested in MMDT and \$ 376,881 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	\$ 10,720,595	N/A
Corporate equities	3,544,262	N/A
Mutual funds	4,108,802	N/A
Federal agency securities	6,183,764	AAA
Corporate bonds	4,911,543	A2
US Government bonds	199,638	AAA
Municipal bonds	<u>756,650</u>	A2
Total investments	\$ <u><u>30,425,254</u></u>	

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

At December 31, 2011, the System maintained its investments in the State Investment Pool\* with a fair value of \$ 101,362,151. 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, 2012, \$ 19,704,661 out of the Town's investments of \$ 30,425,254 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.

As of December 31, 2011, the System's investments of \$ 101,362,151 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State investment pool (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>	<u>6-10</u>
Debt-related Securities:				
Federal agency securities	\$ 6,183,764	\$ 2,732,122	\$ 3,276,512	\$ 175,130
Corporate bonds	4,911,543	1,018,365	3,837,029	56,149
US Government bonds	199,638	99,687	-	99,951
Municipal bonds	<u>756,650</u>	<u>453,740</u>	<u>-</u>	<u>302,910</u>
Total	<u>\$ 12,051,595</u>	<u>\$ 4,303,914</u>	<u>\$ 7,113,541</u>	<u>\$ 634,140</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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 747	
2011	<u>7</u>	
Subtotal		754
Personal Property		
2012	183	
2011	219	
2010	254	
2009	46	
2008	29	
Prior	<u>220</u>	
Subtotal		951
Tax Liens		905
Deferred Taxes		562
Tax Roll Backs		6
CPA		<u>17</u>
Total		<u>\$ 3,195</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	\$ 395
Excises	243
Ambulance	355

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 2012 and future reimbursements from the MSBA.

**6. Interfund Fund Receivables/Payables and Transfers**

The balance due to general fund from the Newman School Repair major fund resulted from the time lag between the dates that construction payments were made and bond was issued. The bond was issued in October 2012, see subsequent events footnote. Therefore, this resulted in a short-term loan made to establish working capital.

This government 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 2012:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,500,159	\$ 4,458,706
Community Preservation Fund	-	300,000
Newman School Repair Fund	276,005	-
Nonmajor Funds:		
Special Revenue Funds:		
Town grants	-	145,936
Receipts reserved for appropriation	-	40,000
Revolving funds	-	290,517
Trust funds	-	5,500
Other special revenue funds	5,500	115,000
Capital Project Funds:		
FY11 projects	1,817,051	15,500
FY10 projects	250,001	21,964
FY09 projects	512,000	4,021
FY08 projects	-	8,432
FY07 projects	10,000	12,171
FY06 projects	-	29,662
FY05 projects	-	1,138
FY04 projects	1	10,723
FY03 projects	-	24,291
FY02 projects	-	76
Subtotal Nonmajor Funds	2,594,553	724,931

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<u>Business-Type Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Sewer Fund	469,610	420,648
Water Fund	-	945,016
Solid Waste Fund	<u>580,673</u>	<u>265,987</u>
Subtotal Business-Type Funds:	1,050,283	1,631,651
Internal Service Funds	<u>694,288</u>	<u>-</u>
Grand Total	<u>\$ 7,115,288</u>	<u>\$ 7,115,288</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. 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, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 169,412	\$ 8,940	\$ -	\$ 178,352
Machinery, equipment, and furnishings	9,746	545	(559)	9,732
Vehicles	4,089	414	(270)	4,233
Infrastructure	<u>30,180</u>	<u>1,705</u>	<u>-</u>	<u>31,885</u>
Total capital assets, being depreciated	213,427	11,604	(829)	224,202
Less accumulated depreciation for:				
Buildings and improvements	(29,306)	(4,069)	-	(33,375)
Machinery, equipment, and furnishings	(6,443)	(1,367)	459	(7,351)
Vehicles	(2,862)	(611)	211	(3,262)
Infrastructure	<u>(13,055)</u>	<u>(1,207)</u>	<u>-</u>	<u>(14,262)</u>
Total accumulated depreciation	<u>(51,666)</u>	<u>(7,254)</u>	<u>670</u>	<u>(58,250)</u>
Total capital assets, being depreciated, net	161,761	4,350	(159)	165,952
Capital assets, not being depreciated:				
Land	19,047	25	-	19,072
Works of Art	95	25	-	120
Construction in progress	<u>18,751</u>	<u>22,238</u>	<u>(859)</u>	<u>40,130</u>
Total capital assets, not being depreciated	<u>37,893</u>	<u>22,288</u>	<u>(859)</u>	<u>59,322</u>
Governmental activities capital assets, net	<u>\$ 199,654</u>	<u>\$ 26,638</u>	<u>\$ (1,018)</u>	<u>\$ 225,274</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,904	\$ -	\$ -	\$ 8,904
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	4,069	122	(30)	4,161
Vehicles	1,433	124	(76)	1,481
Infrastructure	<u>68,968</u>	<u>456</u>	<u>-</u>	<u>69,424</u>
Total capital assets, being depreciated	89,974	702	(106)	90,570
Less accumulated depreciation for:				
Buildings and improvements	(3,591)	(249)	-	(3,840)
Plant	(2,259)	(229)	-	(2,488)
Machinery, equipment, and furnishings	(2,827)	(231)	23	(3,035)
Vehicles	(713)	(268)	76	(905)
Infrastructure	<u>(33,501)</u>	<u>(1,191)</u>	<u>-</u>	<u>(34,692)</u>
Total accumulated depreciation	<u>(42,891)</u>	<u>(2,168)</u>	<u>99</u>	<u>(44,960)</u>
Total capital assets, being depreciated, net	47,083	(1,466)	(7)	45,610
Capital assets, not being depreciated:				
Land	5,275	-	-	5,275
Construction in progress	<u>2,092</u>	<u>2,724</u>	<u>-</u>	<u>4,816</u>
Total capital assets, not being depreciated	<u>7,367</u>	<u>2,724</u>	<u>-</u>	<u>10,091</u>
Business-type activities capital assets, net	<u>\$ 54,450</u>	<u>\$ 1,258</u>	<u>\$ (7)</u>	<u>\$ 55,701</u>

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

Governmental Activities:	
General government	\$ 230
Public safety	342
Education	4,180
Public works	1,947
Culture and recreation	<u>555</u>
Total depreciation expense - governmental activities	<u>\$ 7,254</u>
Business-Type Activities:	
Sewer	\$ 824
Water	1,124
Solid waste	<u>220</u>
Total depreciation expense - business-type activities	<u>\$ 2,168</u>

**8. Warrants and Accounts Payable**

Warrants and accounts payable represent 2012 expenditures paid after June 30, 2012.

**9. Deferred Revenue**

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

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

**10. Accrued Liabilities**

Accrued liabilities represent primary accrued payroll and withholdings. On the government-wide Statement of Net Assets, 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.

**11. 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.

**12. Anticipation Notes Payable**

The following summarizes activity in notes payable during fiscal year 2012:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
MWPAT Loan	\$ 812,105	\$ -	\$ (812,105)	\$ -
Bond anticipation	-	350,000	(350,000)	-
Bond anticipation	-	5,762,000	(5,762,000)	-
Bond anticipation	-	8,650,000	-	8,650,000
MWPAT Loan	-	1,214,646	-	1,214,646
Total	<u>\$ 812,105</u>	<u>\$ 15,976,646</u>	<u>\$ (6,924,105)</u>	<u>\$ 9,864,646</u>

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 6/30/12</u>
Newman School, Senior Center, and other projects	0.75%	06/15/12	10/15/12	\$ 8,650,000
Reservoir B sewer pump station	0.15%	04/12/12	12/31/13	<u>1,214,646</u>
Total				<u>\$ 9,864,646</u>

### 13. 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 6/30/12</u>
MA Water Pollution Abatement Trust	\$ 310,656	Various	06/01/95	02/01/15	\$ 88,016
MA Water Pollution Abatement Trust	91,400	Various	12/09/98	08/01/18	213,150
MA Water Pollution Abatement Trust	243,300	Various	12/09/98	08/01/18	38,050
MA Water Pollution Abatement Trust	1,261,272	Various	12/09/98	08/01/18	35,900
MA Water Pollution Abatement Trust	175,500	Various	12/09/98	08/01/18	95,400
MA Water Pollution Abatement Trust	422,874	Various	12/09/98	08/01/18	540,100
MA Water Pollution Abatement Trust	85,894	Various	12/09/98	08/01/18	69,000
Elementary School	14,000,000	3.00 - 4.70	11/01/03	11/01/23	1,400,000
Municipal Purpose FY 2005	12,649,000	3.00 - 4.75	12/01/04	12/01/19	2,445,000
Municipal Purpose FY 2005	6,827,000	3.25 - 4.20	06/01/05	06/01/25	3,725,000
Municipal Purpose FY 2006	3,346,000	3.24 - 3.66	12/15/05	02/15/15	600,000
Municipal Purpose FY 2007	5,525,000	3.75 - 4.50	11/01/06	11/11/19	3,960,000
Municipal Purpose FY 2007	11,970,000	3.75 - 4.50	11/01/06	11/01/26	7,350,000
Municipal Purpose FY 2008	4,470,000	4.05 - 5.00	06/15/07	06/15/12	2,200,000
Municipal Purpose FY 2009	12,600,000	3.25 - 5.00	06/03/08	12/01/26	9,710,000

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	<u>Original Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount Outstanding as of 6/30/12</u>
Municipal Purpose FY 2009	5,600,000	4.61	11/01/08	08/01/27	4,260,000
Municipal Purpose FY 2010	6,842,000	2.94	06/01/09	06/01/28	4,550,000
Municipal Purpose FY 2010	15,815,000	2.00 - 4.00	12/15/09	08/01/28	13,930,000
Municipal Purpose FY 2010	4,000,000	2.00 - 3.00	06/15/10	12/01/24	2,940,000
MA Water Resources Authority	215,710	0.00	02/22/10	02/15/10	129,426
MA Water Resources Authority	283,305	0.00	05/17/10	05/15/15	169,983
MWRA	57,613	0.00	11/15/10	11/15/15	46,090
Municipal Purpose FY 2011	4,635,000	1.00 - 3.00	10/15/10	04/01/17	1,915,000
Municipal Purpose FY 2011	11,750,000	2.00 - 5.00	05/19/11	10/01/28	10,250,000
GOB - Refunding FY2012	10,995,000	2.00 - 4.00	06/06/12	11/01/23	10,995,000
GOB - Municipal Purpose FY2012	2,460,000	2.00 - 3.125	10/05/11	08/01/26	2,460,000
MWPAT	1,064,706	2.08	07/08/10	07/15/30	765,335
MWRA	220,990	0.00	02/27/12	02/15/17	220,990
					<u>\$ 85,101,440</u>

### C. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,117,979	\$ 2,754,397	\$ 9,872,376
2014	6,567,979	2,581,474	9,149,453
2015	6,287,612	2,088,902	8,376,514
2016	5,762,526	1,757,180	7,519,706
2017	5,532,526	1,604,026	7,136,552
2018 - 2022	23,622,578	5,527,288	29,149,866
2023 - 2027	15,900,000	1,798,269	17,698,269
2028 - 2031	<u>2,365,000</u>	<u>63,200</u>	<u>2,428,200</u>
Total	<u>\$ 73,156,200</u>	<u>\$ 18,174,736</u>	<u>\$ 91,330,936</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,891,126	\$ 451,563	\$ 2,342,689
2014	1,714,981	346,434	2,061,415
2015	1,510,637	294,521	1,805,158
2016	1,213,856	245,276	1,459,132
2017	1,211,347	200,654	1,412,001
2018 - 2022	3,369,676	407,627	3,777,303
2023 - 2027	712,616	85,769	798,385
2028 - 2031	<u>321,001</u>	<u>12,353</u>	<u>333,354</u>
Total	<u>\$ 11,945,240</u>	<u>\$ 2,044,197</u>	<u>\$ 13,989,437</u>

**D. Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2012 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
2001	Rosemary Pool Complex - Design	\$ 72,500
2003	Sewer Pump Station Richardson Drive	81,290
2003	Water Pump Station Designs	78,000
2006	Ridge Hill Rehabilitation	104,600
2006	Water System Rehabilitation	30,000
2006	Rte 128 Sewer Main Relocation	90,000
2007	Water system Improvements	735,000
2008	High Rock and Pollard School Project	274,000
2008	Sewer System Rehab - I/I work	338,093
2009	Municipal Parking Lot Improvements	5,000
2009	Public Safety Building Roof	61,500
2009	Street & Traffic Light Improvements	25,000
2009	Wastewater Pump Station at GPA	18,000
2009	Water Main Improvements	649,869
2009	Water Storage Tank Cleaning & Painting	75,000
2009	Public Services Administration Bldg.	294,000
2010	Stormwater Master Plan Drainage Improvements	160,000
2010	Sewer Pump Station Design	410,497
2010	Town Hall (GF portion)	865,000
2010	Town Hall (CPA portion)	2,459,000
2010	Kendrick Street Bridge Design	35,000
2010	RTS Construction Equipment	44,000
2010	Water Distribution System Rehab	80,000
2010	Newman School Extraordinary Repairs	13,379,522
2010	Road, Bridges, Sidewalks and Intersection Improvement	556,300
2011	Road, Bridges, Sidewalks and Intersection Improvement	1,100,000
2011	Pollard School Parking and Access Improvements	55,800
2011	Kendrick Street Bridge Repair	100,000
2011	Polland School Roof Remodeling	1,287,909
2011	Senior Center Feasibility & Design	150,000
2011	Booth Street	125,000
2011	RTS Tractor Equipment	152,000
2012	Needham High School Roof	240,000
2012	RTS Construction Equipment	32,000
2012	Property Acquisition	1,175,000
2012	Senior Center Construction	8,051,808
2012	Sewer Pump Station Reservoir B	6,300,000
2012	Road, Bridges, Sidewalks and Intersection Improvement	600,000
2012	Fire Engine	400,000
2012	Property Acquisition	630,000
	Total	<u>\$ 41,320,688</u>

### E. Changes in General Long-term Liabilities

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

	Total Balance 7/1/11	Additions	Refunding	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Governmental Activities</u>							
Bonds payable	\$ 77,970	\$ 13,455	\$ (11,065)	\$ (7,204)	\$ 73,156	\$ (7,118)	\$ 66,038
Other:							
Accrued employee benefits	3,459	79	-	-	3,538	(884)	2,654
Landfill closure	819	-	-	-	819	(45)	774
Totals	\$ <u>82,248</u>	\$ <u>13,534</u>	\$ <u>(11,065)</u>	\$ <u>(7,204)</u>	\$ <u>77,513</u>	\$ <u>(8,047)</u>	\$ <u>69,466</u>

	Total Balance 7/1/11	Additions	Refunding	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Business-Type Activities</u>							
Bonds payable	\$ 13,134	\$ 1,021	\$ -	\$ (2,210)	\$ 11,945	\$ (1,891)	\$ 10,054
Other:							
Accrued employee benefits	230	8	-	-	238	(238)	-
Totals	\$ <u>13,364</u>	\$ <u>1,029</u>	\$ <u>-</u>	\$ <u>(2,210)</u>	\$ <u>12,183</u>	\$ <u>(2,129)</u>	\$ <u>10,054</u>

### F. Current Year Refundings

On June 6, 2012 the Town issued general obligation bonds in the amount of \$ 10,995,000 with a variable interest rate ranging from 2.00% to 4.00% to advance refund \$ 11,065,000 of term bonds with interest rates ranging from 3.00% to 4.75%. The term bonds mature on November 1, 2023 and December 1, 2015. The non-callable defeased debt outstanding at June 30, 2012 is \$2,445,000 for the Library bond and \$1,400,000 for the Broadmeadow School bond. Total present value of future cash flow savings due to refunding is \$198,787 for the Library bond and \$770,196 for the Broadmeadow School bond.

### G. 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, 2012, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 3,930,000.

#### **14. 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 \$ 819,964 reported as postclosure care liability at June 30, 2012 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 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

#### **15. Restricted Net Assets**

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

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

#### **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, 2012:

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the 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, 2012:

	General Fund	Community Preservation Fund	Newman School Repair Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 188,478	\$ 188,478
Total Nonspendable	-	-	-	188,478	188,478
<b>Restricted</b>					
Debt service	448,175	-	-	-	\$ 448,175
Bonded projects	-	-	-	870,482	870,482
Special revenue funds	-	-	-	4,778,679	4,778,679
Expendable trust funds	-	4,336,835	-	1,658,496	5,995,331
Total Restricted	448,175	4,336,835	-	7,307,657	12,092,667
<b>Committed</b>					
Continuing appropriations articles	339,915	-	-	-	339,915
General and capital stabilization	5,404,305	-	-	-	5,404,305
Capital project funds	-	-	-	1,542,872	1,542,872
Total Committed	5,744,220	-	-	1,542,872	7,287,092
<b>Assigned</b>					
Encumbrances	2,711,397	-	-	-	2,711,397
For next year's expenditures	5,873,776	-	-	-	5,873,776
Total Assigned	8,585,173	-	-	-	8,585,173
<b>Unassigned</b>					
	10,846,842	-	(9,629,645)	(4,206,819)	(2,989,622)
Total Fund Balance	\$ 25,624,410	\$ 4,336,835	\$ (9,629,645)	\$ 4,832,188	\$ 25,163,788

## **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.

## 19. Subsequent Events

### Debt

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bond	\$ 12,244,000	2 - 4%	10/03/12	07/15/32

## 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 Assets 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, 2009, the actuarial valuation date, approximately 724 retirees and 1,016 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 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2012, 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, 2011.

Annual Required Contribution (ARC)	\$ 3,906,275
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	3,906,275
Contributions made	<hr/> 4,406,275
Increase in net OPEB asset	500,000 *
Net OPEB asset - beginning of year	<hr/> -
Net OPEB asset - end of year	<hr/> <hr/> \$ 500,000

\* 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:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
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, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 59,122,322
Actuarial value of plan assets	<u>6,423,760</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 52,698,562</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>10.9%</u>
Covered payroll (active plan members)	<u>\$ 60,859,276</u>
UAAL as a percentage of covered payroll	<u>86.6%</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, 2011 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 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 28 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

## 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, 2011:

Retirees and beneficiaries receiving benefits	446
Terminated plan members entitled to but not yet receiving benefits	148
Active plan members	<u>631</u>
Total	<u><u>1,225</u></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>
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%
2007	\$ 3,835,000	100%
2006	\$ 3,696,000	100%
2005	\$ 3,525,000	100%
2004	\$ 2,392,000	100%
2003	\$ 2,353,000	100%
2002	\$ 2,315,000	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).

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]
1/1/11	\$ 116,466	\$ 149,578	\$ 33,112	77.9%	\$ 28,057	118.0%

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. Under this method an unfunded actuarial accrued liability of \$ 33.1 million was calculated. 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, 2011, the unfunded actuarially accrued liability is being amortized over 16 years using 4.0 % increasing payment method.

**E. Teachers**

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

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

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

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
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 2012, the Commonwealth of Massachusetts contributed \$ 11,471,074 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 2012 pension expense relating to these employees was approximately \$ 32,620.

**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, 2012, the Town's workers compensation fund had a balance of \$ 709,700 in net assets (a component of Total Net Assets). 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 \$ 350,000 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, 2012 of \$ 188,883 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, 2012 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 188,883
Claims incurred/recognized in fiscal year 2012	365,872
Claims paid in fiscal year 2012	<u>(322,071)</u>
Claims liability, end of year	<u>\$ 232,684</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 2012, 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 6/30/11 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/11 (as restated)
Town Hall Renovation	\$ 1,869,344	\$ (1,869,344)	\$ -
Newman School Repair	-	3,911,180	3,911,180
Nonmajor Governmental Funds	<u>14,730,305</u>	<u>(2,041,836)</u>	<u>12,688,469</u>
Total	<u>\$ 16,599,649</u>	<u>\$ -</u>	<u>\$ 16,599,649</u>

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

June 30, 2012  
(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 Percentage of Covered Payroll [(b-a)/c]
01/01/11	\$ 116,465,717	\$ 149,577,973	\$ 33,112,256	77.86%	\$ 28,057,204	118.0%
01/01/10	\$ 115,771,921	\$ 148,011,244	\$ 32,239,323	78.22%	\$ 30,285,518	106.5%
01/01/09	\$ 102,420,630	\$ 139,054,020	\$ 36,633,390	73.66%	\$ 28,012,825	130.8%
01/01/07	\$ 102,235,876	\$ 128,668,586	\$ 26,432,710	79.50%	\$ 26,120,560	101.2%
01/01/05	\$ 89,965,920	\$ 119,994,011	\$ 30,028,091	75.00%	\$ 23,585,296	127.3%
01/01/04	\$ 82,910,726	\$ 113,426,667	\$ 30,515,941	73.10%	\$ 21,633,442	141.1%
01/01/03	\$ 76,356,568	\$ 108,537,756	\$ 32,181,188	70.40%	\$ 21,380,463	150.5%
01/01/00	\$ 80,624,013	\$ 88,236,491	\$ 7,612,478	91.40%	\$ 18,313,876	41.6%
01/01/97	\$ 50,591,567	\$ 69,604,902	\$ 19,013,335	72.70%	\$ 16,120,405	117.9%
01/01/95	\$ 41,448,079	\$ 66,617,237	\$ 25,169,158	62.20%	\$ 12,547,993	200.6%

**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 Percentage of Covered Payroll [(b-a)/c]
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%

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, 2012

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 7,704,408	\$ 7,891,160	\$ 186,752
Interest income	9,900	6,150	(3,750)
Transfers in	469,610	469,610	-
Use of retained earnings	<u>1,118,546</u>	<u>1,118,546</u>	<u>-</u>
Total Revenues and Other Sources	9,302,464	9,485,466	183,002
Expenditures:			
Sewer expenditures	2,240,737	1,945,375	295,362
Intergovernmental	5,291,080	5,291,080	-
Debt service	1,350,000	1,301,699	48,301
Transfers out	<u>420,647</u>	<u>420,647</u>	<u>-</u>
Total Expenditures and Other Uses	<u>9,302,464</u>	<u>8,958,801</u>	<u>343,663</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 526,665</u>	<u>\$ 526,665</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, 2012

	<u>Budget</u>	<u>Adjusted Actual</u>	Variance Positive (Negative)
Revenues:			
Current service charges	\$ 5,222,738	\$ 5,443,494	\$ 220,756
Interest income	10,000	8,048	(1,952)
Use of retained earnings	<u>864,000</u>	<u>864,000</u>	<u>-</u>
Total Revenues	6,096,738	6,315,542	218,804
Expenditures:			
Water expenditures	2,992,267	2,666,600	325,667
Intergovernmental	610,028	610,028	-
Debt service	1,550,000	1,540,938	9,062
Transfers out	<u>944,443</u>	<u>944,443</u>	<u>-</u>
Total Expenditures and Other Uses	<u>6,096,738</u>	<u>5,762,009</u>	<u>334,729</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ 553,533</u>	<u>\$ 553,533</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, 2012

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,472,174	\$ 1,658,107	\$ 185,933
Interest income	1,500	1,273	(227)
Transfers in	580,673	580,673	-
Use of retained earnings	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total Revenues and Other Sources	2,254,347	2,440,053	185,706
Expenditures:			
Transfers station expenditures	1,853,722	1,546,310	307,412
Debt service	150,000	149,361	639
Transfers out	<u>250,625</u>	<u>250,625</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,254,347</u>	<u>1,946,296</u>	<u>308,051</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 493,757</u>	<u>\$ 493,757</u>

See Independent Auditors' Report.