

TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Report

For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Needham, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts (the Town), as of and for the year ended June 30, 2017, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts, as of June 30, 2017, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2016), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 75 to 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budget and actual comparisons for Sewer, Water, and Solid Waste funds appearing on pages 80 through 82 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

December 11, 2017

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, 2017.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, 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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for sewer, water and solid waste operations.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A complete copy of the Needham Contributory Retirement System financial statements can be obtained from the Retirement Board at Town Hall, Needham, Massachusetts 02492.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$248,112,366 (net position), a change of \$16,289,468 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$66,088,241, a change of \$16,603,627 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$19,434,334, a change of \$(1,330,513) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Net Position Summary (000s)</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets:						
Current and other assets	\$ 90,859	\$ 80,015	\$ 19,631	\$ 19,006	\$ 110,490	\$ 99,021
Capital assets	243,339	237,337	64,044	64,764	307,383	302,101
Total assets	334,198	317,352	83,675	83,770	417,873	401,122
Deferred outflow of resources	10,623	9,063	607	522	11,230	9,585
Total assets and deferred outflow of resources	\$ <u>344,821</u>	\$ <u>326,415</u>	\$ <u>84,282</u>	\$ <u>84,292</u>	\$ <u>429,103</u>	\$ <u>410,707</u>
Liabilities:						
Long-term liabilities	\$ 147,048	\$ 139,288	\$ 17,630	\$ 18,865	\$ 164,678	\$ 158,153
Notes payable	4,810	8,860	119	425	4,929	9,285
Other liabilities	10,141	10,394	489	905	10,630	11,299
Total liabilities	161,999	158,542	18,238	20,195	180,237	178,737
Deferred inflow of resources	711	144	42	3	753	147
Net position:						
Net investment in capital assets	163,535	156,036	50,817	50,020	214,352	206,056
Restricted	14,960	13,450	-	-	14,960	13,450
Unrestricted	3,616	(1,757)	15,185	14,074	18,801	12,317
Total net position	<u>182,111</u>	<u>167,729</u>	<u>66,002</u>	<u>64,094</u>	<u>248,113</u>	<u>231,823</u>
Total liabilities, deferred inflow of resources, and net position	\$ <u>344,821</u>	\$ <u>326,415</u>	\$ <u>84,282</u>	\$ <u>84,292</u>	\$ <u>429,103</u>	\$ <u>410,707</u>

Changes in Net Position Summary (000s)

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 13,695	\$ 10,468	\$ 17,248	\$ 17,077	\$ 30,943	\$ 27,545
Operating grants and contributions	32,636	25,906	30	28	32,666	25,934
Capital grants and contributions	3,800	409	-	305	3,800	714
General revenues:						
Property taxes	126,632	120,304	-	-	126,632	120,304
Excises	5,551	5,660	-	-	5,551	5,660
Penalties and interest on taxes	2,229	2,413	-	-	2,229	2,413
Grants and contributions not restricted to specific programs	2,132	2,184	-	-	2,132	2,184
Investment income	665	287	23	16	688	303
Other	267	298	-	-	267	298
Total revenues	<u>187,607</u>	<u>167,929</u>	<u>17,301</u>	<u>17,426</u>	<u>204,908</u>	<u>185,355</u>
Expenses:						
General government	6,433	6,082	-	-	6,433	6,082
Public safety	17,632	15,954	-	-	17,632	15,954
Education	106,272	97,461	-	-	106,272	97,461
Public works	9,988	8,975	-	-	9,988	8,975
Maintenance	9,805	11,538	-	-	9,805	11,538
Human services	2,498	2,467	-	-	2,498	2,467
Culture and recreation	3,793	3,827	-	-	3,793	3,827
Interest on long-term debt	2,651	2,382	-	-	2,651	2,382
Intergovernmental	1,309	1,282	-	-	1,309	1,282
Other unallocated costs	12,400	11,834	-	-	12,400	11,834
Sewer operations	-	-	8,143	7,958	8,143	7,958
Water operations	-	-	5,347	4,668	5,347	4,668
Solid waste operations	-	-	2,346	2,066	2,346	2,066
Total expenses	<u>172,781</u>	<u>161,802</u>	<u>15,836</u>	<u>14,692</u>	<u>188,617</u>	<u>176,494</u>
Change in net position before transfers	14,826	6,127	1,465	2,734	16,291	8,861
Transfers	<u>(443)</u>	<u>(648)</u>	<u>443</u>	<u>648</u>	<u>-</u>	<u>-</u>
Change in net position	14,383	5,479	1,908	3,382	16,291	8,861
Net position - beginning of year	<u>167,728</u>	<u>162,250</u>	<u>64,094</u>	<u>60,712</u>	<u>231,822</u>	<u>222,962</u>
Net position - end of year	<u>\$ 182,111</u>	<u>\$ 167,729</u>	<u>\$ 66,002</u>	<u>\$ 64,094</u>	<u>\$ 248,113</u>	<u>\$ 231,823</u>

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

The largest portion of net position \$214,351,213 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must

be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

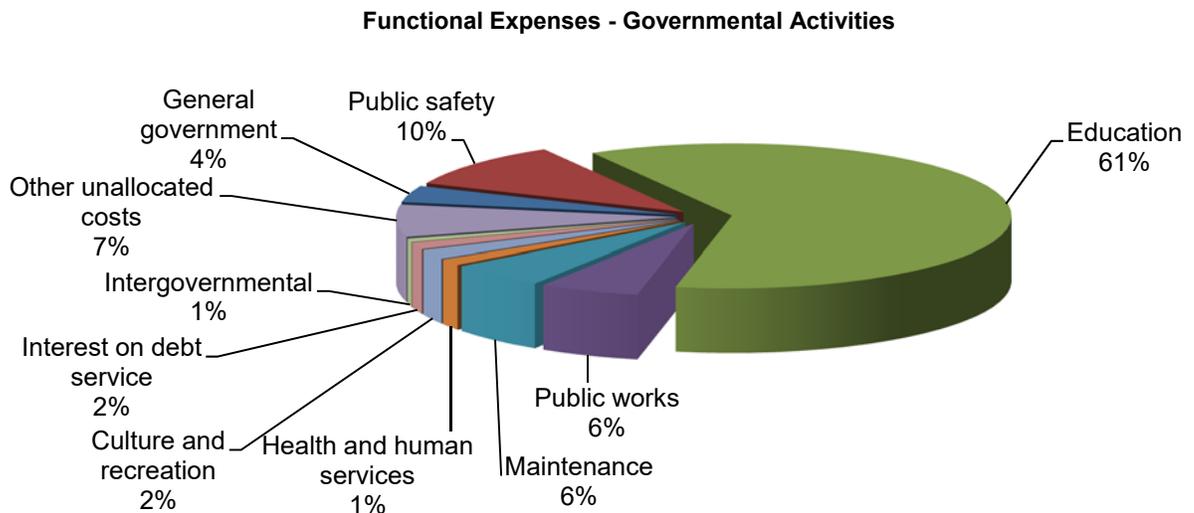
An additional portion of net position \$14,960,550 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$18,800,603 may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental Activities

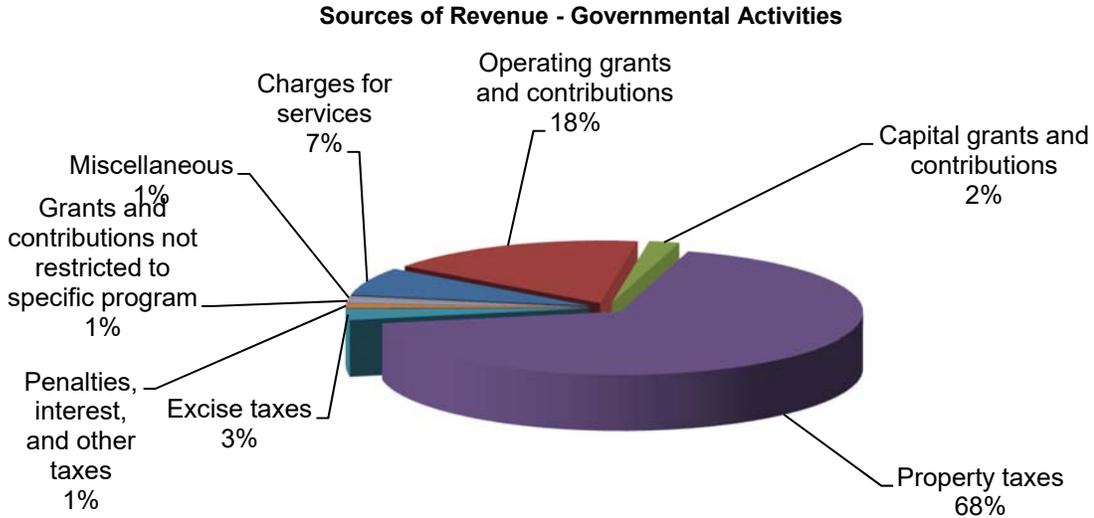
Governmental activities for the year resulted in a change in net position of \$14,382,288. Key elements of this change are as follows (in thousands):

General fund budgetary performance	\$ 3,368
Transfer to stabilization	2,455
Unused overlay	1,635
CPA revenues over expenditures	2,167
All-inclusive mitigation donation	2,250
Increase in net pension liability	(4,657)
Increase in pension related deferred outflows, net of inflows	1,091
Depreciation in excess of debt service principal	(1,031)
Chaper 90 capital highway grant reimbursements	2,932
Bond premium	655
FY 2017 cash capital	1,981
Other	<u>1,536</u>
Total	<u><u>\$ 14,382</u></u>

The following graph presents the users of resources of the governmental activities. The total cost of all governmental programs and services increased by \$10,980,150 over the previous year or by 6.8%.



As presented in the following graph, most of the Town's revenue comes from property taxes. Total revenues (excluding transfers) increased by \$19,680,143 over the prior year or 11.7%.



Business-Type Activities

Business-type activities for the year resulted in a change in net position of \$1,907,180. Positive results are due to strong budgetary performance (softened by the use of unrestricted net position) and the Town's continued practice of financing capital improvements with revenues.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$66,088,241, a change of \$16,603,627 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	\$ 10,733
CPA fund revenues in excess of expenditures, prior to transfers out	2,167
Major capital project fund expenditures in excess of revenues	(1,904)
Nonmajor capital project funds expenditures in excess of revenues, prior to other financing sources (uses)	(8,009)
Nonmajor special revenue funds expenditures in excess of revenues, prior to other financing sources (uses)	2,926
Nonmajor capital project funds issuance of bonds	10,480
Other	<u>211</u>
Total	<u>\$ 16,604</u>

General Fund

The general fund is the chief operating fund. 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>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>
Unassigned fund balance	\$ 19,434,334	\$ 20,764,847	\$ 15,247,969
Total fund balance	\$ 45,300,057	\$ 36,959,218	\$ 29,535,720
	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>
Unassigned fund balance as of % of total General Fund expenditures	13.8%	15.7%	11.9%
Total fund balance as of % total General Fund expenditures	32.2%	27.9%	23.0%

6/30/17 figures above have been adjusted to exclude the \$15.2 million in on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System.

The total fund balance of the general fund changed by \$8,340,839 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves for FY2017	\$ (7,293)
Transfer to stabilization accounts	2,818
Revenues and other financing sources in excess of budget	6,626
Expenditures less than budget	4,035
Unused overlay allowance	1,635
Other	<u>520</u>
Total	<u>\$ 8,341</u>

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization	\$ 4,001,401	\$ 3,946,175	\$ 55,226
Capital improvement stabilization	735,557	701,080	34,477
Capital facility stabilization	1,829,877	1,312,275	517,602
Athletic facility stabilization	4,346,708	2,643,429	1,703,279
Debt service stabilization	938,175	320,186	617,989
Compensated absences	196,678	195,060	1,618
Continuing appropriations	740,598	996,025	(255,427)
Total	<u>\$ 12,788,994</u>	<u>\$ 10,114,230</u>	<u>\$ 2,674,764</u>

In fiscal year 2017 general fund intergovernmental revenues and education expenditures include \$15.2 million in on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System, which were excluded in fiscal year 2016.

Other Major Funds

State legislation allows Community Preservation Act fund property taxes and state matching funds to finance projects such as preservation of historical buildings. Capital expenditures in the current year resulted from \$305,900 for Memorial Field drainage improvements and \$94,827 for Mills Field.

At the May 2017 Annual Town Meeting, article 33 authorized \$2,970,000 be transferred from the CPA reserves and free cash, to the capital project fund for the Rosemary Recreation Complex. In FY2018, \$1,030,000 additional will be transferred for the project, from FY2018 revenues.

Sunita L. Williams School – At the October 2016 Special Town Meeting, article 2 appropriated \$57,542,500 for the architectural design, engineering, and construction of the Sunita L. Williams School. The Massachusetts School Building Authority (MSBA) approved a school construction grant of \$13,066,791 and reimbursement rates of 34.72% for the project. During fiscal year 2017, the Town expended \$2,259,693 on the project, and received \$355,277 in reimbursements from MSBA.

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

Unrestricted net position by enterprise fund at the end of the year in comparison to the prior year is shown below:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
Sewer	\$ 6,839,450	\$ 6,244,857	\$ 594,593
Water	7,087,050	6,642,725	444,325
Solid Waste	1,258,496	1,187,132	71,364
Total	<u>\$ 15,184,996</u>	<u>\$ 14,074,714</u>	<u>\$ 1,110,282</u>

Total net position and unrestricted net position increased from operating results, exceeding the voted use of certified retained earnings (a component of unrestricted net position) for the acquisition of capital assets. The use of certified retained earnings resulted in an increase in the sewer and solid waste funds net position restricted for net investment in capital asset.

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

Almost 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 total for fiscal year 2017 was amended upward by \$167,905, a change of 0.1% from the original budget. The original budget as approved at 2016 ATM, per Article 12 was \$144,228,127, not inclusive of state assessments and tax title account.

The Town increased its appropriation to the Department of Public Works (DPW) for expenses in the amount of \$120,000 at the October 2016 Special Town Meeting. This funding was provided so that the DPW could remove an old fence, separating the Needham High School property from private residences, which was found to be on private property. The Town removed the fence and installed a concrete wall to stabilize the slope between Town property and the residential properties.

The Health and Human Service salary budget was increased by \$61,305 to \$1,296,510 to fund an environmental health agent position in the Public Health division. A review of the public health division staffing needs was conducted during the spring and summer months to determine whether an additional position should be funded. After review and recommendation by the Town Manager, the Finance Committee recommended funding of the position to Town Meeting. The Town also increased funding for the group health insurance, employee benefits, and administrative expense budget by \$22,819 for related benefit costs for the new position.

Another change was an increase of \$3,375 to correct the amount that needed to be appropriated for the fiscal year 2017 Minuteman School assessment. The original fiscal year 2017 operating budget included an appropriation of \$762,686 rather than the actual Minuteman Regional School assessment of \$766,061, which was due to a transcription error.

The appropriation to the budgetary reserve was reduced by \$87,499 to \$1,454,376. This decrease was to offset the appropriations for the new position in the Public Health, the related benefit costs, and the Minuteman Regional School assessment. These expenses were anticipated, and it was agreed that if the funding was needed that it would come from the budgetary reserve, but only by Town Meeting action.

One other budget amendment that was approved by Town Meeting was to the Needham Electric Light & Gas Program budget. The Town pays SolarCity to generate the electric power from a solar array installed on the Town's former landfill. The power is provided to Eversource, which pays the Town for the power added to the electric grid. The amount of electricity that the solar array was producing was more power than the budget plan assumed. The Town pays approximately \$0.09 per KWH and receives on average approximately \$0.17 per KWH. The payment to the Town is credited to the General Fund. However, while the Town was receiving more in revenue than it was expending for solar generation, the accounting of the transactions required an increase in the appropriation by \$47,905 to properly account for this expense.

During fiscal year 2017, the Town realized revenue in excess of budget of \$6.1 million, and realized budget returns of \$4.0 million. General Fund revenue in excess of budget was higher than the fiscal year 2016 results. The budget return was lower than the fiscal year 2016 return of approximately \$4.5 million. The higher revenue surplus was primarily due to permit income. Budget returns were on par with recent years.

Motor vehicle excise tax revenue increased but not at the pace that it has in recent years, coming in at \$1.3 million over budget but just 1.3% more than actual receipts in the prior year (\$5,701,527 for FY2017 vs. \$5,627,887 for FY2016). Revenue generated from other taxes and penalties was approximately \$0.80 million over the estimate, which was lower than fiscal year 2016 actual revenue by 10.5% (\$2,156,902 for FY2017 as compared to \$2,410,193 for FY2016). This decline was attributed to the exceptionally high penalty income received during fiscal year 2016 from collections on some long-term, past-due taxes that year (penalty interest income was \$461,096 for FY2017 vs. \$728,071 for FY2016). Revenue from licenses and permits continued to be extraordinarily high, as the construction boom in Needham remains robust. Permit income was \$4,477,430 for FY2017, as compared to \$2,314,222 for FY2016 and \$1,702,030 in FY2015. The increase in fiscal year 2017 over fiscal year 2016 was more than \$2.1 million, which effectively accounts for the entire increase in the year-end total revenue surplus compared to the prior year. Overall total actual General Fund revenue for fiscal year 2017 was \$9,950,020 more than the total for fiscal year 2016. The combination of motor vehicle excise, permit and license revenue, and other local tax receipts contributed approximately 82.4% of the total General Fund surplus, up from the 79.7% that these sources comprised in 2016.

The General Fund operating budget, which accounts for most of the expenditures, returned \$4,031,697 or approximately 2.8% of the operating budget appropriation; the return for fiscal year 2016 was \$4,406,846 or approximately 3.2% of the

appropriation for that year. The highest dollar turn back was from budgetary reserve fund in the amount of \$744,621, approximately 18.5% of the total operating budget return. The amount returned was lower than fiscal year 2016 return, but as a percent of the original budget was higher than average. The \$744,621 return represents approximately 48% of the original voted budget of \$1,541,875. The draws on the reserve fund during fiscal year 2017, above the amount transferred by Town Meeting at the October 2016 Special Town Meeting, was \$10,000 for additional feasibility work requested by various Town boards on the High School expansion proposal. A transfer of \$103,425 to the Town's legal budget was approved as a contingency for pending outside counsel bills for several cases that the Town is a party. The annual transfer to cover snow and ice removal expenses above the base budget of \$408,039 for FY2017 was \$596,330 for a total actual expense of \$1,004,369. This compares to the total actual expense for fiscal 2016 of \$775,062 and \$1,713,370 for fiscal 2015.

The Needham Public Schools returned \$542,220 or 0.8% of the original budget of \$65,189,914, which compares to \$519,301 (0.8%) that was returned in 2016. The Police Department returned \$537,182 or 8.3% of its budget. Most of the return (\$481,215) was salary savings from several positions being vacant for a portion or all of the year. Lower fuel prices contributed to the expense turn back. The Group Health Insurance, Employee Benefits & Administrative Costs budget returned \$476,592 or 3.6% of appropriation which compares to 3.5% of the fiscal year 2016 budget return. The Public Facilities Department returned \$239,685 or 5.9% of its budget which compares to the \$526,459 or 6.1% of the fiscal year 2016 budget return. The turn back came almost equally from salary and wages \$129,737 and expenses \$109,948. The personnel savings was due to transfer of some salary expense from the construction division which relates to specific construction projects. The expense return was from lower custodial supply expenses charged to the budget. The Fire Department also had a number of vacancies during the year which accounts for most of the \$214,107 that was returned, 98% (\$211,294). The other 17 departments returned in total \$631,815 or 3.8% of their combined amended budgets for the year.

The Town-wide expense budgets (excluding the budgetary reserve fund and benefits) returned a combined \$645,475 or approximately 2.3% of their related total amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$307,383,233 (net of accumulated depreciation), a change of \$5,282,412 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:

Needham center - chapter 90 improvements	\$ 2,718
Sunita L. Williams elementary school	\$ 1,965
Elliot Street - Central Ave. bridge	\$ 1,589
High school cafeteria expansion	\$ 1,361
Greendail Ave. relief drain project	\$ 896
609 Central Ave. property acquisition	\$ 691
Rosemary pool design services	\$ 485

Business-Type Activities:

Water supply development	\$ 516
Alfreton & Donna Rd. water main project	\$ 324
Sewer pump station improvement	\$ 298
Volvo front end loader - RTS fleet	\$ 278
Sewer system rehab program	\$ 170

Debt. At the end of the current fiscal year, total long-term bonds and loans outstanding, including unamortized bond premium, were \$89,559,547. The bonds are backed by the full faith and credit of the government. The Town's general obligation bond rating continues to carry the highest rating possible, AAA, a rating that has been assigned by Standards & Poor's to the Town debt since 2000.

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

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

The Total General Fund balance for fiscal year 2017 was higher than 2016. Fund balance was \$45.3 million for fiscal year 2017 compared to \$37 million for fiscal year 2016 or approximately a 22% change. However, the unassigned portion of the General Fund declined slightly from fiscal year 2016 with a balance of \$19.4 million which compares to \$21 million for 2016. The decline in the balance was not unexpected as a significant amount of Free Cash was appropriated during fiscal year 2017, primarily for fiscal 2018 spending purposes. The Town appropriated \$11,387,990 of its Free Cash during the year compared to the \$6,190,372 in Free Cash appropriated during fiscal year 2016. Free Cash is essentially the portion of the unassigned General Fund balance that the Massachusetts Department of Revenue will allow to be appropriated by the Town. The Free Cash certified for fiscal year 2017 was \$13,849,687; the amount certified for use during fiscal year 2016 was \$6,890,372. The Town used a significant amount of the Free Cash for capital investment, special finance warrant articles, and reserves. The Town's use of Free Cash for funding the subsequent fiscal year operating budget was in line

with management's guidance of not more than two-percent of the previous year's final budget (excluding the budgetary reserve fund) or the actual turn back, whichever is less. The Town appropriated \$5,238,467 of the Free Cash for cash capital which included \$2,011,000 for public roads and related infrastructure improvements, \$1,056,000 for the construction of a new fuel depot at the public works which provides fuel for all Town and School vehicles and equipment, \$646,305 in core fleet and special equipment investment, \$657,290 in cash capital for the Needham public schools, and \$717,872 directed to other various General Fund cash capital improvements. The balance of \$150,000 was for a feasibility study of siting and construction a seasonal storage facility for public works equipment at the Recycling and Transfer Station property. The Town appropriated \$610,000 for general facility repairs and maintenance, \$250,000 for repairs and refurbishment of various equipment in the Town's public works fleet to extend the useful life of the equipment, and \$285,000 for various projects and programs. The Town also appropriated \$1,671,990 to the Athletic Facility Improvement Stabilization Fund; \$258,051 was appropriated between its Capital Facility and Capital Improvement Stabilization Funds; and \$185,000 to the Debt Service Stabilization Fund. Management continues to recommend that the Free Cash certified be directed to cash capital investment, formal reserves, and other non-recurring expenses and that a limited amount be used for ongoing operating budget expenses. The Board of Selectmen voted to endorse this best practice.

Property tax collections remain consistently strong, and revenue growth from "New Growth" (\$2,830,797) in fiscal year 2017 was high, but was less than the amount of new growth in fiscal year 2016 (\$3,684,955), and fiscal year 2015 (\$3,922,530). The source of the growth of new tax revenue is due to the continued demand for new residential construction and increased commercial development, particularly the Needham Crossing business park as was reported last year. The ten-year average increase in New Growth property tax was 2.6% of the prior year tax levy, excluding excluded debt, and the growth for FY2017 was 2.6%. The New Growth for fiscal year 2018 will be much higher than anticipated, and New Growth is expected to be above the ten-year average through fiscal year 2021. Increased development in the park includes NBC Universal which should be constructing and opening a new studio within the next 12 to 18 months. The Tax Increment Financing (TIF) plan with TripAdvisor will decline from a 76% exemption to 1% exemption so the Town will receive a much greater amount of New Growth revenue from that development in a couple of years. Room and meals excise revenue growth has slowed over the past few years, actual room excise declined in fiscal 2017 from fiscal 2016. However, as reported previously a third hotel has been permitted and is expected to open in fiscal year 2018, so this revenue stream should have continued growth.

The new development has put increased demands on public safety services, to which we anticipate more resources being directed in the coming years. The Town has plans to implement full-day kindergarten (FDK) in fiscal year 2020. The estimated additional cost for FDK is \$1.5 million. The current outlook is this increase will be funded within existing revenue growth.

As previously reported, the Massachusetts School Building Authority has partnered with the Town to help fund the construction of a new elementary school to replace the current Hillside elementary school. The new school, which has been named the Sunita L. Williams elementary school by the Needham School Committee, will be constructed on property purchased along Central Avenue in Needham. The estimated total cost of the project, including property acquisition, is \$66 million. The estimate to be paid by the MSBA is \$12.5 million with the balance to be financed by long-term debt. The debt service has been exempted from the limits imposed under Proposition 2½ by a vote of the citizens.

The Town also appropriated \$15.8 million to fund the construction of two new outdoor pools and an office and recreational facility at the Rosemary Lake. This project is funded by a combination of cash and debt from both the General Fund and the Community Preservation Fund. The facility is expected to open in fiscal 2019, and the increase in cost that the facility is expected to bring will be supported within the existing revenue stream.

The Town has also appropriated funds for the construction of an expansion of the High School and improvements to the facility. The project is on a fast track schedule and the new wing is expected to open in fiscal 2019 in time for that school year. The cost of this project is \$13,188,000 which will be funded by cash and debt (\$11,125,000). \$1,817,000 in cash was transferred from the Town's Capital Facility Stabilization Fund. The plan is to replace those funds at May 2018 Annual Town Meeting.

The Town has funded design work for a new Fire Station #2, a public safety complex, and a new Memorial Park Field House. The Town is planning to present a debt exclusion question to the Town's voters at the November 2018 State election for the financing of Fire Station #2 and the public safety complex. The estimated cost of these projects is \$65 million. The Memorial park project is planned to be funded by cash and debt within the tax levy – no debt exclusion, with an estimated cost of \$5.9 million. As previously mentioned, the Town approved funding of a feasibility study of constructing a seasonal storage facility at the RTS. A design and construction funding request is anticipated for the 2018 Annual Town Meeting. The estimated cost is \$8 million, and will be funded by a combination of cash and debt, with contributions from the sewer and water enterprise funds for their allocated share of the facility.

The Town is continuing its investigation of options relative to the upgrade, expansion, and or replacement of the Department of Public Works facility, the School Administration building, and the Mitchell elementary school. Funding options for all the aforementioned facilities are being reviewed and are expected to be vetted in the coming year. For projects that move forward, we see funding sources to be a mix of cash, debt supported by CPA funds, General Funds within the limits of Proposition 2½, and debt exclusions.

The Town made no draw against any of its appropriated stabilization accounts during fiscal 2017 but as previously mentioned, \$1,817,000 was transferred from

the Capital Facility Fund to provide additional cash towards the High School expansion project cost as a stop gap measure. The Town, as planned, will have draws against the Athletic Facility Improvement Fund to pay a percentage of the cost to build the Memorial Park Field House and the replacement of the artificial turf carpets at the Town's athletic fields when those projects are presented to the Town for consideration. The Memorial Park project may be presented as early as May 2018 and the carpet replacement in May 2019. The Town also anticipates draws on the Debt Service Stabilization Fund over the next several years, as planned when the Town created the new fund to be one of the tools used to manage the financing demands of the various building and facility improvements under consideration. Moving forward with any of the aforementioned major projects, the Town will also factor the impact such facilities will have on recurring expenses to operate and maintain the new facilities, as well as program expansion.

The Town's water and sewer operations are solid and the identified capital infrastructure improvements over the next several years are fundable within the current annual revenue stream and financing plan. However, the Town will need to increase user rates to offset consumption decreases anticipated due to the Department of Environment Protection's policy that all water systems must have programs in place to reduce residential water use to less than 65 gallons per person per day as soon as practicable, or as required in the WMA permit. Water rates, particularly for water use measured through a separate meter for outdoor use, have been increased to promote less water use, and are at an adequate level to encourage less water use and pay for the operation and maintenance of the water systems. However, sewer rates have increased for four consecutive years and will likely need to increase annually for the foreseeable future to pay the costs of sewer treatment because the billable volume of water will decline due to the lower use resulting from the conservation efforts. These conservation efforts may have significant environmental benefits and other long-term economic advantages, but have minor savings, if any, to the day-to-day operation and maintenance of a sanitary sewer system.

As we have reported for several years, the Town's solid waste and recycling program continues to be a challenge to fund on an enterprise approach as costs to provide these services continue to increase because of market conditions (lower recycling revenues), more stringent regulations, and other long-term costs of disposing of waste. The Town's efforts to promote greater recycling by its citizens have required a greater contribution from the tax levy to offset other fees previously charged. Management will complete an analysis of whether to dissolve the RTS enterprise and incorporate the budget into the General Fund operating budget. A recommendation is due to the Town Manager prior to her release of the fiscal year 2019 budget plan.

Another future challenge is establishing and funding a stormwater operation to meet the growing rules for stormwater pollution abatement and additional and more frequent intervention to prevent or direct the runoff. Management anticipates

that an enterprise fund model will be presented for consideration by Town Meeting the fiscal 2020 budget year.

The outlook for the fiscal year 2018 year-end results are expected to be stable with greater tax revenues, but a greater use of reserves to fund capital investments is anticipated. 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 year years. We still anticipate that local resources will remain solid for the next 12 to 24 months based on permitted private activity construction, but overall revenue growth is likely to be less depending on actions taken by the Commonwealth to address its forecasted lower revenue growth, or possibly actual declines. We do not see the three major local revenue sources (motor vehicle excise, permit and license revenue, and other local taxes) growing at the rate they had been. As noted earlier, motor vehicle excise growth last year was the lowest since the decline in fiscal 2010. Meal and room excise revenue growth is flat, but room excise should have one more significant boost when the third hotel opens in Needham, due to the various new corporations moving into Needham Crossing and the nearing completion of the I-95 (Rte. 128) lane widening project which abuts the park, as well as the opening of a new exit ramp off I-95. Permit income will decline when the construction boom abates. However, management is prudent with its budget estimates of these revenue sources, which will assist to buffer the impact of these declines in the next two to three years. We again caution that actions at the Federal level can have national consequences and may impact the regional economy.

REQUESTS FOR INFORMATION

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

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

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 45,032,475	\$ 14,967,744	\$ 60,000,219
Investments	33,991,032	-	33,991,032
Receivables, net:			
Property taxes	1,293,678	-	1,293,678
Excises	387,655	-	387,655
Utilities	-	4,663,453	4,663,453
Departmental	502,375	-	502,375
Intergovernmental	2,501,122	-	2,501,122
Other	119,889	-	119,889
Total current assets	<u>83,828,226</u>	<u>19,631,197</u>	<u>103,459,423</u>
Noncurrent:			
Receivables, net:			
Property taxes	1,254,665	-	1,254,665
Intergovernmental	3,475,740	-	3,475,740
OPEB asset	2,300,232	-	2,300,232
Capital assets:			
Non-depreciable capital assets	46,886,250	7,426,883	54,313,133
Depreciable assets, net of accumulated depreciation	<u>196,452,888</u>	<u>56,617,212</u>	<u>253,070,100</u>
Total non-current assets	<u>250,369,775</u>	<u>64,044,095</u>	<u>314,413,870</u>
TOTAL ASSETS	334,198,001	83,675,292	417,873,293
Deferred Outflows of Resources			
Related to pensions	10,231,130	606,931	10,838,061
Other	391,729	-	391,729
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>344,820,860</u>	\$ <u>84,282,223</u>	\$ <u>429,103,083</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 2,770,555	\$ 132,092	\$ 2,902,647
Accrued liabilities	5,491,495	48,773	5,540,268
Unearned revenue	1,232,689	-	1,232,689
Refunds payable	396,499	308,422	704,921
Notes payable	4,810,000	119,120	4,929,120
Other liabilities	250,007	-	250,007
Current portion of long-term liabilities:			
Bonds payable	8,392,766	2,075,060	10,467,826
Compensated absences	1,358,134	337,599	1,695,733
Landfill liability	51,714	-	51,714
Total current liabilities	<u>24,753,859</u>	<u>3,021,066</u>	<u>27,774,925</u>
Noncurrent:			
Bonds payable, net of current portion	67,720,197	11,371,524	79,091,721
Net pension liability	64,830,078	3,845,852	68,675,930
Compensated absences, net of current portion	4,074,403	-	4,074,403
Landfill liability, net of current portion	<u>620,568</u>	<u>-</u>	<u>620,568</u>
Total non-current liabilities	<u>137,245,246</u>	<u>15,217,376</u>	<u>152,462,622</u>
TOTAL LIABILITIES	161,999,105	18,238,442	180,237,547
Deferred Inflows of Resources			
Related to pensions	710,993	42,177	753,170
Net Position:			
Net investment in capital assets	163,534,605	50,816,608	214,351,213
Restricted for:			
Permanent funds:			
Nonexpendable	188,478	-	188,478
Expendable	2,263,543	-	2,263,543
Grants and other statutory restrictions	12,508,529	-	12,508,529
Unrestricted	<u>3,615,607</u>	<u>15,184,996</u>	<u>18,800,603</u>
TOTAL NET POSITION	<u>182,110,762</u>	<u>66,001,604</u>	<u>248,112,366</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ <u>344,820,860</u>	\$ <u>84,282,223</u>	\$ <u>429,103,083</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 6,432,736	\$ 548,210	\$ 82,869	\$ -	\$ (5,801,657)	\$ -	\$ (5,801,657)
Public safety	17,632,380	5,372,638	410,207	-	(11,849,535)	-	(11,849,535)
Education	106,272,080	5,514,356	28,935,442	-	(71,822,282)	-	(71,822,282)
Public works	9,987,539	1,224,612	2,754,607	-	(6,008,320)	-	(6,008,320)
Maintenance	9,805,154	148,004	-	3,800,459	(5,856,691)	-	(5,856,691)
Health and human services	2,498,427	182,880	249,628	-	(2,065,919)	-	(2,065,919)
Culture and recreation	3,793,088	704,043	202,855	-	(2,886,190)	-	(2,886,190)
Interest on debt service	2,651,314	-	-	-	(2,651,314)	-	(2,651,314)
Intergovernmental	1,309,161	-	-	-	(1,309,161)	-	(1,309,161)
Other unallocated costs	12,399,769	-	-	-	(12,399,769)	-	(12,399,769)
Total Governmental Activities	172,781,648	13,694,743	32,635,608	3,800,459	(122,650,838)	-	(122,650,838)
Business-Type Activities:							
Sewer services	8,143,674	9,040,026	29,738	-	-	926,090	926,090
Water services	5,346,738	7,005,405	-	-	-	1,658,667	1,658,667
Solid waste services	2,346,197	1,202,323	-	-	-	(1,143,874)	(1,143,874)
Total Business-Type Activities	15,836,609	17,247,754	29,738	-	-	1,440,883	1,440,883
Total	\$ 188,618,257	\$ 30,942,497	\$ 32,665,346	\$ 3,800,459	(122,650,838)	1,440,883	(121,209,955)
General Revenues and Transfers:							
Property taxes					126,631,518	-	126,631,518
Excise taxes					5,551,036	-	5,551,036
Penalties, interest, and other taxes					2,229,340	-	2,229,340
Grants and contributions not restricted to specific programs					2,132,407	-	2,132,407
Investment income					664,827	22,985	687,812
Miscellaneous					267,310	-	267,310
Total general revenues					137,476,438	22,985	137,499,423
Excess before transfers					14,825,600	1,463,868	16,289,468
Transfers, net					(443,312)	443,312	-
Change in Net Position					14,382,288	1,907,180	16,289,468
Net Position:							
Beginning of year					167,728,474	64,094,424	231,822,898
End of year					\$ 182,110,762	\$ 66,001,604	\$ 248,112,366

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

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Sunita L. Williams School</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 24,435,754	\$ -	\$ 2,330,594	\$ 16,654,115	\$ 43,420,463
Investments	26,051,587	5,477,234	-	2,462,211	33,991,032
Receivables:					
Property taxes	3,052,733	14,610	-	-	3,067,343
Excises	978,655	-	-	-	978,655
Departmental	1,508,395	-	-	27,981	1,536,376
Intergovernmental	4,170,888	-	-	1,805,974	5,976,862
Other	119,889	-	-	-	119,889
TOTAL ASSETS	\$ 60,317,901	\$ 5,491,844	\$ 2,330,594	\$ 20,950,281	\$ 89,090,620
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Warrants and accounts payable	\$ 1,337,341	\$ -	\$ 235,010	\$ 1,198,202	\$ 2,770,553
Unearned revenue	-	-	-	1,232,689	1,232,689
Accrued liabilities	3,582,464	-	-	66,128	3,648,592
Anticipation notes payable	-	-	4,000,000	810,000	4,810,000
Refunds payable	396,499	-	-	-	396,499
Other liabilities	248,392	-	-	1,615	250,007
TOTAL LIABILITIES	5,564,696	-	4,235,010	3,308,634	13,108,340
Deferred Inflows of Resources:					
Unavailable revenues	9,453,148	14,609	-	426,282	9,894,039
Fund Balances:					
Nonspendable	-	-	-	188,478	188,478
Restricted	572,835	5,477,235	-	9,794,373	15,844,443
Committed	12,788,994	-	-	8,149,196	20,938,190
Assigned	12,503,894	-	-	-	12,503,894
Unassigned	19,434,334	-	(1,904,416)	(916,682)	16,613,236
TOTAL FUND BALANCES	45,300,057	5,477,235	(1,904,416)	17,215,365	66,088,241
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 60,317,901	\$ 5,491,844	\$ 2,330,594	\$ 20,950,281	\$ 89,090,620

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

TOWN OF NEEDHAM, MASSACHUSETTS

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

JUNE 30, 2017

Total governmental fund balances	\$ 66,088,241
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	243,339,138
• Net other post employment benefits asset is reported on the Statement of Net Position, and not reported in the funds.	2,300,232
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	7,750,039
• Deferred debt expense for refunding is net of amortization on the statement of net position, whereas all debt expense is reported when paid in the governmental funds.	391,729
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	554,301
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(785,195)
• Long-term liabilities, net of related deferred outflows and inflows of resources, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Net pension liability, net of related deferred outflows and inflows	(64,830,078)
Pension related deferred outflows of resources	10,231,130
Pension related deferred inflows of resources	(710,993)
Bonds and loans payable, net unamortized premiums	(76,112,963)
Compensated absences payable	(5,432,537)
Estimated liability for landfill postclosure care costs	<u>(672,282)</u>
Net position of governmental activities	<u>\$ 182,110,762</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017

	General	Community Preservation Fund	Sunita L. Williams School	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 124,517,284	\$ 2,136,893	\$ -	\$ -	\$ 126,654,177
Excise taxes	5,701,527	-	-	-	5,701,527
Penalties, interest, and other taxes	2,156,902	2,307	-	-	2,159,209
Charges for services	1,094,057	-	-	6,228,684	7,322,741
Departmental	1,674,120	-	-	-	1,674,120
Licenses and permits	4,477,430	-	-	-	4,477,430
Intergovernmental	26,506,734	417,108	-	9,360,566	36,284,408
Investment income	389,769	111,618	-	163,439	664,826
Fines and forfeitures	188,756	-	-	-	188,756
Contributions	-	-	355,277	2,704,043	3,059,320
Other	41,949	-	-	37,035	78,984
	<u>166,748,528</u>	<u>2,667,926</u>	<u>355,277</u>	<u>18,493,767</u>	<u>188,265,498</u>
Total Revenues					
Expenditures:					
Current:					
General government	5,160,845	6,729	-	137,722	5,305,296
Public safety	16,006,396	-	-	251,212	16,257,608
Education	89,570,046	-	-	10,497,497	100,067,543
Public works	8,044,770	-	-	13,004	8,057,774
Maintenance	9,509,897	-	-	-	9,509,897
Health and human services	1,678,736	-	-	444,252	2,122,988
Culture and recreation	2,270,267	81,435	-	778,792	3,130,494
Employee benefits	11,572,484	-	-	-	11,572,484
Other	532,195	-	-	-	532,195
Capital outlay	-	413,073	2,259,693	11,454,082	14,126,848
Debt service:					
Principal	8,102,006	-	-	-	8,102,006
Interest	2,259,034	-	-	-	2,259,034
Intergovernmental	1,309,161	-	-	-	1,309,161
	<u>156,015,837</u>	<u>501,237</u>	<u>2,259,693</u>	<u>23,576,561</u>	<u>182,353,328</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	10,732,691	2,166,689	(1,904,416)	(5,082,794)	5,912,170
Other Financing Sources (Uses):					
Issuance of bonds	-	-	-	10,480,000	10,480,000
Bond premium	-	-	-	654,769	654,769
Transfers in	2,383,365	-	-	6,017,269	8,400,634
Transfers out	(4,775,217)	(3,426,313)	-	(642,416)	(8,843,946)
	<u>(2,391,852)</u>	<u>(3,426,313)</u>	<u>-</u>	<u>16,509,622</u>	<u>10,691,457</u>
Total Other Financing Sources (Uses)					
Net change in fund balances	8,340,839	(1,259,624)	(1,904,416)	11,426,828	16,603,627
Fund Balances, at beginning of year, as restated	36,959,218	6,736,859	-	5,788,537	49,484,614
Fund Balances, at end of year	<u>\$ 45,300,057</u>	<u>\$ 5,477,235</u>	<u>\$ (1,904,416)</u>	<u>\$ 17,215,365</u>	<u>\$ 66,088,241</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2017

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 16,603,627																								
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of loss on disposal</td> <td style="text-align: right;">15,151,103</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(9,148,610)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for doubtful accounts. (852,292) • Change in net other post employment benefits asset. 26,653 • The issuance of long-term debt (bonds and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any affect net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(10,480,000)</td> </tr> <tr> <td>Bond premium</td> <td style="text-align: right;">(654,769)</td> </tr> <tr> <td>Bond premium amortization</td> <td style="text-align: right;">193,716</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">8,117,526</td> </tr> <tr> <td>Amortization of deferred amount on refunding</td> <td style="text-align: right;">(195,864)</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (196,414) • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td>Change in net pension liability</td> <td style="text-align: right;">(4,657,214)</td> </tr> <tr> <td>Change in pension related deferred outflows</td> <td style="text-align: right;">1,755,390</td> </tr> <tr> <td>Change in pension related deferred inflows</td> <td style="text-align: right;">(664,821)</td> </tr> <tr> <td>Change in compensated absences</td> <td style="text-align: right;">(298,963)</td> </tr> <tr> <td>Change in landfill liability</td> <td style="text-align: right;">20,158</td> </tr> </table> • 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. <u>(336,938)</u> 		Capital outlay purchases, net of loss on disposal	15,151,103	Depreciation	(9,148,610)	Issuance of debt	(10,480,000)	Bond premium	(654,769)	Bond premium amortization	193,716	Repayments of debt	8,117,526	Amortization of deferred amount on refunding	(195,864)	Change in net pension liability	(4,657,214)	Change in pension related deferred outflows	1,755,390	Change in pension related deferred inflows	(664,821)	Change in compensated absences	(298,963)	Change in landfill liability	20,158
Capital outlay purchases, net of loss on disposal	15,151,103																								
Depreciation	(9,148,610)																								
Issuance of debt	(10,480,000)																								
Bond premium	(654,769)																								
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Amortization of deferred amount on refunding	(195,864)																								
Change in net pension liability	(4,657,214)																								
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Change in pension related deferred inflows	(664,821)																								
Change in compensated absences	(298,963)																								
Change in landfill liability	20,158																								
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>14,382,288</u>																								

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

TOWN OF NEEDHAM, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues:				
Property taxes	\$ 122,474,684	\$ 122,934,314	\$ 122,934,314	\$ -
Excise taxes	4,400,000	4,400,000	5,701,527	1,301,527
Penalties, interest, and other taxes	1,355,000	1,355,000	2,156,902	801,902
Charges for services	768,000	768,000	1,094,057	326,057
Departmental	1,404,995	1,404,995	1,674,120	269,125
Licenses and permits	1,527,435	1,527,435	4,477,430	2,949,995
Intergovernmental	11,158,773	11,158,773	11,338,822	180,049
Investment income	67,500	67,500	278,831	211,331
Fines and forfeits	122,950	122,950	188,756	65,806
Other revenue	3,500	3,500	41,949	38,449
Total Revenues	143,282,837	143,742,467	149,886,708	6,144,241
Expenditures				
General government	4,300,710	4,430,097	4,224,500	205,597
Land use	507,180	514,368	509,511	4,857
Public safety	14,493,710	14,728,135	13,897,442	830,693
Education	65,952,600	65,955,976	65,413,762	542,214
Public works	6,366,730	7,152,444	7,036,930	115,514
Public facilities	8,898,069	9,076,472	8,421,924	654,548
Community services	3,696,085	3,767,214	3,578,771	188,443
Debt service	11,161,839	11,161,839	11,148,800	13,039
Employee benefits	26,125,204	26,148,023	25,557,373	590,650
Other appropriated expenses	2,724,275	1,461,464	575,336	886,128
Intergovernmental	1,299,850	1,299,850	1,309,161	(9,311)
Other amounts provided	12,500	12,500	-	12,500
Total Expenditures	145,538,752	145,708,382	141,673,510	4,034,872
Excess (deficiency) of revenues over expenditures	(2,255,915)	(1,965,915)	8,213,198	10,179,113
Other Financing Sources (Uses)				
Transfers in	1,901,746	1,901,746	2,383,365	481,619
Use of free cash	1,763,165	3,019,206	-	(3,019,206)
Use of free cash for stabilization	250,000	2,180,000	-	(2,180,000)
Use of bond premium	93,445	93,445	-	(93,445)
Use of overlay surplus	800,000	1,725,000	-	(1,725,000)
Use of overlay surplus for stabilization	-	275,000	-	(275,000)
Transfers out	(2,552,441)	(7,228,482)	(7,228,482)	-
Total Other Financing Sources (Uses)	2,255,915	1,965,915	(4,845,117)	(6,811,032)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,368,081	\$ 3,368,081

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Assets:					
Current:					
Cash and short-term investments	\$ 5,802,114	\$ 6,943,882	\$ 2,221,748	\$ 14,967,744	\$ 1,612,010
User fees receivable	<u>2,490,771</u>	<u>1,862,286</u>	<u>310,396</u>	<u>4,663,453</u>	<u>-</u>
Total current assets	8,292,885	8,806,168	2,532,144	19,631,197	1,612,010
Noncurrent:					
Land and construction in progress	1,217,739	1,201,701	5,007,443	7,426,883	-
Other capital assets, net of accumulated depreciation	<u>23,197,794</u>	<u>31,542,486</u>	<u>1,876,932</u>	<u>56,617,212</u>	<u>-</u>
Total noncurrent assets	<u>24,415,533</u>	<u>32,744,187</u>	<u>6,884,375</u>	<u>64,044,095</u>	<u>-</u>
TOTAL ASSETS	32,708,418	41,550,355	9,416,519	83,675,292	1,612,010
Deferred Outflows of Resources:					
Related to pensions	<u>195,085</u>	<u>260,113</u>	<u>151,733</u>	<u>606,931</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ <u>32,903,503</u>	\$ <u>41,810,468</u>	\$ <u>9,568,252</u>	\$ <u>84,282,223</u>	\$ <u>1,612,010</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND, NET POSITION					
Liabilities:					
Current:					
Accounts payable	\$ 23,185	\$ 50,938	\$ 57,969	\$ 132,092	\$ -
Accrued payroll	20,211	18,193	10,369	48,773	-
Accrued liabilities	-	-	-	-	1,057,709
Refunds payable	77,677	20,072	210,673	308,422	-
Notes payable	-	113,120	6,000	119,120	-
Current portion of long-term liabilities:					
Bonds payable	853,082	1,086,978	135,000	2,075,060	-
Compensated absences	<u>154,846</u>	<u>124,940</u>	<u>57,813</u>	<u>337,599</u>	<u>-</u>
Total current liabilities	1,129,001	1,414,241	477,824	3,021,066	1,057,709
Noncurrent:					
Bonds payable, net of current portion	6,054,409	5,222,115	95,000	11,371,524	-
Net pension liability	<u>1,236,167</u>	<u>1,648,222</u>	<u>961,463</u>	<u>3,845,852</u>	<u>-</u>
Total noncurrent liabilities	<u>7,290,576</u>	<u>6,870,337</u>	<u>1,056,463</u>	<u>15,217,376</u>	<u>-</u>
TOTAL LIABILITIES	8,419,577	8,284,578	1,534,287	18,238,442	1,057,709
Deferred Inflow of Resources:					
Related to pensions	13,557	18,076	10,544	42,177	-
Net Position:					
Net investment in capital assets	17,630,919	26,420,764	6,764,925	50,816,608	-
Unrestricted	<u>6,839,450</u>	<u>7,087,050</u>	<u>1,258,496</u>	<u>15,184,996</u>	<u>554,301</u>
TOTAL NET POSITION	<u>24,470,369</u>	<u>33,507,814</u>	<u>8,023,421</u>	<u>66,001,604</u>	<u>554,301</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOW OF RESOURCES	\$ <u>32,903,503</u>	\$ <u>41,810,468</u>	\$ <u>9,568,252</u>	\$ <u>84,282,223</u>	\$ <u>1,612,010</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 9,040,026	\$ 7,005,405	\$ 1,202,323	\$ 17,247,754	\$ -
Other	-	-	-	-	373,140
Total Operating Revenues	9,040,026	7,005,405	1,202,323	17,247,754	373,140
Operating Expenses:					
Personnel services	1,022,330	1,147,945	807,268	2,977,543	710,078
Non-personnel services	308,262	1,653,226	1,202,451	3,163,939	-
Depreciation	946,160	1,276,395	333,694	2,556,249	-
Intergovernmental assessments	5,683,915	1,039,372	-	6,723,287	-
Total Operating Expenses	7,960,667	5,116,938	2,343,413	15,421,018	710,078
Operating Income (Loss)	1,079,359	1,888,467	(1,141,090)	1,826,736	(336,938)
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	29,738	-	-	29,738	-
Investment income	8,890	10,564	3,531	22,985	-
Interest expense	(183,007)	(229,800)	(2,784)	(415,591)	-
Total Nonoperating Revenues (Expenses), Net	(144,379)	(219,236)	747	(362,868)	-
Income (Loss) Before Transfers and Special Items	934,980	1,669,231	(1,140,343)	1,463,868	(336,938)
Transfers in	662,745	-	1,420,000	2,082,745	-
Transfers out	(463,586)	(846,108)	(329,739)	(1,639,433)	-
Special item - transfer of capital asset	466,000	(466,000)	-	-	-
Change in Net Position	1,600,139	357,123	(50,082)	1,907,180	(336,938)
Net Position at Beginning of Year	22,870,230	33,150,691	8,073,503	64,094,424	891,239
Net Position at End of Year	\$ 24,470,369	\$ 33,507,814	\$ 8,023,421	\$ 66,001,604	\$ 554,301

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

TOWN OF NEEDHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 8,960,384	\$ 7,011,267	\$ 1,187,696	\$ 17,159,347	\$ -
Employer contributions	-	-	-	-	373,140
Payments of utility assessments	(5,683,915)	(1,039,372)	-	(6,723,287)	-
Payments to vendors and contractors	(297,421)	(1,953,006)	(1,248,251)	(3,498,678)	-
Payments of employee salaries, benefits, and related expenses	(1,022,465)	(1,124,367)	(770,824)	(2,917,656)	(533,692)
Net Cash Provided By (Used For) Operating Activities	1,956,583	2,894,522	(831,379)	4,019,726	(160,552)
<u>Cash Flows From Noncapital Financing Activities:</u>					
Operating grants received	29,738	-	-	29,738	-
Transfers from other funds	662,745	-	1,420,000	2,082,745	-
Transfers to other funds	(463,586)	(846,108)	(329,739)	(1,639,433)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	228,897	(846,108)	1,090,261	473,050	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(776,004)	(704,710)	(333,097)	(1,813,811)	-
Proceeds from issuance of notes	-	113,120	6,000	119,120	-
Paydown of notes	-	(425,000)	-	(425,000)	-
Proceeds from issuance of bonds	-	260,000	205,000	465,000	-
Principal payments on bonds and loans	(879,279)	(876,249)	(95,000)	(1,850,528)	-
Interest expense	(183,007)	(229,800)	(2,783)	(415,590)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,838,290)	(1,862,639)	(219,880)	(3,920,809)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	8,891	10,567	3,529	22,987	-
Net Cash Provided By Investing Activities	8,891	10,567	3,529	22,987	-
Net Change in Cash and Short-Term Investments	356,081	196,342	42,531	594,954	(160,552)
Cash and Short-Term Investments, Beginning of Year	5,446,033	6,747,540	2,179,217	14,372,790	1,772,562
Cash and Short-Term Investments, End of Year	\$ 5,802,114	\$ 6,943,882	\$ 2,221,748	\$ 14,967,744	\$ 1,612,010
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income (loss)	\$ 1,079,359	\$ 1,888,467	\$ (1,141,090)	\$ 1,826,736	\$ (336,938)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	946,160	1,276,395	333,694	2,556,249	-
Loss on disposal of assets	-	(22,356)	-	(22,356)	-
Changes in assets, liabilities, and deferred outflows/inflows:					
User fees	(67,019)	3,563	33,144	(30,312)	-
Deferred outflows - related to pensions	(24,131)	(35,173)	(25,767)	(85,071)	-
Accounts payable	10,841	(277,428)	(45,802)	(312,389)	-
Accrued liabilities	(11,337)	(21,799)	(11,867)	(45,003)	176,386
Refunds payable	(12,623)	2,299	(47,771)	(58,095)	-
Compensated absences	218	12,425	(2,952)	9,691	-
Net pension liability	22,489	51,278	67,174	140,941	-
Deferred inflows - related to pensions	12,626	16,851	9,858	39,335	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,956,583	\$ 2,894,522	\$ (831,379)	\$ 4,019,726	\$ (160,552)

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

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2017

	Pension Trust Fund (As of <u>December 31, 2016</u>)	Private Purpose Trust <u>Fund</u>	Other Post- Employment Benefit <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS				
Cash and short-term investments	\$ 1,880,833	\$ 65,836	\$ 445,529	\$ 1,095,550
Investments:				
PRIT - external investment pool	140,459,238	-	-	-
SRBT - external investment pool	-	-	26,389,642	-
Other	-	5,013,042	-	-
Receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,023</u>
Total Assets	142,340,071	5,078,878	26,835,171	1,301,573
LIABILITIES AND NET POSITION				
Accounts payable	-	154,550	-	21,915
Accrued liabilities	13,600	-	-	35,310
Refunds payable	-	-	-	15,887
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,228,461</u>
Total Liabilities	<u>13,600</u>	<u>154,550</u>	<u>-</u>	<u>1,301,573</u>
NET POSITION				
Total net position restricted for pension and other post employment benefits and other purposes	<u>\$ 142,326,471</u>	<u>\$ 4,924,328</u>	<u>\$ 26,835,171</u>	<u>\$ -</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (For the Year Ended December 31, 2016)	Private Purpose Trust Fund	Other Post- Employment Benefit Trust Fund
Additions:			
Contributions:			
Employers	\$ 7,111,309	\$ -	\$ 6,317,042
Plan members	3,837,927	-	-
Other	<u>-</u>	<u>279,891</u>	<u>1,575</u>
Total contributions	10,949,236	279,891	6,318,617
Investment Income:			
Increase in fair value of investments	10,562,194	271,597	3,020,230
Less: management fees	<u>(732,451)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>9,829,743</u>	<u>271,597</u>	<u>3,020,230</u>
Total additions	20,778,979	551,488	9,338,847
Deductions:			
Benefit payments to plan members and beneficiaries	12,340,186	-	3,702,877
Refunds to plan members	573,872	-	-
Administrative expenses	229,753	-	-
Other	<u>-</u>	<u>146,361</u>	<u>-</u>
Total deductions	<u>13,143,811</u>	<u>146,361</u>	<u>3,702,877</u>
Net increase	7,635,168	405,127	5,635,970
Net position:			
Beginning of year	<u>134,691,303</u>	<u>4,519,201</u>	<u>21,199,201</u>
End of year	<u>\$ 142,326,471</u>	<u>\$ 4,924,328</u>	<u>\$ 26,835,171</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town 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 Town 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 *Sunita L. Williams School* fund was created in accordance with Article 2 of the October 2016 Special Town Meeting for the construction of the new elementary school. Expenditures in the current year result mainly from the architectural and engineering costs. This fund specifically excludes land acquisition costs associated with the project.

The proprietary fund financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

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

The Town 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The Pension Trust Fund accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The Private-Purpose Trust Fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The Other Post-Employment Benefits Trust Fund is used to accumulate resources for health and life insurance benefits for retired employees.
- The Agency Funds include Student Activity Funds, Police, Fire and Maintenance Detail Funds, Traffic Mitigation Fund, Sewer Impact Fees Fund, Needham Retirement Board Fund, Rail Trail Fund and other Miscellaneous Funds. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

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

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

The Town reports its investment in MMDT, an external investment pool overseen by the Treasurer of the Commonwealth of Massachusetts, at amortized cost per GASB 79.

E. Investments

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

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

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 2017 tax levy reflected an excess capacity of approximately \$79,154.

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 Town 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 acquisition value.

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

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

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

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

H. Compensated Absences

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

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

I. Long-Term Obligations

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

J. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. 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 Town (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 represent the residual classification for the general fund and include all amounts not contained in other classifications. Unassigned amounts are available for any purpose. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Positive unassigned amounts are reported only in the general fund.

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

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

K. Use of Estimates

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

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

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 166,748,528	\$ 156,015,837
Other financing sources/uses (GAAP Basis)	<u>2,383,365</u>	<u>4,775,217</u>
Subtotal (GAAP Basis)	169,131,893	160,791,054
Unused overlay allowance	(1,634,799)	-
To adjust property tax revenue to the budgetary basis	51,829	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,445,492)
Add end-of-year appropriation carryforwards from expenditures	-	2,489,445
To reverse gross up for MTRS on behalf payment	(15,175,672)	(15,175,672)
Less nonbudgeted funds	(110,938)	3,234,896
Less MWPAT subsidy	<u>7,760</u>	<u>7,761</u>
Budgetary Basis	<u>\$ 152,270,073</u>	<u>\$ 148,901,992</u>

D. Deficit Fund Equity

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

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

The following funds had deficits as of June 30, 2017:

A 2 STM 10/16 Sunita L. Williams School	\$ 1,904,416
Nonmajor Governmental Funds:	
Special Revenue Funds:	
FY15 EMPG	12,427
FY17 Assistance to Firefighters Grant	41,672
FY15 Utility Force	44,556
FY16 EOHED 2014 Round Award	6,743
FY17 Shine	15,068
FY17 911 Dept Support and Incentive Grant	2,990
FY17 911 Training and EMD Grant	2,736
FY17 NCLB Title I	1,499
FY17 Title III - ELL	554
FY15 Metrowest Conussion Prevension	9,975
Capital Project Funds	
A11 STM 11/15 High School Café Renovation	152,522
A40 ATM 5/17 Public Safty station design	12,736
A39 ATM 5/14 Central Ave/Elliot Street	4,810
A42 ATM 5/15 Public Works Infracructure	188,221
A43 ATM 5/15 Public Works Infracructure	<u>420,173</u>
Subtotal Nonmajor Governmental Funds	916,682
Fiduciary Funds:	
Fire outside detail	66,599
Police outside detail	79,486
Needham retirement board	<u>19,279</u>
Subtotal Fiduciary Funds	<u>165,364</u>
Total	<u>\$ 2,986,462</u>

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned. Massachusetts General Law (MGL) Chapter 44, Section 55, limits deposits “in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” The Town’s custodial credit risk policy allows unlimited amounts to be deposited in certificates of deposits with a maximum maturity as set by Massachusetts General Laws (MGL) and full collateralization through a third-party agreement. The policy also allows unlimited deposits in Massachusetts State pooled fund and limits the remaining unsecured deposits to 5% of any institution’s assets and no more than 25% of the Town’s assets. The Town’s policy was designed to limit exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal

industry. Further, all securities not held directly by the Town, will be held in the Town's name and the tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The Contributory Retirement System (the System) does not have a deposit policy for custodial credit risk.

As of June 30, 2017, \$23,069,692 of the Town's cash bank balance of \$65,843,785 was exposed to custodial credit risk as uninsured or uncollateralized. Of the Town's exposed risk, \$3,575,719 was mitigated by SIPC and \$9,604,351 was invested in MMDT.

As of December 31, 2016, \$1,663,457 of the Contributory Retirement System's cash bank balance of \$1,779,590 was exposed to custodial credit risk as uninsured or uncollateralized. Of the System's exposed risk, \$1,395,960 was invested in MMDT and \$267,497 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). Effective November 7, 2016, legislation (referred to as the Municipal Modernization Act) expanded the listing of legal investments and now permits most investments to have a maturity date from date of purchase of up to 3 years.

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.):

Investment Type	Fair Value	Ratings as of Year End				Not Rated
		AAA	Aa1-A3	Baa1-B3	Caa1-C3	
Debt related:						
Federal agency securities	\$ 8,391,730	\$ 8,391,730	\$ -	\$ -	\$ -	\$ -
US treasury notes	3,710,044	3,710,044	-	-	-	-
Corporate bonds	2,504,221	-	1,622,077	882,144	-	-
Fixed income mutual funds	<u>1,715,525</u>	<u>1,465,150</u>	<u>21,879</u>	<u>217,045</u>	<u>6,143</u>	<u>5,308</u>
Total debt securities	16,321,520	\$ 13,566,924	\$ 1,643,956	\$ 1,099,189	\$ 6,143	\$ 5,308
Equities:						
Corporate equities	4,244,932					
Equity mutual funds	<u>2,415,586</u>					
Total equities	6,660,518					
External investment pool:						
SRBT	26,389,642					
Certificates of deposits	<u>16,022,036</u>					
Total investments	\$ <u>65,393,716</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, 2016, the System maintained its investments in the State Investment Pool (PRIT)* with a fair value of \$140,459,238. The PRIT fund is an external investment pool that is not registered with the Securities Exchange Commission. This investment type is not rated. The PRIT Fund issues separately available financial statements with a year end of June 30.

**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, the Town 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, 2017, \$38,348,851 out of the Town's investments of \$65,393,717 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. The Town also had \$26,389,642 held in the State investment pool (SRBT), which is exempt from this disclosure.

As of December 31, 2016, the System's investments of \$140,459,238 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. All of the System's investments are in 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>Average Effective Duration (in years)</u>
Debt related:		
Federal agency securities	\$ 8,391,730	4.14
US treasury notes	3,710,044	1.83
Corporate bonds	2,504,221	1.73
Fixed income mutual funds	<u>1,715,525</u>	<u>7.79</u>
Total debt securities	<u>\$ 16,321,520</u>	<u>15.49</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.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Town's and OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

The Town has the following fair value measurements as of June 30, 2017

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Debt securities:				
Federal agency securities	\$ 9,339,515	\$ -	\$ 9,339,515	\$ -
US treasury notes	3,710,044	-	3,710,044	-
Corporate bonds	2,504,221	-	2,504,221	-
Fixed income mutual funds	767,742	-	767,742	-
Equity securities				
Bartholomew equity mutual funds	2,176,800	2,176,800	-	-
Invesco - other corporate equities	79,649	79,649	-	-
Wells fargo mutual funds	238,785	238,785	-	-
Consumer discretionary	323,215	323,215	-	-
Consumer cyclical	173,575	173,575	-	-
Consumer defensive	512,847	512,847	-	-
Utilities	447,385	447,385	-	-
Information technology	279,580	279,580	-	-
Healthcare	700,709	700,709	-	-
Telecommunication services	256,493	256,493	-	-
Industrials	377,433	377,433	-	-
Financial	249,907	249,907	-	-
Energy	180,291	180,291	-	-
Consumer staples	273,247	273,247	-	-
Materials	239,587	239,587	-	-
Financial services	151,013	151,013	-	-
Subtotal	22,982,038	\$ 6,660,516	\$ 16,321,522	\$ -
Investments measured at the net asset value (NAV):				
External investment pool - SRBT	26,389,642			
Total	\$ 49,371,680			

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool - SRBT	\$ 26,389,642	\$ -	Monthly	30 days

The System has the following investments measured at net asset value (NAV) as of December 31, 2016:

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool - PRIT	\$ 140,459,238	\$ -	Monthly	30 days

The System values its investments in good faith at the System's pro-rata interest in PRIT based upon audited financial statements or other information provided to the Plan by the underlying investment manager (PRIM). The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

5. Accounts Receivable

A. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes receivable at June 30, 2017 consist of the following (in thousands):

<u>Receivables:</u>	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
Real estate taxes	\$ 659,518	\$ -	\$ 659,518
Personal property taxes	720,984	(519,000)	201,984
Tax liens	1,208,475	-	1,208,475
Deferred taxes	463,756	-	463,756
CPA	14,610	-	14,610
Total property taxes	3,067,343	(519,000)	2,548,343
Motor vehicle excise	978,655	(591,000)	387,655
Grand total	\$ 4,045,998	\$ (1,110,000)	\$ 2,935,998

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

B. Departmental

Departmental receivables primarily comprise ambulance receivables. Departmental receivables in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts of \$1,034,000.

C. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017 and future reimbursements from the MSBA.

6. Interfund Transfers

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2017:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,383,365	\$ 4,775,217
Community Preservation Fund	-	3,426,313
Nonmajor Funds:		
Special Revenue Funds:		
Town grants	16,469	478,536
Receipts reserved for appropriation	-	70,000
Trust funds	-	5,800
Other special revenue funds	5,800	68,528
Capital Project Funds:		
Rosemary recreation complex - ATM 05/17 Art 33	3,770,000	-
Fuel island relocation & upgrade - ATM 05/17 Art 44	1,320,000	-
Central Ave & Elliot St. bridge	390,000	-
High school café renovation	220,000	-
Other capital project funds	295,000	19,552
Subtotal Nonmajor Funds	6,017,269	642,416
<u>Business-Type Funds:</u>		
Sewer Fund	662,745	463,586
Water Fund	-	846,108
Solid Waste Fund	1,420,000	329,739
Subtotal Business-Type Funds:	2,082,745	1,639,433
Grand Total	\$ 10,483,379	\$ 10,483,379

Of the transfers out from the sewer, water, and solid waste funds, \$1,375,433 was transferred to the general fund to cover indirect costs and short-term note payments incurred by general fund. Additional transfers into the general fund include reimbursements from the community preservation fund for debt payments of \$456,313 and FEMA reimbursements from the Town grants fund of \$404,607 for severe storm costs incurred by the general fund in prior years.

The \$1,939,846 transferred from the general fund into the enterprise funds represents a subsidy to the solid waste of \$1,420,000 and \$519,846 to cover sewer debt service funded by general revenues.

Of the transfers into the non-major capital project funds \$2,761,000 represents the Town's practice of funding certain capital activity from general fund free cash and overlay surplus as approved at the May 2017 Annual Town Meeting, as well as BAN paydowns funded by debt service operating budget. Further, \$2,970,000 was transferred into the non-major capital project funds from the community preservation fund for the construction of the Rosemary recreation complex, as approved at the May 2017 Annual Town Meeting. The remaining transfer in of \$264,000 for the fuel island is from the enterprise funds.

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, 2017 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 236,197	\$ 1,766	\$ (9)	\$ 237,954
Machinery, equipment, and furnishings	12,483	452	(153)	12,782
Vehicles	6,350	1,029	(279)	7,100
Infrastructure	<u>35,392</u>	<u>890</u>	<u>-</u>	<u>36,282</u>
Total capital assets, being depreciated	290,422	4,137	(441)	294,118
Less accumulated depreciation for:				
Buildings and improvements	(54,672)	(6,262)	7	(60,927)
Machinery, equipment, and furnishings	(9,829)	(955)	151	(10,633)
Vehicles	(4,930)	(681)	217	(5,394)
Infrastructure	<u>(19,459)</u>	<u>(1,252)</u>	<u>-</u>	<u>(20,711)</u>
Total accumulated depreciation	<u>(88,890)</u>	<u>(9,150)</u>	<u>375</u>	<u>(97,665)</u>
Total capital assets, being depreciated, net	201,532	(5,013)	(66)	196,453
Capital assets, not being depreciated:				
Land	28,853	2,032	-	30,885
Works of Art	120	-	-	120
Construction in progress	<u>6,832</u>	<u>9,049</u>	<u>-</u>	<u>15,881</u>
Total capital assets, not being depreciated	<u>35,805</u>	<u>11,081</u>	<u>-</u>	<u>46,886</u>
Governmental activities capital assets, net	<u>\$ 237,337</u>	<u>\$ 6,068</u>	<u>\$ (66)</u>	<u>\$ 243,339</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,592	\$ 272	\$ -	\$ 21,864
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	5,155	407	(440)	5,122
Vehicles	1,633	35	(22)	1,646
Infrastructure	<u>75,884</u>	<u>635</u>	<u>-</u>	<u>76,519</u>
Total capital assets, being depreciated	110,864	1,349	(462)	111,751
Less accumulated depreciation for:				
Buildings and improvements	(4,454)	(499)	-	(4,953)
Plant	(3,387)	(214)	-	(3,601)
Machinery, equipment, and furnishings	(3,969)	(417)	440	(3,946)
Vehicles	(1,503)	(86)	22	(1,567)
Infrastructure	<u>(39,726)</u>	<u>(1,341)</u>	<u>-</u>	<u>(41,067)</u>
Total accumulated depreciation	<u>(53,039)</u>	<u>(2,557)</u>	<u>462</u>	<u>(55,134)</u>
Total capital assets, being depreciated, net	57,825	(1,208)	-	56,617
Capital assets, not being depreciated:				
Land	5,275	-	-	5,275
Construction in progress	<u>1,664</u>	<u>488</u>	<u>-</u>	<u>2,152</u>
Total capital assets, not being depreciated	<u>6,939</u>	<u>488</u>	<u>-</u>	<u>7,427</u>
Business-type activities capital assets, net	<u>\$ 64,764</u>	<u>\$ (720)</u>	<u>\$ -</u>	<u>\$ 64,044</u>

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

Governmental Activities:	
General government	\$ 839
Public safety	559
Education	4,872
Public works	1,948
Maintenance	22
Health and human services	274
Culture and recreation	<u>636</u>
Total depreciation expense - governmental activities	<u>\$ 9,150</u>
Business-Type Activities:	
Sewer	\$ 946
Water	1,277
Solid waste	<u>334</u>
Total depreciation expense - business-type activities	<u>\$ 2,557</u>

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 18.

Governmental activities report deferred outflows as of June 30, 2017 of \$391,728 result from the deferred amount on refunding. The amount is being amortized over three years starting in fiscal year 2017.

9. Warrants and Accounts Payable

Warrants and accounts payable represent 2017 expenditures paid after June 30, 2017.

10. Accrued Liabilities

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

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

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 2017:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 9,285,000	\$ -	\$ (9,285,000)	\$ -
Bond anticipation	<u>-</u>	<u>4,929,120</u>	<u>-</u>	<u>4,929,120</u>
Total	<u>\$ 9,285,000</u>	<u>\$ 4,929,120</u>	<u>\$ (9,285,000)</u>	<u>\$ 4,929,120</u>

The Town had the following notes outstanding at June 30, 2017:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/17
Sunita L. Williams School Central Ave/Elliott Stree Bridge Construction	2.00%	06/30/17	11/01/17	\$ 4,000,000 *
Public Works Infrastructure Program 1	2.00%	06/30/17	11/01/17	330,000
Public Works Infrastructure Program 2	2.00%	06/30/17	11/01/17	250,000
High School Cafeteria Construction	2.00%	06/30/17	11/01/17	160,000
St. Mary's Pumping Station	2.00%	06/30/17	11/01/17	70,000
Water Main	2.00%	06/30/17	11/01/17	65,000
RTS Fleet Replacement	2.00%	06/30/17	11/01/17	48,120
Total				<u>\$ 6,000</u>
				<u>\$ 4,929,120</u>

*See Note 23.

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:

	Original	Interest	Date of	Date of	Amount
<u>Governmental Activities:</u>	<u>Amount</u>	<u>Rate(s) %</u>	<u>Issue</u>	<u>Maturity</u>	<u>Outstanding</u>
					<u>as of</u>
					<u>6/30/17</u>
MA Water Pollution Abatement Trust	\$ 85,894	Various	05/01/01	01/01/20	\$ 14,172
MA Water Pollution Abatement Trust	496,276	Various	11/01/04	01/01/20	83,407
High School, High Rock and Pollard Schools	12,600,000	3.25 - 5.00	06/03/08	12/01/26	1,440,000
High Rock and Pollard Schools	5,000,000	4.61	11/01/08	08/01/27	530,000
High School	3,850,000	2.94	06/01/09	06/01/28	2,105,000
Schools and Admin Building	14,500,000	2.00 - 4.00	12/15/09	08/01/28	8,935,000
Schools and Admin Building	2,000,000	2.00 - 3.00	06/15/10	12/01/24	870,000
Town Hall and Newman School	8,500,000	2.00 - 5.00	05/19/11	10/01/28	5,650,000
Town Hall, Parking and Bridge	2,460,000	2.00 - 3.125	10/05/11	08/01/26	1,425,000
GOB - Refunding FY2012	10,995,000	2.00 - 4.00	06/06/12	11/01/23	6,990,000
Municipal Purpose FY 2013	12,154,000	2.00 - 4.00	10/03/12	07/15/32	8,595,000
Municipal Purpose FY 2013	5,805,000	2.00 - 4.00	06/18/13	11/01/32	4,575,000
Municipal Purpose FY 2014	6,085,000	3.00 - 4.00	12/02/13	07/15/33	4,635,000
Municipal Purpose FY 2014	2,827,000	2.00 - 2.50	06/02/14	05/15/34	1,670,000
Municipal Purpose FY 2015	10,187,000	2.00 - 4.00	04/01/15	11/15/33	8,197,000
High School, High Rock and Pollard Schools	6,645,000	2.00 - 4.00	06/16/16	08/01/27	6,505,000
Municipal Purpose FY 2017	10,480,000	3.00 - 4.00	01/05/17	01/15/42	10,480,000
Subtotal Governmental:					\$ <u>72,699,579</u>
<u>Business-Type Activities:</u>					
MA Water Pollution Abatement Trust	91,400	Various	11/01/04	08/01/18	\$ 11,800
MA Water Pollution Abatement Trust	243,300	Various	11/01/04	08/01/18	31,200
MA Water Pollution Abatement Trust	1,261,272	Various	11/01/04	08/01/18	176,700
MA Water Pollution Abatement Trust	175,500	Various	11/01/04	08/01/18	22,500
Water and Sewer	5,525,000	3.75 - 4.50	11/01/06	11/11/19	1,245,000
Water Improvements and Sewer Pump Station	1,367,000	2.94	06/01/09	06/01/28	270,000
Water and Sewer	1,025,000	2.00 - 4.00	12/15/09	08/01/28	615,000
Water and Sewer	545,000	2.00 - 3.00	06/15/10	12/01/24	240,000
MA Clean Water Trust	78,491	2.00	02/01/16	01/15/18	39,667
MA Water Pollution Abatement Trust	980,226	2.00	06/01/12	07/15/30	591,093
Sewer Pump Station	90,000	2.00 - 4.00	10/03/12	07/15/32	15,000
MA Water Pollution Abatement Trust	6,034,290	2.00	05/22/13	01/15/33	5,025,624
RTS Remediation	140,000	2.00 - 4.00	06/18/13	11/01/32	25,000
Pump Station and RTS Equipment	2,205,000	2.00 - 2.50	06/02/14	05/15/34	1,695,000
Pump Station and Water Mains	3,238,000	2.00 - 4.00	04/01/15	11/15/33	2,978,000
RTS Fleet Replacement	205,000	3.00 - 4.00	01/05/17	01/15/20	205,000
Water System Rehab	260,000	3.00 - 4.00	01/05/17	01/15/20	260,000
Subtotal Business-Type Activities:					\$ <u>13,446,584</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 8,139,526	\$ 2,432,691	\$ 10,572,217
2019	7,722,526	2,172,768	9,895,294
2020	7,072,527	1,906,332	8,978,859
2021	6,080,000	1,667,638	7,747,638
2022	5,905,000	1,448,347	7,353,347
2023 - 2027	23,915,000	4,347,028	28,262,028
2028 - 2032	9,565,000	1,469,106	11,034,106
2033 - 2037	2,990,000	454,919	3,444,919
2038 - 2042	<u>1,310,000</u>	<u>146,900</u>	<u>1,456,900</u>
Total	\$ <u>72,699,579</u>	\$ <u>16,045,729</u>	\$ <u>88,745,308</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,075,060	\$ 377,214	\$ 2,452,274
2019	1,802,319	306,561	2,108,880
2020	896,184	245,587	1,141,771
2021	812,992	219,255	1,032,247
2022	819,949	195,800	1,015,749
2023 - 2027	3,314,440	682,397	3,996,837
2028 - 2032	2,993,382	297,482	3,290,864
2033 - 2034	<u>732,258</u>	<u>22,595</u>	<u>754,853</u>
Total	\$ <u>13,446,584</u>	\$ <u>2,346,891</u>	\$ <u>15,793,475</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2017 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 2007	Sewer System Rehabilitation	\$ 59,160
May 2008	Water Main Improvements	49,575
November 2011	Sewer Pump Station Construction (Reservoir B)	170,000
May 2013	St. Marys Pump Station	200,000
May 2014	Central Ave, Elliot Street Bridge	440,000
May 2015	Water System Rehabilitation	307,000
May 2015	Public Works Infrastructure Program	250,000
May 2015	Central Ave, Elliot Street Bridge	770,000
November 2015	High School Cafeteria Renovation	380,000
May 2016	609 Central Property Acquisition	32,500
May 2016	Public Works Infrastructure Program	500,000
May 2016	RTS Fleet Replacement	12,000
October 2017	Sunita L. Williams School	57,178,949
May 2017	NHS Expansion Design	950,000
May 2017	Rosemary Recreation Complex	<u>11,000,000</u>
Total		\$ <u>72,299,184</u>

E. Changes in General Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/16	Additions	Reductions	Total Balance 6/30/17	Less Current Portion	Equals Long-Term Portion 6/30/17
<u>Governmental Activities</u>						
Bonds payable	\$ 70,337	\$ 10,480	\$ (8,117)	\$ 72,700	\$ (8,140)	\$ 64,560
Unamortized bond premium	2,953	655	(195)	3,413	(253)	3,160
Subtotal bonds payable	73,290	11,135	(8,312)	76,113	(8,393)	67,720
Other:						
Net pension liability	60,173	4,657	-	64,830	-	64,830
Accrued employee benefits	5,133	299	-	5,432	(1,358)	4,074
Landfill closure	692	-	(19)	673	(52)	621
Totals	\$ <u>139,288</u>	\$ <u>16,091</u>	\$ <u>(8,331)</u>	\$ <u>147,048</u>	\$ <u>(9,803)</u>	\$ <u>137,245</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 14,833	\$ 465	(1,851)	\$ 13,447	\$ (2,075)	\$ 11,372
Other:						
Net pension liability	3,705	141	-	3,846	-	3,846
Accrued employee benefits	328	10	-	338	(338)	-
Totals	\$ <u>18,866</u>	\$ <u>616</u>	\$ <u>(1,851)</u>	\$ <u>17,631</u>	\$ <u>(2,413)</u>	\$ <u>15,218</u>

F. Prior Year Refundings

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2017, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$21,420,000.

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 \$672,282 reported as postclosure care liability at June 30, 2017 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 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. **Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other one which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 18.

The balance of the General Fund *unavailable revenues* account is equal to the total of all June 30, 2017 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

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, 2017:

Nonspendable - This fund balance classification represents nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - This fund balance classification includes general fund encumbrances funded by bond issuances, community preservation funds, various special revenue funds, and the income portion of permanent trust funds.

Committed - This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and capital project funds funded by cash capital.

Assigned - 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, 2017:

	General Fund	Community Preservation Fund	Sunita L. Williams School	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Permanent funds	\$ -	\$ -	\$ -	\$ 188,478	\$ 188,478
Total Nonspendable	-	-	-	188,478	188,478
Restricted					
Debt service	572,835	-	-	-	\$ 572,835
Community preservation	-	5,477,235	-	-	5,477,235
Bonded projects	-	-	-	227,389	227,389
Special revenue funds:					
Expendable trust funds	-	-	-	2,263,543	2,263,543
Toll Bros mitigation donation	-	-	-	2,250,000	2,250,000
School lunch	-	-	-	522,677	522,677
Kindergarten after school enrichment program	-	-	-	491,514	491,514
Circuit breaker	-	-	-	461,674	461,674
RRFA - parking meter fund	-	-	-	379,224	379,224
Pupil transportation	-	-	-	140,093	140,093
Insurance loss replacement	-	-	-	192,945	192,945
Library equalization	-	-	-	134,975	134,975
Facility activity use	-	-	-	154,455	154,455
Parks and recreation revolving	-	-	-	226,980	226,980
Other special revenue funds	-	-	-	2,348,904	2,348,904
Total Restricted	572,835	5,477,235	-	9,794,373	15,844,443
Committed					
Continuing appropriations articles	740,597	-	-	-	740,597
Compensated absences	196,678	-	-	-	196,678
General stabilization	4,001,402	-	-	-	4,001,402
Capital improvement stabilization	735,557	-	-	-	735,557
Capital facility stabilization	1,829,877	-	-	-	1,829,877
Athletic facility stabilization	4,346,708	-	-	-	4,346,708
Debt service stabilization	938,175	-	-	-	938,175
Capital projects	-	-	-	8,149,196	8,149,196
Total Committed	12,788,994	-	-	8,149,196	20,938,190
Assigned					
Encumbrances	2,489,445	-	-	-	2,489,445
For next year's expenditures	10,014,449	-	-	-	10,014,449
Total Assigned	12,503,894	-	-	-	12,503,894
Unassigned					
	19,434,334	-	(1,904,416)	(916,682)	16,613,236
Total Fund Balance	\$ 45,300,057	\$ 5,477,235	\$ (1,904,416)	\$ 17,215,365	\$ 66,088,241

Stabilization Fund Arrangements:

In accordance with Massachusetts General Law, Section 5B of Chapter 40, as amended by Section 22 of Chapter 218 of the Acts of 2016, the Town maintains five stabilization funds. Per Chapter 218, balances in the stabilization funds can be expended only upon appropriation at Town Meeting. Additionally, transfers to the stabilization funds are required to be approved at Town Meeting. The Town maintains the following stabilization funds:

- General stabilization – established around 1970, for general purposes.

- Capital improvement stabilization – established in May 2004, to reserve funds for the acquisition of new equipment, and/or the replacement of existing equipment (in both cases relating to equipment for which the Town may borrow for 5 years, or more), and/or for building/facility improvements with a cost of less than \$250,000.
- Capital facility stabilization – established in May 2007, to reserve funds for design, maintenance, renovation or reconstruction relating to the structural integrity of the capital facilities.
- Athletic facility stabilization – established in May 2012, to reserve funds for the renovation and reconstruction of the Town’s athletic facilities.
- Debt service stabilization – established in November 2015, to reserve funds to pay certain debt obligations, when necessary. The fund is intended to be part of the Town’s overall planning strategy for addressing capital facility needs.

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. Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees’ retirement funds.

A. Plan Description

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 (the System), a cost-sharing, multiple-employer public employee defined benefit retirement system (PERS). Eligible employees must participate in the System. 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 System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System’s annual financial reports publicly available from the System located at 1471 Highland Avenue, Needham, Massachusetts 02492.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of

service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2017 was \$6,600,162, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$68,675,930 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the Town's proportion was 98.41% percent.

For the year ended June 30, 2017, the Town recognized pension expense of \$3,661,851. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 730,698
Changes of assumptions	4,798,539	-
Changes in proportion	93,926	22,472
Net difference between projected and actual earnings on pension plan investments	<u>5,945,596</u>	<u>-</u>
Total	<u>\$ 10,838,061</u>	<u>\$ 753,170</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Deferred Outflows (Inflows) of Resources</u>
2018	\$ 3,228,316
2019	3,228,315
2020	2,759,172
2021	<u>869,088</u>
Total	<u>\$ 10,084,891</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.75% for Group 1 and 2 5.25% for Group 4
Investment rate of return	7.50%
Post-retirement cost-of-living adjustment	3.00%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table projected generationally using Scale AA.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.0%	6.44%
International developed markets equity	16.0%	7.40%
International emerging markets equity	6.0%	9.42%
Core fixed income	13.0%	2.02%
High-yield fixed income	10.0%	4.43%
Real estate	10.0%	5.00%
Commodities	4.0%	4.43%
Hedge fund, GTAA, risk parity	13.0%	3.75%
Private equity	10.0%	10.47%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed

that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
June 30, 2016	\$ 91,778,738	\$ 68,675,930	\$ 49,115,690

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

19. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the

MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member’s age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS’ funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio compilation strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate as of June 30, 2016. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year</u> <u>Ended</u>	<u>1% Decrease</u> <u>to 6.50%</u>	<u>Current Discount</u> <u>Rate 7.50%</u>	<u>1% Increase</u> <u>to 8.50%</u>
June 30, 2016	\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense was \$148,771,539 and \$15,175,672 respectively, based on a proportionate share of 0.665408%. As required by GASB 85, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the general fund. In the prior year, per GASB 68, the Town recognized its portion in the government-wide Statement of Activities.

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

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2015, the actuarial valuation date, approximately 904 retirees and 824 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 2017 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, 2017, 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, 2015.

Annual Required Contribution (ARC)	\$ 5,568,923
Interest on net OPEB obligation	(176,202)
Adjustment to ARC	<u>149,549</u>
Annual OPEB cost	5,542,270
Contributions made	<u>6,317,042</u>
Increase in net OPEB asset	774,772 *
Net OPEB asset - beginning of year	<u>2,273,579</u>
Net OPEB asset - end of year	<u>\$ 3,048,351</u>

* represents funding in excess of ARC

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset
2017	\$ 5,542,270	101%	\$ 3,048,351
2016	\$ 5,305,907	101%	\$ 2,273,579
2015	\$ 5,085,671	104%	\$ 2,243,184
2014	\$ 4,710,209	118%	\$ 2,028,657
2013	\$ 4,523,887	109%	\$ 900,000
2012	\$ 3,906,275	113%	\$ 500,000
2011	\$ 3,626,375	100%	\$ -

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 80,807,629
Actuarial value of plan assets	<u>18,424,006</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 62,383,623</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>22.8%</u>
Covered payroll (active plan members)	<u>\$ 82,973,387</u>
UAAL as a percentage of covered payroll	<u>75.2%</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 OPEB 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, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 7.5% investment rate of return and an initial annual healthcare cost trend rate of 7.6% which decreases to a 5% long-term rate for all healthcare benefits after 8 years. The amortization costs for the initial UAAL is a level percentage of payroll for a remaining period of 26 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.25%.

21. Other Post-Employment Benefits – OPEB (GASB 74)

The Governmental Accounting Standards Board (GASB) has issued Statement 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, replacing Statement No. 43 and 57, which was required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50.

On October 28, 1991, the Town adopted MGL Chapter 32B, Section 18A, which established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of external investment pool, corporate bonds federal agency securities, and fixed income mutual funds. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$	91,793,035
Plan fiduciary net position		<u>(26,835,171)</u>
Net OPEB liability	\$	<u><u>64,957,864</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability		29.23%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	4.25 percent
Salary increases	4.75 percent for Group 1, Group 2 and Teacher employees 5.25 percent including inflation for Group 4 employees
Investment rate of return	7.50 percent, net of OPEB plan investment expense, including inflation

Mortality rates were based on the following:

- Pre-Retirement (Non-Teachers) – RP-2000 Employee Mortality Table projected generationally with Scale BB2D from 2009.
- Healthy (Non-Teachers) – RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2009.
- Disabled (Non-Teachers) – RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015.
- Pre-Retirement (Teachers) – RP-2014 Employee Mortality Table projected generationally with Scale BB2D from 2014.
- Healthy (Teachers) – RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2014.
- Disabled (Teachers) – RP-2014 Healthy Annuitant Mortality Table set forward 4 years projected generationally with Scale BB2D from 2014.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study used for the January 1, 2015 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.00%	6.44%
International developed markets equity	16.00%	7.40%
International emerging markets equity	6.00%	9.42%
Core fixed income	13.00%	2.02%
High-yield fixed income	10.00%	4.43%
Real estate	10.00%	5.00%
Commodities	4.00%	4.43%
Hedge fund, GTAA, Risk parity	13.00%	3.75%
Private equity	10.00%	10.47%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current discount rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net OPEB liability	\$ 76,315,486	\$ 64,957,864	\$ 55,930,104

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (13.6 percent decreasing to 4.0 percent for medical, 7.5 percent decreasing to 4.0 percent for prescription drug) or 1-percentage-point higher (15.6 percent decreasing to 6.0 percent for medical, 9.5 percent decreasing to 6.0 percent for prescription drug) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB liability	\$ 53,297,771	\$ 64,957,864	\$ 80,009,868

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, FutureComp, to process claims, produce workers compensation vouchers, and conduct follow-up medical case management on individuals receiving workers compensation benefits.

As of June 30, 2017, the Town's workers compensation fund had a balance of \$554,301 in net position (a component of Total Net Position). This amount is generated from the remainder of the workers compensation budget voted each year by the Town Meeting. The Town appropriated \$634,090 for workers compensation line item in fiscal year 2017. 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 Midwest Employers Casualty Company. Under the terms of its excess workers compensation coverage, the Town is liable for up to \$400,000 per accident per employee to an aggregate limit of \$1,000,000 per accident. The Town's maximum aggregate liability for all claims paid within one year is \$4,000,000. The Town has no excess liability coverage for public safety employees and no reasonable estimate of claims liability has been determined.

A liability for unpaid claims at June 30, 2017 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, 2017 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 881,323
Claims incurred/recognized in fiscal year 2017	710,078
Claims paid in fiscal year 2017	<u>(533,692)</u>
Claims liability, end of year	<u>\$ 1,057,709</u>

23. Subsequent Events - Debt

Subsequent to June 30, 2017, the Town incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note - Sunita L. Williams School	\$ 3,425,000	1.05%	11/01/17	08/01/18

24. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

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

25. Beginning Fund Balance Restatement

The beginning, July 1, 2016, fund balance of the Town has been restated as follows:

	<u>Owens Farm Property Acquisition</u>	<u>Nonmajor Governmental Funds</u>
As previously reported, June 30, 2016	\$ (6,612,955)	\$ 12,401,492
To reclass fund to nonmajor	<u>6,612,955</u>	<u>(6,612,955)</u>
As restated, July 1, 2016	<u>\$ -</u>	<u>\$ 5,788,537</u>

26. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2017. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

TOWN OF NEEDHAM, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(Unaudited)

Needham Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	98.41%	\$68,675,930	\$ 38,860,207	176.73%	67.10%
June 30, 2016	December 31, 2015	98.20%	\$63,877,775	\$ 39,406,655	162.10%	67.43%
June 30, 2015	December 31, 2014	98.27%	\$54,445,695	\$ 35,772,213	152.20%	71.09%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.67%	\$ -	\$ 148,771,539	\$ 148,771,539	\$ 46,022,868	0.00%	52.73%
June 30, 2016	June 30, 2015	0.66%	\$ -	\$ 135,373,423	\$ 135,373,423	\$ 44,621,329	0.00%	55.38%
June 30, 2015	June 30, 2014	0.63%	\$ -	\$ 100,708,775	\$ 100,708,775	\$ 39,867,330	0.00%	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017
(Unaudited)**

Needham Contributory Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 6,600,162	\$ 6,600,162	\$ -	\$ 38,860,207	16.98%
June 30, 2016	\$ 6,039,115	\$ 6,039,115	\$ -	\$ 39,406,655	15.33%
June 30, 2015	\$ 5,524,150	\$ 5,524,150	\$ -	\$ 35,772,213	15.44%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017
(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/15	\$ 18,424,006	\$ 80,807,629	\$ 62,383,623	22.8%	\$ 82,973,387	75.2%
07/01/13	\$ 15,496,964	\$ 62,345,026	\$ 46,848,062	24.9%	\$ 68,551,814	68.3%
07/01/11	\$ 6,423,760	\$ 59,122,322	\$ 52,698,562	10.9%	\$ 60,859,276	86.6%
07/01/09	\$ 5,008,484	\$ 48,888,127	\$ 43,879,643	10.2%	\$ 61,582,295	71.3%
07/01/07	\$ 3,075,317	\$ 46,672,308	\$ 43,596,991	6.6%	\$ 59,616,565	73.1%
07/01/05	\$ 2,131,044	\$ 43,172,705	\$ 41,041,661	4.9%	\$ 51,915,780	79.1%

See Independent Auditors' Report.

**TOWN OF NEEDHAM, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 2,486,847
Interest on unfunded liability - time value of \$	6,544,745
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(3,958,395)</u>
Net change in total OPEB liability	5,073,197
Total OPEB liability - beginning	<u>86,719,838</u>
Total OPEB liability - ending (a)	<u>\$ 91,793,035</u>
Plan fiduciary net position*	
Contributions - employer	\$ 6,317,042
Contributions - member	-
Net investment income	3,020,230
Benefit payments, including refunds of member contributions	(3,958,395)
Administrative expense	-
Other	<u>257,093</u>
Net change in plan fiduciary net position	5,635,970
Plan fiduciary net position - beginning	<u>21,199,201</u>
Plan fiduciary net position - ending (b)	<u>\$ 26,835,171</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 64,957,864</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF NEEDHAM, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 91,793,035
Plan fiduciary net position	<u>26,835,171</u>
Net OPEB liability	<u>\$ 64,957,864</u>
Plan fiduciary net position as a percentage of the total OPEB liability	29.23%
Covered payroll	Not available
Participating employer net OPEB liability as a percentage of covered payroll	Not available

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 5,568,923
Contributions in relation to the actuarially determined contribution	<u>6,317,042</u>
Contribution deficiency (excess)	<u>\$ (748,119)</u>
Covered payroll	Not available
Contributions as a percentage of covered payroll	Not available

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	14.25%

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

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

For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Adjusted Actual</u>	Variance Positive (Negative)
Revenues:			
Current service charges	\$ 8,187,698	\$ 8,973,007	\$ 785,309
Interest income	<u>3,500</u>	<u>8,889</u>	<u>5,389</u>
Total Revenues	8,191,198	8,981,896	790,698
Expenditures:			
Sewer expenditures	1,520,507	1,389,102	131,405
Intergovernmental	5,718,107	5,683,915	34,192
Debt service	<u>1,500,000</u>	<u>1,044,705</u>	<u>455,295</u>
Total Expenditures	<u>8,738,614</u>	<u>8,117,722</u>	<u>620,892</u>
Excess of revenues over expenditures	(547,416)	864,174	1,411,590
Other Financing Sources and Uses:			
Transfers in	519,846	519,846	-
Use of unrestricted net position	491,156	-	(491,156)
Transfers out	<u>(463,586)</u>	<u>(463,586)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>547,416</u>	<u>56,260</u>	<u>(491,156)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 920,434</u>	<u>\$ 920,434</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, 2017

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 5,565,929	\$ 7,008,967	\$ 1,443,038
Interest income	<u>4,600</u>	<u>10,565</u>	<u>5,965</u>
Total Revenues	5,570,529	7,019,532	1,449,003
Expenditures:			
Water expenditures	2,292,953	2,193,278	99,675
Intergovernmental	1,043,468	1,039,372	4,096
Debt service	<u>1,550,000</u>	<u>1,549,049</u>	<u>951</u>
Total Expenditures	<u>4,886,421</u>	<u>4,781,699</u>	<u>104,722</u>
Excess of revenues over expenditures	684,108	2,237,833	1,553,725
Other Financing Sources and Uses:			
Use of unrestricted net position	162,000	-	(162,000)
Transfers out	<u>(846,108)</u>	<u>(846,108)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(684,108)</u>	<u>(846,108)</u>	<u>(162,000)</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,391,725</u>	<u>\$ 1,391,725</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, 2017

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,179,928	\$ 1,233,076	\$ 53,148
Interest income	<u>2,000</u>	<u>3,531</u>	<u>1,531</u>
Total Revenues	1,181,928	1,236,607	54,679
Expenditures:			
Transfers station expenditures	2,157,285	2,122,059	35,226
Debt service	<u>150,000</u>	<u>149,783</u>	<u>217</u>
Total Expenditures	<u>2,307,285</u>	<u>2,271,842</u>	<u>35,443</u>
Excess of revenues over expenditures	(1,125,357)	(1,035,235)	90,122
Other Financing Sources and Uses:			
Transfers in	1,420,000	1,420,000	-
Use of unrestricted net position	35,096	-	(35,096)
Transfers out	<u>(329,739)</u>	<u>(329,739)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>1,125,357</u>	<u>1,090,261</u>	<u>(35,096)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 55,026</u>	<u>\$ 55,026</u>

See Independent Auditors' Report.