

TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Needham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts, as of and for the year ended June 30, 2007 (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2006), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Needham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham as of June 30, 2007 (except the Needham Contributory Retirement System which is as of December 31, 2006), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, on page 50, are not a required part of the basic

financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Needham's basic financial statements. The budget and actual comparisons on pages 51 - 53, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Andover, Massachusetts
November 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the 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, 2007.

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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. For pension trust fund's separately issued financial statements, see Town of Needham, Massachusetts Contributory Retirement System Financial Statements issued July 20,

2007. A complete copy of the System financial statements can be obtained from the Retirement Board.

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 the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 176,832,891 (i.e., net assets), a change of \$ 48,158,388 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balance of \$ 20,635,649, a change of \$ 27,639,107 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 7,751,792, a change of \$ 1,802,946 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 60,603,511, a change of \$ 10,412,879 in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 13,000,000, a change of \$ (15,083,000) 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. All amounts are presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 57,387	\$ 33,901	\$ 15,117	\$ 11,239	\$ 72,504	\$ 45,140
Capital assets	143,799	129,085	46,194	44,666	189,993	173,751
Total assets	<u>201,186</u>	<u>162,986</u>	<u>61,311</u>	<u>55,905</u>	<u>262,497</u>	<u>218,891</u>
Long-term liabilities outstanding	50,553	43,120	14,051	10,839	64,604	53,959
Notes payable	13,000	28,073	-	10	13,000	28,083
Other liabilities	7,661	7,809	400	366	8,061	8,175
Total liabilities	<u>71,214</u>	<u>79,002</u>	<u>14,451</u>	<u>11,215</u>	<u>85,665</u>	<u>90,217</u>
Net assets:						
Invested in capital assets, net	90,828	62,825	35,909	35,548	126,737	98,373
Restricted	1,027	797	-	-	1,027	797
Unrestricted	38,117	20,362	10,951	9,142	49,068	29,504
Total net assets	<u>\$ 129,972</u>	<u>\$ 83,984</u>	<u>\$ 46,860</u>	<u>\$ 44,690</u>	<u>\$ 176,832</u>	<u>\$ 128,674</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,349	\$ 6,503	\$ 14,734	\$ 15,530	\$ 22,083	\$ 22,033
Operating grants and contributions	19,175	17,460	47	39	19,222	17,499
Capital grants and contributions	789	160	-	-	789	160
General revenues:						
Property taxes	74,893	70,024	-	-	74,893	70,024
Excises	4,187	3,921	-	-	4,187	3,921
Penalties and interest on taxes	808	1,261	-	-	808	1,261
Grants and contributions not restricted to specific functions	40,848	11,104	-	-	40,848	11,104
Investment income	1,747	1,066	270	118	2,017	1,184
Other	919	433	-	-	919	433
Total revenues	<u>150,715</u>	<u>111,932</u>	<u>15,051</u>	<u>15,687</u>	<u>165,766</u>	<u>127,619</u>
Expenses:						
General government	\$ 3,995	\$ 3,504	\$ -	\$ -	\$ 3,995	\$ 3,504
Public safety	13,049	12,628	-	-	13,049	12,628
Education	62,541	57,555	-	-	62,541	57,555
Public works	5,815	5,100	-	-	5,815	5,100
Maintenance	6,570	7,523	-	-	6,570	7,523
Human services	1,279	1,175	-	-	1,279	1,175
Culture and recreation	2,657	2,478	-	-	2,657	2,478
Interest on long-term debt	2,151	2,550	-	-	2,151	2,550
Intergovernmental	1,008	946	-	-	1,008	946
Employee benefits	6,669	6,190	-	-	6,669	6,190
Sewer operations	-	-	6,319	6,169	6,319	6,169
Water operations	-	-	3,774	2,990	3,774	2,990
Solid waste operations	-	-	1,781	1,802	1,781	1,802
Total expenses	<u>105,734</u>	<u>99,649</u>	<u>11,874</u>	<u>10,961</u>	<u>117,608</u>	<u>110,610</u>
Change in net assets before transfers and payment to fiduciary fund	44,981	12,283	3,177	4,726	48,158	17,009
Transfers in (out)	<u>1,007</u>	<u>781</u>	<u>(1,007)</u>	<u>(781)</u>	<u>-</u>	<u>-</u>
Change in net assets	45,988	13,064	2,170	3,945	48,158	17,009
Net assets - beginning of year	<u>83,984</u>	<u>70,920</u>	<u>44,690</u>	<u>40,745</u>	<u>128,674</u>	<u>111,665</u>
Net assets - end of year	<u>\$ 129,972</u>	<u>\$ 83,984</u>	<u>\$ 46,860</u>	<u>\$ 44,690</u>	<u>\$ 176,832</u>	<u>\$ 128,674</u>

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

The largest portion of net assets \$ 126,736,338 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 1,027,448 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 49,069,105 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 45,987,798. Key elements of this change are as follows (in thousands):

General fund excess of revenues over expenditures	\$ 4,515
Nonmajor funds excess of revenues over expenditures	1,279
General fund transfer in from Enterprise funds (indirect costs)	1,547
RTS subsidy	(435)
Capital grants and contribution revenue used to acquire capital assets	37,575
Debt service principal payment in excess of depreciation expense	1,260
Other	<u>247</u>
Total Increase	<u>\$ 45,988</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 2,170,590. Stronger than expected revenue collections and the acquisition of capital assets from current year operating revenues were the major factors affecting this change.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular,

unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances deficit of \$ 20,635,649, a change of \$ 27,639,107 in comparison with the prior year. Key elements of this change are as follows (in thousands):

General fund expenses and transfers out in excess of revenues and transfers in	\$ 2,733
Community Preservation Fund excess of revenues over expenditures	2,463
Other special revenue fund revenues over expenditures	832
Excess of current year bonds and MSBA receipts over current year expenditures	<u>21,611</u>
Total	<u>\$ 27,639</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 7,751,792 while total fund balance was \$ 15,476,037. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8 percent of total general fund expenditures, while total fund balance represents 16 percent of that same amount.

The fund balance of the general fund changed by \$ 2,733,117 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves as funding sources	\$ (4,555)
Revenues in excess of budget	3,510
Expenditures less than budget	2,025
Excess property tax collections	799
Excess of current year carryforwards over expenditures of prior year carryforwards	<u>954</u>
Total	<u>\$ 2,733</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 10,951,851, a change of \$ 2,170,590 in comparison with the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 13,843,093. The change in the budget primarily funded additional debt service cost and were funded by the tax levy and MSBA grant received in fiscal year 2007.

Further explanation of this significant increase to the Town's budget is outlined in Section G.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$ 189,992,758 (net of accumulated depreciation), a change of \$ 16,241,996 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:

High School renovations	\$ 15,380,575
Public Library renovations	131,088
Road and sidewalk improvements	1,135,200
High Rock renovations	454,125
Public safety vehicles	127,829
DPW Vehicles	354,356
DPW Equipment	104,177

Debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 60,603,511, all of which was backed by the full faith and credit of the government. Total bond anticipation notes at the end of the current fiscal year was \$ 13,000,000. 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 footnotes to the financial statements.

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

The Town's overall financial picture continues to be stable. Fiscal Year 2007 was the first fiscal year closeout which was based on a budget process under which the Town Manager presents an executive balanced budget to the Board of Selectmen and the Finance Committee for consideration. The year end results show a continued improvement with management's underlying long-term planning goals of sustainability. The stronger results for FY 2007 were also due to some significant one-time events and timing issues. The Town realized more investment income due to higher cash flow levels during the year and generally higher interest rates. The Town benefited from the influx of cash from the Massachusetts School Building Authority (MSBA) which has made considerable inroads with its payments to cities and towns to clear up the backlog of school projects approved for state financial assistance.

During FY 2007 the Town received payments from MSBA for the Newman School, Eliot School, and for the HVAC work at the High School which closed the books on those three projects as it relates to the open receivable. The Town also received the first of seventeen equal annual payments (\$745,381) for the Broadmeadow School project. The Broadmeadow School project payment began a year earlier than had been expected. In total the Town received \$ 5,996,912 during the year for the four projects all of which were previously approved and work completed prior to the creation of the MSBA. The receipt of the backlog of state payments considerably reduced the amount that had to be bonded. The payments not only reduced the amount of principal that had to be financed through bonds, but also reduced the amount of the project cost that was to be raised on the tax levy for FY 2007 and the future years during which the debt would have been paid.

The Town and the MSBA have also entered into a funding agreement for the current High School project which allows for monthly disbursements to the Town for the State's share of the project costs. The payments are issued to the Town as costs for the project are incurred. This funding process avoids the need to issue notes on the State's share of the project cost (less a holdback until a final audit of the project is done), reducing interest expense and avoiding the need to permanently finance the State's share. Through June 30, 2007 the Town received payments in the amount of \$ 19,625,670 for the High School Project with approximately another \$ 10-million to be received as the work progresses. The High School construction project is expected to be completed by late 2008 or early 2009. The close out audit and the final payment from the MSBA for the holdback is projected to occur by 2010.

The Town has also begun moving forward with several capital projects which were identified in the Facility Master Plan (FMP) that was funded at the May 2005 Annual Town Meeting. The High Rock school project borrowing authorization was approved; and the debt exclusion to repay the annual debt service to be incurred was approved by the voters at the April 2007 annual town election. The Town is moving forward with discussions on three other projects identified to be

done prior to 2012, the Senior Center, Town Hall, and DPW. The Town is currently investigating the estimated operational costs associated with the three building projects. This is in keeping with Town's practice of vetting out operating costs as well as debt implications as part of the decision making process of whether to move forward with a multi-million dollar municipal building project. It is probable that funding will be sought during the next twenty-four months.

The FY 2008 outlook is stable, and preliminary indications suggest FY 2009 will be stable as well. We anticipate continued moderate economic activity for Needham which should keep local tax collections strong. The Town continues to monitor key budget influences, energy, health insurance, and other post employment benefits (OPEB). The Town has restructured how it budgets for retiree health insurance and has taken additional steps toward building a fund to pay those future costs. Most labor contracts are settled through 2009 or 2010, including the largest three union groups, fire, police, and teachers; the salary and wage costs for existing personnel are predictable through that time period.

Overall the Town sees its general revenue growth, before new overrides, if any, and other extraordinary events to continue in the four percent growth level during the next one to three years. As projected we have seen a slowing in residential valuation growth, and some pullback on sale prices, but the number of sales is higher than in the prior year. The Town has increased its reserve for property tax abatement and exemption activity, and expects to maintain a higher annual overlay allowance for 2008 and for the triennial town-wide revaluation in FY 2009. These steps should provide adequate reserves should market conditions fall unexpectedly more than forecasts suggest. As a result, we do not expect any material effect on Town finances in the upcoming year due to the current housing prices.

The community did vote for a \$ 1,128,670 operating override to support educational related operating expenses for FY 2008 and the \$ 21,000,000 debt exclusion question for the High Rock School renovation/expansion project and technology upgrades at the Pollard Middle School. The Town still anticipates a general operating override question will be presented to the voters in the late 2008/early 2009 timeframe for costs associated with the operation of the High Rock School. The Town had disclosed to the voters prior to the vote on the debt exclusion question that an operating override for the opening of the High Rock School may be necessary.

There have been no draws on the Town's Stabilization Fund to support any operating or capital expenditures. The Town continues to provide additional funding to its newly established capital improvement fund and this past year established a capital facility fund to begin planning for higher cost building maintenance expenses which will come during the next ten to fifteen years as the expected life of some of the building improvements made during the past several years age and wear out. Management expects the Town's Free Cash position to remain stable, to continue the practice of recommending that non-recurring portion of Free Cash not be used for recurring operating expenses, but rather for

ongoing capital investment and future reserves, and does not expect any unplanned draw on the Stabilization Fund.

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:

Finance Director
Town of Needham, Massachusetts
1471 Highland Avenue
Needham, Massachusetts 02192

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 22,542,627	\$ 11,151,106	\$ 33,693,733
Investments	19,105,862	-	19,105,862
Receivables, net of allowance for uncollectibles:			
Property taxes	1,594,242	-	1,594,242
Excises	260,864	-	260,864
Utilities	-	3,965,630	3,965,630
Departmental	641,885	-	641,885
Intergovernmental	1,587,495	-	1,587,495
Other	192,175	-	192,175
Other assets	74,427	447	74,874
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	206,845	-	206,845
Intergovernmental	11,180,715	-	11,180,715
Capital assets:			
Non-depreciable capital assets	62,744,595	9,709,369	72,453,964
Depreciable assets, net of accumulated depreciation	<u>81,054,188</u>	<u>36,484,606</u>	<u>117,538,794</u>
TOTAL ASSETS	201,185,920	61,311,158	262,497,078
LIABILITIES			
Current:			
Warrants and accounts payable	2,781,769	237,814	3,019,583
Accrued liabilities	2,764,633	103,121	2,867,754
Retainage payable	1,315,678	-	1,315,678
Tax refunds payable	665,810	-	665,810
Intergovernmental	28,130	-	28,130
Notes payable	13,000,000	-	13,000,000
Other liabilities	105,420	58,976	164,396
Current portion of long-term liabilities:			
Bonds payable	4,643,042	1,706,057	6,349,099
Compensated absences	625,630	90,803	716,433
Other liabilities	30,000	-	30,000
Noncurrent:			
Bonds payable, net of current portion	42,000,556	12,253,856	54,254,412
Compensated absences, net of current portion	1,876,892	-	1,876,892
Other liabilities, net of current portion	<u>1,376,000</u>	<u>-</u>	<u>1,376,000</u>
TOTAL LIABILITIES	71,213,560	14,450,627	85,664,187
NET ASSETS			
Invested in capital assets, net of related debt	90,827,658	35,908,680	126,736,338
Restricted for:			
Permanent funds:			
Nonexpendable	168,357	-	168,357
Expendable	319,123	-	319,123
Grants and other statutory restrictions	539,968	-	539,968
Unrestricted	<u>38,117,254</u>	<u>10,951,851</u>	<u>49,069,105</u>
TOTAL NET ASSETS	\$ <u>129,972,360</u>	\$ <u>46,860,531</u>	\$ <u>176,832,891</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,994,959	\$ 677,475	\$ 58,659	\$ -	\$ (3,258,825)	\$ -	\$ (3,258,825)
Public safety	13,048,771	943,887	224,925	-	(11,879,959)	-	(11,879,959)
Education	62,541,383	3,768,492	18,226,237	-	(40,546,654)	-	(40,546,654)
Public works	5,815,185	1,879,678	92,345	-	(3,843,162)	-	(3,843,162)
Maintenance	6,569,952	-	-	788,586	(5,781,366)	-	(5,781,366)
Health and human services	1,278,440	78,083	250,208	-	(950,149)	-	(950,149)
Culture and recreation	2,656,918	1,913	322,253	-	(2,332,752)	-	(2,332,752)
Interest on debt service	2,151,430	-	-	-	(2,151,430)	-	(2,151,430)
Intergovernmental	1,008,402	-	-	-	(1,008,402)	-	(1,008,402)
Other unallocated costs	6,669,200	-	-	-	(6,669,200)	-	(6,669,200)
Total Governmental Activities	105,734,640	7,349,528	19,174,627	788,586	(78,421,899)	-	(78,421,899)
Business-Type Activities:							
Sewer services	6,319,908	8,303,425	46,923	-	-	2,030,440	2,030,440
Water services	3,773,063	4,886,601	-	-	-	1,113,538	1,113,538
Solid waste services	1,780,742	1,544,408	-	-	-	(236,334)	(236,334)
Total Business-Type Activities	11,873,713	14,734,434	46,923	-	-	2,907,644	2,907,644
Total	\$ 117,608,353	\$ 22,083,962	\$ 19,221,550	\$ 788,586	(78,421,899)	2,907,644	(75,514,255)
General Revenues and Transfers:							
Property taxes					74,892,670	-	74,892,670
Excise taxes					4,186,747	-	4,186,747
Penalties, interest, and other taxes					808,374	-	808,374
Grants and contributions not restricted to specific programs					40,848,449	-	40,848,449
Investment income					1,747,049	269,724	2,016,773
Miscellaneous					919,630	-	919,630
Total general revenues					123,402,919	269,724	123,672,643
Excess before transfers					44,981,020	3,177,368	48,158,388
Transfers, net					1,006,778	(1,006,778)	-
Change in Net Assets					45,987,798	2,170,590	48,158,388
Net Assets:							
Beginning of year					83,984,562	44,689,941	128,674,503
End of year					\$ 129,972,360	\$ 46,860,531	\$ 176,832,891

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

ASSETS	<u>General</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 2,309,836	\$ 4,998,487	\$ 14,253,410	\$ 21,561,733
Investments	17,787,196	-	1,318,666	19,105,862
Receivables:				
Property taxes	1,960,489	-	-	1,960,489
Excises	386,168	-	-	386,168
Departmental	738,352	-	34,336	772,688
Intergovernmental	11,926,104	732,989	109,117	12,768,210
Other	192,175	-	-	192,175
Other assets	<u>74,427</u>	<u>-</u>	<u>-</u>	<u>74,427</u>
TOTAL ASSETS	<u>\$ 35,374,747</u>	<u>\$ 5,731,476</u>	<u>\$ 15,715,529</u>	<u>\$ 56,821,752</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 1,781,715	\$ 448,441	\$ 559,813	\$ 2,789,969
Deferred revenues	15,030,701	732,989	147,742	15,911,432
Accrued liabilities	2,291,691	-	77,973	2,369,664
Due to other governments	28,130	-	-	28,130
Retainage payable	-	1,315,678	-	1,315,678
Tax refunds payable	665,810	-	-	665,810
Anticipation notes payable	-	12,520,000	480,000	13,000,000
Other liabilities	<u>100,663</u>	<u>-</u>	<u>4,757</u>	<u>105,420</u>
TOTAL LIABILITIES	19,898,710	15,017,108	1,270,285	36,186,103
Fund Balances:				
Reserved for encumbrances and continuing appropriations	2,433,616	-	-	2,433,616
Reserved for expenditures	3,714,156	-	-	3,714,156
Reserved for other specific purposes	1,576,473	-	-	1,576,473
Reserved for permanent funds	-	-	168,357	168,357
Unreserved:				
Undesignated, reported in:				
General fund	7,751,792	-	-	7,751,792
Special revenue funds	-	-	11,530,514	11,530,514
Capital project funds	-	(9,285,632)	2,427,250	(6,858,382)
Permanent fund	<u>-</u>	<u>-</u>	<u>319,123</u>	<u>319,123</u>
TOTAL FUND BALANCES	<u>15,476,037</u>	<u>(9,285,632)</u>	<u>14,445,244</u>	<u>20,635,649</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 35,374,747</u>	<u>\$ 5,731,476</u>	<u>\$ 15,715,529</u>	<u>\$ 56,821,752</u>

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

JUNE 30, 2007

Total governmental fund balances	\$ 20,635,649
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	143,798,783
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	15,504,125
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	834,975
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(249,052)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(50,552,120)</u>
Net assets of governmental activities	\$ <u><u>129,972,360</u></u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 73,633,270	\$ -	\$ 1,268,791	\$ 74,902,061
Excise taxes	4,124,378	-	-	4,124,378
Penalties, interest, and other taxes	750,023	-	-	750,023
Charges for services	852,281	-	4,811,324	5,663,605
Departmental	1,075,051	-	-	1,075,051
Licenses and permits	1,482,725	-	-	1,482,725
Intergovernmental	17,649,134	24,397,928	6,590,119	48,637,181
Investment income	1,573,613	-	554,725	2,128,338
Fines and forfeitures	220,641	-	-	220,641
Contributions	-	-	463,433	463,433
Other	221,336	-	195,068	416,404
Total Revenues	<u>101,582,452</u>	<u>24,397,928</u>	<u>13,883,460</u>	<u>139,863,840</u>
Expenditures:				
Current:				
General government	3,659,648	-	307,390	3,967,038
Public safety	12,549,886	-	89,668	12,639,554
Education	53,003,302	-	8,242,195	61,245,497
Public works	4,155,763	-	144,988	4,300,751
Maintenance	6,264,977	15,380,575	3,170,910	24,816,462
Health and human services	965,057	-	285,460	1,250,517
Culture and recreation	1,846,589	-	364,223	2,210,812
Employee benefits	6,436,525	-	-	6,436,525
Debt service:				
Principal	4,594,081	-	-	4,594,081
Interest	2,570,662	-	-	2,570,662
Intergovernmental	1,020,629	-	-	1,020,629
Total Expenditures	<u>97,067,119</u>	<u>15,380,575</u>	<u>12,604,834</u>	<u>125,052,528</u>
Excess (deficiency) of revenues over expenditures	4,515,333	9,017,353	1,278,626	14,811,312
Other Financing Sources (Uses):				
Issuance of bonds	-	10,000,000	1,822,000	11,822,000
Refunding	5,525,000	-	-	5,525,000
Payments to escrow	(5,525,983)	-	-	(5,525,983)
Transfers in	1,547,278	-	3,006,011	4,553,289
Transfers out	(3,328,511)	-	(218,000)	(3,546,511)
Total Other Financing Sources (Uses)	<u>(1,782,216)</u>	<u>10,000,000</u>	<u>4,610,011</u>	<u>12,827,795</u>
Net change in fund balances	2,733,117	19,017,353	5,888,637	27,639,107
Fund Balances, at beginning of year	<u>12,742,920</u>	<u>(28,302,985)</u>	<u>8,556,607</u>	<u>(7,003,458)</u>
Fund Balances, at end of year	<u>\$ 15,476,037</u>	<u>\$ (9,285,632)</u>	<u>\$ 14,445,244</u>	<u>\$ 20,635,649</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 27,639,107								
<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 style="width: 150px;">Capital outlay purchases</td> <td style="text-align: right;">18,051,173</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,337,303)</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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 10,774,350 • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="width: 150px;">Issuance of debt</td> <td style="text-align: right;">(11,822,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">4,594,081</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. 420,214 • Some expenses reported in the Statement of Activities, such as compensated absences and landfill costs, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. (204,706) • 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>(127,118)</u> 		Capital outlay purchases	18,051,173	Depreciation	(3,337,303)	Issuance of debt	(11,822,000)	Repayments of debt	4,594,081
Capital outlay purchases	18,051,173								
Depreciation	(3,337,303)								
Issuance of debt	(11,822,000)								
Repayments of debt	4,594,081								
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>45,987,798</u>								

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 72,653,110	\$ 72,833,361	\$ 72,833,361	\$ -
Excise taxes	3,995,000	3,995,000	4,124,378	129,378
Penalties, interest, and other taxes	655,000	655,000	750,023	95,023
Charges for services	804,000	804,000	852,281	48,281
Departmental	591,000	591,000	1,075,051	484,051
Licenses and permits	1,245,000	1,245,000	1,482,725	237,725
Intergovernmental	7,543,854	21,206,433	22,856,339	1,649,906
Investment income	900,000	900,000	1,573,613	673,613
Fines and forfeits	175,000	175,000	220,641	45,641
Other revenue	74,508	74,508	221,336	146,828
Transfers in	1,547,278	1,547,278	1,547,278	-
Use of free cash	3,895,235	3,895,235	3,895,235	-
Other sources	259,743	259,743	259,743	-
Use of overlay surplus	399,737	400,000	400,000	-
Total Revenues and Other Sources	94,738,465	108,581,558	112,092,004	3,510,446
Expenditures and Other Uses:				
General government	3,096,897	3,426,839	3,302,085	124,754
Public safety	11,460,566	11,460,566	11,054,211	406,355
Education	38,409,054	38,712,954	38,549,654	163,300
Public works	4,082,050	4,082,050	3,970,357	111,693
Maintenance	6,285,661	6,347,440	6,274,029	73,411
Human services	868,777	868,777	823,861	44,916
Culture and recreation	1,692,038	1,692,038	1,677,746	14,292
Employee benefits	15,612,389	15,612,389	14,571,885	1,040,504
Debt service	9,803,028	22,903,028	22,881,351	21,677
Intergovernmental	1,045,299	1,045,299	1,020,629	24,670
Transfers out	2,382,706	2,430,178	2,430,178	-
Total Expenditures and Other Uses	94,738,465	108,581,558	106,555,986	2,025,572
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 5,536,018	\$ 5,536,018

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
<u>ASSETS</u>					
Current:					
Cash and short-term investments	\$ 6,035,359	\$ 4,256,415	\$ 859,331	\$ 11,151,105	\$ 980,894
User fees receivable	2,184,676	1,600,462	180,492	3,965,630	-
Other current assets	-	-	447	447	-
Total current assets	8,220,035	5,856,877	1,040,270	15,117,182	980,894
Noncurrent:					
Land and construction in progress	2,041,750	2,768,104	4,899,516	9,709,370	-
Other capital assets, net of accumulated depreciation	11,105,725	23,563,294	1,815,587	36,484,606	-
Total noncurrent assets	13,147,475	26,331,398	6,715,103	46,193,976	-
TOTAL ASSETS	21,367,510	32,188,275	7,755,373	61,311,158	980,894
<u>LIABILITIES</u>					
Current:					
Accounts payable	104,323	67,115	66,377	237,815	-
Accrued payroll	10,188	20,594	11,639	42,421	998
Accrued liabilities	21,920	38,780	-	60,700	144,921
Other liabilities	47,833	1,209	9,934	58,976	-
Current portion of long-term liabilities:					
Bonds payable	658,657	967,400	80,000	1,706,057	-
Compensated absences	29,961	30,820	30,022	90,803	-
Total current liabilities	872,882	1,125,918	197,972	2,196,772	145,919
Noncurrent:					
Bonds payable, net of current portion	5,574,603	6,604,253	75,000	12,253,856	-
Total noncurrent liabilities	5,574,603	6,604,253	75,000	12,253,856	-
TOTAL LIABILITIES	6,447,485	7,730,171	272,972	14,450,628	145,919
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	9,192,868	20,155,709	6,560,103	35,908,680	-
Unrestricted	5,727,157	4,302,395	922,298	10,951,850	834,975
TOTAL NET ASSETS	\$ 14,920,025	\$ 24,458,104	\$ 7,482,401	\$ 46,860,530	\$ 834,975

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 8,303,425	\$ 4,885,032	\$ 1,544,408	\$ 14,732,865	\$ -
Other	-	1,570	-	1,570	120,804
Total Operating Revenues	8,303,425	4,886,602	1,544,408	14,734,435	120,804
Operating Expenses:					
Personnel services	507,805	868,164	511,654	1,887,623	247,922
Non-personnel services	352,155	1,073,003	1,064,225	2,489,383	-
Depreciation	465,099	849,597	189,662	1,504,358	-
Intergovernmental assessments	4,878,286	804,108	-	5,682,394	-
Total Operating Expenses	6,203,345	3,594,872	1,765,541	11,563,758	247,922
Operating Income (Loss)	2,100,080	1,291,730	(221,133)	3,170,677	(127,118)
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	46,923	-	-	46,923	-
Investment income	109,433	131,456	28,836	269,725	-
Interest expense	(116,568)	(178,189)	(15,201)	(309,958)	-
Total Nonoperating Revenues (Expenses), Net	39,788	(46,733)	13,635	6,690	-
Income (Loss) Before Transfers	2,139,868	1,244,997	(207,498)	3,177,367	(127,118)
Transfers in	-	-	435,500	435,500	-
Transfers out	(514,015)	(756,681)	(171,582)	(1,442,278)	-
Change in Net Assets	1,625,853	488,316	56,420	2,170,589	(127,118)
Net Assets at Beginning of Year	13,294,172	23,969,788	7,425,981	44,689,941	962,093
Net Assets at End of Year	\$ 14,920,025	\$ 24,458,104	\$ 7,482,401	\$ 46,860,530	\$ 834,975

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	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	\$ 8,288,669	\$ 4,773,488	\$ 1,529,142	\$ 14,591,299	\$ -
Employer contributions	-	-	-	-	120,804
Payments of utility assessments	(4,878,286)	(804,108)	-	(5,682,394)	-
Payments to vendors and contractors	(260,470)	(1,001,004)	(1,120,322)	(2,381,796)	-
Payments of employee salaries, benefits, and related expenses	(508,128)	(845,720)	(501,328)	(1,855,176)	(199,514)
Net Cash Provided By (Used For) Operating Activities	2,641,785	2,122,656	(92,508)	4,671,933	(78,710)
<u>Cash Flows From Noncapital Financing Activities:</u>					
Operating grants received	46,923	-	-	46,923	-
Transfers from other funds	-	-	435,500	435,500	-
Transfers to other funds	(514,015)	(756,681)	(171,582)	(1,442,278)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(467,092)	(756,681)	263,918	(959,855)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(705,962)	(2,344,412)	(116,369)	(3,166,743)	-
Issuance of bonds and BANs	2,000,000	2,618,000	-	4,618,000	-
Principal payments on bonds and notes	(469,810)	(763,730)	(209,500)	(1,443,040)	-
Interest expense	(111,449)	(168,042)	(15,201)	(294,692)	-
Net Cash (Used For) Capital and Related Financing Activities	712,779	(658,184)	(341,070)	(286,475)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	109,433	131,456	28,836	269,725	-
Net Cash Provided By Investing Activities	109,433	131,456	28,836	269,725	-
Net Change in Cash and Short-Term Investments	2,996,905	839,247	(140,824)	3,695,328	(78,710)
Cash and Short-Term Investments, Beginning of Year	3,038,454	3,417,168	1,000,155	7,455,777	1,059,604
Cash and Short-Term Investments, End of Year	\$ 6,035,359	\$ 4,256,415	\$ 859,331	\$ 11,151,105	\$ 980,894
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income	\$ 2,100,080	\$ 1,291,730	\$ (221,133)	\$ 3,170,677	\$ (127,118)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	465,099	849,597	189,662	1,504,358	-
Loss on sale of capital assets	-	134,258	-	134,258	-
Changes in assets and liabilities:					
User fees	(54,431)	(113,280)	(14,819)	(182,530)	-
Other assets	-	-	(447)	(447)	-
Accounts payable	91,685	(62,259)	(56,097)	(26,671)	(62)
Accrued liabilities	(2,298)	4,675	3,010	5,387	48,470
Other liabilities	39,675	166	-	39,841	-
Compensated absences	1,975	17,769	7,316	27,060	-
Net Cash Provided By Operating Activities	\$ 2,641,785	\$ 2,122,656	\$ (92,508)	\$ 4,671,933	\$ (78,710)

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2007

	Pension Trust Fund (As of <u>December 31, 2006</u>)	Post Retirement <u>Fund</u>	Private Purpose Trust <u>Fund</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 1,097,944	\$ -	\$ 530,231
Investments	112,457,427	3,075,317	1,431,465
Receivables	<u>78,508</u>	<u>-</u>	<u>-</u>
Total Assets	113,633,879	3,075,317	1,961,696
<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	<u>38,462</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>38,462</u>	<u>-</u>	<u>-</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>113,595,417</u></u>	\$ <u><u>3,075,317</u></u>	\$ <u><u>1,961,696</u></u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2007

	Pension Trust Fund (For the Year Ended December 31, 2006)	Post Retirement Fund	Private Purpose Trust Fund
Additions:			
Contributions:			
Employers	\$ 3,835,000	\$ 380,000	\$ -
Plan members	2,385,326	-	-
Other	546,625	141,254	258,887
Total contributions	<u>6,766,951</u>	<u>521,254</u>	<u>258,887</u>
Investment Income:			
Increase in fair value of investments	16,482,177	-	390,842
Less: management fees	(607,520)	-	-
Net investment income	<u>15,874,657</u>	<u>-</u>	<u>390,842</u>
Total additions	22,641,608	521,254	649,729
Deductions:			
Benefit payments to plan members and beneficiaries	8,409,254	-	3,829
Refunds to plan members	307,402	-	-
Administrative expenses	156,216	-	-
Other	527,738	-	-
Total deductions	<u>9,400,610</u>	<u>-</u>	<u>3,829</u>
Net increase	13,240,998	521,254	645,900
Net assets:			
Beginning of year	<u>100,354,419</u>	<u>2,554,063</u>	<u>1,315,795</u>
End of year	<u>\$ 113,595,417</u>	<u>\$ 3,075,317</u>	<u>\$ 1,961,695</u>

See notes to financial statements.

Town of Needham, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Needham Contributory Retirement System, which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System and complete financial statements can be obtained by contacting the System located at Town of Needham, Massachusetts, 1471 Highland Avenue, Needham, Massachusetts 02192.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within

60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *High School Project* accounts for all financial resources and expenditures related to High School renovation costs.

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 non-operating revenues and expenses.

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

The government reports the following major proprietary funds:

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

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

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as “Proposition 2 1/2” 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 2007 tax levy reflected an excess capacity of approximately \$ 6,400.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant and equipment of the primary government is 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	25 - 40

H. Compensated Absences

Based on provisions contained in the Town’s personnel policy or collective bargaining agreement, employees are eligible to accumulate earned but unused vacation and sick leave benefits. Vacation time accrues either annually or monthly based on years of service and is considered vested at the time it is earned. Employees are limited in their ability to carry unused vacation leave from one year to the next. Personal leave is not cumulative and is not carried forward to the next year. Sick leave is accrued either monthly or annually and accumulates without limit. Some employees whose employment terminates by retirement, disability, or death are

entitled to payment upon termination at their current rate of pay for twenty-five percent of accrued sick leave. Some employees are subject to a 960 hour cap for the purposes of sick leave buy-back, and some employees are ineligible to participate in the program.

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

I. Long-Term Obligations

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

J. Fund Equity

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

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital 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 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 with budgetary data.

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

<u>General fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 101,582,452	\$ 97,067,119
Other financing sources/uses (GAAP basis, net of refunding)	<u>1,547,278</u>	<u>3,329,494</u>
Subtotal (GAAP Basis)	103,129,730	100,396,613
Reverse beginning of year appropriation carryforwards from expenditures	-	(749,516)
Add end of year appropriation carryforwards to expenditures	-	1,701,684
Use of free cash	3,895,235	-
Recognize use of overlay surplus	400,000	-
Reverse GASB 24 MTRS	(9,365,045)	(9,365,045)
Other sources	259,743	-
Adjust property tax revenue to the budgetary basis	(799,909)	-
Gross up MSBA revenue appropriated for debt service	<u>14,572,250</u>	<u>14,572,250</u>
Budgetary basis	\$ <u><u>112,092,004</u></u>	\$ <u><u>106,555,986</u></u>

D. Deficit Fund Equity

The Town reflects several special revenue and capital project fund deficits, primarily caused by grant expenses occurring in advance of grant reimbursements and the use of bond anticipation notes to finance construction activities.

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

The following funds had deficits as of June 30, 2007:

Major Governmental Funds:		
High School Project	\$	9,285,632
Nonmajor Governmental Funds:		
Special Revenue Funds:		
2006 NCLB Title I		7,525
2007 NCLB Title I		20,946
2007 USDOE Project Serve		8,000
SPED Out-of-District Tuition		2,216
Capital Project Funds:		
Chapter 90		11,678
High Rock renovation		454,125

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 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 and the Contributory Retirement System (the System) do not have a deposit policy for custodial credit risk.

As of June 30, 2007, out of Town's bank balance of \$ 35,688,411, \$ 9,661,274 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

As of December 31, 2006, out of Contributory Retirement System's bank balance of \$ 1,200,072, \$ 9,892 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

A. Credit Risk

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

Presented below is the actual rating as of year end for each investment of the Town:

<u>Investment Type</u>	Fair <u>Value</u>	Average Rating as of <u>Year End</u>
U.S. Treasury notes	\$ 491,734	AAA
Certificates of deposits	3,848,039	N/A
Corporate equities	1,949,320	N/A
Mutual funds	267,440	N/A
Federal agency securities	16,357,000	AAA
Corporate bonds	699,111	AA3
Total investments	\$ <u>23,612,644</u>	

At December 31, 2006, the System maintained its investments in the State Investment Pool* with a fair value of \$ 112,457 (in thousands). This investment type is not rated.

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

B. Custodial Credit Risk

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

C. Concentration of Credit Risk

The Town and the Retirement System place no limit on the amount invested in any one issuer.

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 and the Retirement System do 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:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	6-10
Debt Related Securities:				
U.S. Treasury notes	\$ 491,734	\$ -	\$ 395,390	\$ 96,344
Corporate bonds	699,111	100,000	313,028	286,083
Federal agency securities	16,357,000	9,265,285	6,309,461	782,254
Total	<u>\$ 17,547,845</u>	<u>\$ 9,365,285</u>	<u>\$ 7,017,879</u>	<u>\$ 1,164,681</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 and the System do not have policies for foreign currency risk.

5. Taxes Receivable

A. Property Taxes

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

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

Taxes receivable at June 30, 2007 consist of the following (in thousands):

Real Estate		
2007	\$ 457	
2005	<u>7</u>	464
Personal Property		
2007	79	
2006	35	
2005	17	
Prior	<u>145</u>	276
Tax Liens		688
Deferred Taxes		<u>532</u>
Total		\$ <u>1,960</u>

B. Allowance for Uncollectibles

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

	<u>Governmental</u>
Real estate taxes	\$ 24
Personal property taxes	135
Excises	125
Ambulance	131

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

C. Departmental

Departmental receivables are primarily comprised of ambulance receivables.

D. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007 and future reimbursements from the MSBA.

6. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 81,090	\$ 453	\$ -	\$ 81,543
Machinery, equipment, and furnishings	5,408	234	-	5,642
Vehicles	5,188	546	-	5,734
Infrastructure	<u>21,078</u>	<u>2,557</u>	<u>-</u>	<u>23,635</u>
Total capital assets, being depreciated	112,764	3,790	-	116,554
Less accumulated depreciation for:				
Buildings and improvements	(16,723)	(1,535)	-	(18,258)
Machinery, equipment, and furnishings	(4,030)	(440)	-	(4,470)
Vehicles	(3,560)	(460)	-	(4,020)
Infrastructure	<u>(7,849)</u>	<u>(903)</u>	<u>-</u>	<u>(8,752)</u>
Total accumulated depreciation	<u>(32,162)</u>	<u>(3,338)</u>	<u>-</u>	<u>(35,500)</u>
Total capital assets, being depreciated, net	80,602	452	-	81,054
Capital assets, not being depreciated:				
Land	18,469	-	-	18,469
Works of art	95	-	-	95
Construction in progress	<u>29,920</u>	<u>16,005</u>	<u>(1,744)</u>	<u>44,181</u>
Total capital assets, not being depreciated	<u>48,484</u>	<u>16,005</u>	<u>(1,744)</u>	<u>62,745</u>
Governmental activities capital assets, net	<u>\$ 129,086</u>	<u>\$ 16,457</u>	<u>\$ (1,744)</u>	<u>\$ 143,799</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 12,311	\$ 83	\$ -	\$ 12,394
Machinery, equipment, and furnishings	3,403	169	(77)	3,495
Vehicles	517	-	-	517
Infrastructure	<u>56,596</u>	<u>125</u>	<u>(74)</u>	<u>56,647</u>
Total capital assets, being depreciated	72,827	377	(151)	73,053
Less accumulated depreciation for:				
Buildings and improvements	(3,833)	(361)	17	(4,177)
Machinery, equipment, and furnishings	(2,486)	(198)	-	(2,684)
Vehicles	(485)	(14)	-	(499)
Infrastructure	<u>(28,277)</u>	<u>(931)</u>	<u>-</u>	<u>(29,208)</u>
Total accumulated depreciation	<u>(35,081)</u>	<u>(1,504)</u>	<u>17</u>	<u>(36,568)</u>
Total capital assets, being depreciated, net	37,746	(1,127)	(134)	36,485
Capital assets, not being depreciated:				
Land	5,167	-	-	5,167
Construction in progress	<u>1,753</u>	<u>2,865</u>	<u>(76)</u>	<u>4,542</u>
Total capital assets, not being depreciated	<u>6,920</u>	<u>2,865</u>	<u>(76)</u>	<u>9,709</u>
Business-type activities capital assets, net	<u>\$ 44,666</u>	<u>\$ 1,738</u>	<u>\$ (210)</u>	<u>\$ 46,194</u>

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

Governmental Activities:	
General government	\$ 96
Public safety	417
Education	1,171
Public works	1,229
Human services	6
Culture and recreation	<u>419</u>
Total depreciation expense - governmental activities	<u>\$ 3,338</u>
Business-Type Activities:	
Sewer	\$ 465
Water	850
Solid Waste	<u>189</u>
Total depreciation expense - business-type activities	<u>\$ 1,504</u>

The works of art consist primarily of paintings capitalized at fair value at date of donation and are held for public exhibition at Needham's Public Library. Since the works of art are inexhaustible, they are not subject to depreciation.

7. Warrants and Accounts Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law. Accounts payable represent additional 2007 expenditures paid after July 15, 2007.

8. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

9. Accrued Liabilities

Accrued liabilities represent primary accrued payroll and withholdings. On the government-wide statement of net assets, accrued liabilities also include accrued interest for bonds and anticipation notes. In the prior year, withholdings were reported as other liabilities.

10. Tax Refunds Payable

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

11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2007:

	<u>Rate</u>	<u>Issue</u>	<u>Maturity</u>	<u>June 30, 2007</u>
High School	4.00 - 4.25%	06/15/07	06/13/08	\$ 12,520,000
School Planning	4.00 - 4.25%	06/15/07	06/13/08	480,000
Total				<u>\$ 13,000,000</u>

The following summarizes activity in notes payable during fiscal year 2007:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ -	\$ 13,000,000	\$ -	\$ 13,000,000
Bond anticipation	15,500,000	-	(15,500,000)	-
Bond anticipation	4,500,000	-	(4,500,000)	-
Bond anticipation	8,083,000	-	(8,083,000)	-
Bond anticipation	-	432,052	(432,052)	-
Total	<u>\$ 28,083,000</u>	<u>\$ 13,432,052</u>	<u>\$ (28,515,052)</u>	<u>\$ 13,000,000</u>

12. Other Liabilities

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

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 undesignated fund balance or unrestricted retained earnings. Compensated absences are paid from the

fund responsible for the employee's compensation with significant liabilities paid from 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 Amount	Interest Rate(s)%	Date of Issue	Date of Maturity	Amount Outstanding as of June 30, 2007
MA Water Pollution Abatement Trust	\$ 310,656	Various	06/01/95	02/01/15	\$ 205,801
MA Water Pollution Abatement Trust	91,400	Various	12/09/98	08/01/18	59,200
MA Water Pollution Abatement Trust	243,300	Various	12/09/98	08/01/18	157,700
MA Water Pollution Abatement Trust	1,261,272	Various	12/09/98	08/01/18	891,758
MA Water Pollution Abatement Trust	175,500	Various	12/09/98	08/01/18	113,800
MA Water Pollution Abatement Trust	422,874	Various	12/09/98	08/01/18	329,594
Municipal Purpose FY 1998	12,726,000	4.75 - 5.00	06/15/99	06/15/19	1,145,000
MA Water Pollution Abatement Trust	85,894	Various	12/09/98	08/01/18	62,004
Municipal Purpose FY 2001	8,883,000	4.00	06/15/01	06/15/11	2,900,000
MA Water Resources Authority	257,304	0.00	07/19/01	08/15/11	128,654
Municipal Purpose FY 2003	5,590,000	1.87	05/15/03	11/15/10	1,630,000
Elementary School	14,000,000	3.00 - 4.70	11/01/03	11/01/23	11,900,000
Municipal Purpose FY 2004	1,680,000	3.00	06/01/04	11/01/07	200,000
Municipal Purpose FY 2005	12,649,000	3.00 - 4.75	12/01/04	12/01/19	10,990,000
Municipal Purpose FY 2005	6,827,000	3.25 - 4.20	06/01/05	06/01/25	5,825,000
Municipal Purpose FY 2006	3,346,000	3.24 - 3.66	12/15/05	02/15/15	2,725,000
Municipal Purpose FY 2007	5,525,000	3.75 - 4.50	11/01/06	11/11/19	5,400,000
Municipal Purpose FY 2007	11,970,000	3.75 - 4.50	11/01/06	11/01/26	11,470,000
Municipal Purpose FY 2008	4,470,000	4.05 - 5.00	06/15/07	06/15/12	4,470,000
					<u>\$ 60,603,511</u>

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,643,041	\$ 1,763,356	\$ 6,406,397
2009	4,931,421	1,593,825	6,525,246
2010	4,411,977	1,420,798	5,832,775
2011	3,637,979	1,263,410	4,901,389
2012	2,567,979	1,132,021	3,700,000
2013- 2017	12,193,622	4,252,495	16,446,117
2018 - 2022	10,032,579	1,907,570	11,940,149
2023 - 2027	4,225,000	336,068	4,561,068
Total	\$ <u>46,643,598</u>	\$ <u>13,669,543</u>	\$ <u>60,313,141</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,706,057	\$ 541,197	\$ 2,247,254
2009	1,526,635	490,636	2,017,271
2010	1,380,365	429,818	1,810,183
2011	964,476	378,218	1,342,694
2012	1,008,963	339,911	1,348,874
2013 - 2017	4,686,217	1,161,240	5,847,457
2018 - 2022	2,487,200	233,801	2,721,001
2023	200,000	4,200	204,200
Total	\$ <u>13,959,913</u>	\$ <u>3,579,021</u>	\$ <u>17,538,934</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2007 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
2001	Rosemary Pool Complex - Design	\$ 72,500
2002	Pool Repair - Rosemary	25,000
2003	Parking Lot Dedham Avenue	46,500
2003	Sewer Pump Station - Richardson Dr.	500,000
2003	Water System Designs Webster	19,000
2003	Water Pump Station Designs - St. Mary's St.	180,000
2004	Library New Facility	3,086,000
2004	High School	27,027,750
2004	Water System Rehab - Webster St. Area	100,000
2004	Sewer Pump Station Design - Great Plain Avenue Area	10,000
2004	Sewer System Rehab - I/I Work	175,000
2005	WTP Computer Systems	10,000
2005	Water System Rehab Designs	25,000
2006	High School	8,700,000
2006	Ridge Hill Rehabilitation	120,000
2006	RTS Scale Replacement	11,000
2006	Sewer Pump Station - Great Plain Ave.	500,000
2006	Water System Improvements - Warren St.	50,000
2006	Rte 128 Sewer System Improvements	1,055,000
2007	Water Service Connections	155,000
2007	Public Works Vehicle & Equipment	18,000
2007	Water System Improvements (Rte 128 area)	1,500,000
2007	High Rock School Design	525,000
2007	Mitchell School Roof Repair	120,000
2007	Roads, Bridges, Intersections and Sidewalks	1,100,000
2008	Water Tank Birds Hill	600,000
2008	High Rock and Pollard School Project	20,475,000
2008	RTS Construction Equipment	230,000
2008	Sewer System Rehabilitation I/I Work	<u>1,806,800</u>
Total		\$ <u><u>68,242,550</u></u>

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>07/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunded</u>	Total Balance <u>06/30/07</u>	Less Current Portion	Equals Long-Term Portion <u>06/30/07</u>
<u>Governmental Activities</u>							
Bonds payable	\$ 39,416	\$ 11,822	\$ (4,594)	\$ -	\$ 46,644	\$ (4,643)	\$ 42,001
Other:							
Accrued employee benefits	2,268	861	(626)	-	2,503	(626)	1,877
Landfill closure	1,436	-	(30)	-	1,406	(30)	1,376
Totals	\$ <u>43,120</u>	\$ <u>12,683</u>	\$ <u>(5,250)</u>	\$ <u>-</u>	\$ <u>50,553</u>	\$ <u>(5,299)</u>	\$ <u>45,254</u>
	Total Balance <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunded</u>	Total Balance <u>6/30/2007</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/2007</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 10,775	\$ 10,143	\$ (1,708)	\$ (5,250)	\$ 13,960	\$ (1,706)	\$ 12,254
Other:							
Accrued employee benefits	64	118	(91)	-	91	(91)	-
Totals	\$ <u>10,839</u>	\$ <u>10,261</u>	\$ <u>(1,799)</u>	\$ <u>(5,250)</u>	\$ <u>14,051</u>	\$ <u>(1,797)</u>	\$ <u>12,254</u>

F. Advance and Current Refundings

Current Year

On November 1, 2006 the Town issued general obligation bonds in the amount of \$ 5,525,000 with a variable interest rate ranging from 3.750% to 4.500% to advance refund \$ 5,250,000 of term bonds with an interest rates ranging from 4.625% to 5.000%. The term bonds mature on June 15, 2019 and are callable on November 1, 2006. The general obligation bonds (plus a premium of \$76,792), after paying total issuance costs of \$ 75,809, the net proceeds were \$ 5,525,983. The net proceeds from the 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 term bonds are called on June 15, 2019. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$ 249,700, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$ 175,000.

Defeased debt still outstanding at June 30, 2007 is \$ 5,250,000.

14. Landfill Closure and Postclosure Care Costs

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

The \$ 1,406,000 reported as landfill postclosure care liability at June 30, 2007 represents the estimated costs to maintain and monitor the site for thirty years. These amounts are based on what it would cost to perform all post-closure care in 2007. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Restricted Net Assets

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

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

16. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2007:

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

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Other Specific Purposes - Represents the amount of fund balance appropriated to be used for future debt service.

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

17. General Fund Undesignated Fund Balance

The undesignated 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). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

18. Commitments and Contingencies

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

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

19. Post-Employment Health Care and Life Insurance Benefits

The Town's employee contracts provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits is included in the total cost of benefits for both active and retired employees. Annual Required Contribution (ARC) for fiscal year 2007 for providing post-employment health and life insurance benefits was \$ 3,305,116. Expected benefit payments were \$ 2,147,680 (fiscal year 2006), resulting in an increase in annual cost to fund the plan of \$ 962,900 (fiscal year 2006). The post-employment benefits were provided to approximately 670 retirees and their survivors. During fiscal year 2006, the Town completed an actuarial valuation of its post-employment health care liability and the resulting actuarial accrued liability is estimated to be \$ 43,172,705. Full implementation of GASB 45 will occur in fiscal year 2008 or 2009.

20. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of

the Needham Contributory Retirement System (NCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the NCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the NCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The NCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	513
Terminated plan members entitled to but not yet receiving benefits	89
Active plan members	<u>654</u>
Total	<u>1,256</u>
Number of participating employers	2

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

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

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

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

C. Teachers

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

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

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

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

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

The Town's current year covered payroll for teachers was approximately \$ 28,269,366.

In fiscal year 2007, the Commonwealth of Massachusetts contributed \$ 9,365,045 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

D. Other Employees

Certain retired employees of the Town were exempted from membership or elected not to participate in the System. The Town pays retirement benefits to these employees from the General Fund appropriations. These employees are not included in the Town's actuarial liability. The Town's fiscal 2007 pension expense relating to these employees was approximately \$ 111,350.

21. Self Insurance

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

As of June 30, 2007, the Town's workers compensation fund had a balance of \$ 834,975 in net assets. This amount is generated from the remainder of the workers compensation budget voted each year by the Town Meeting. The Town appropriates approximately \$ 385,000 for workers compensation line item each year. 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 \$ 350,000 per accident to a limit of \$ 1,000,000 per accident. The Town's maximum aggregate liability for all claims paid within one year is \$ 795,421. 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, 2007 of \$ 144,921 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, 2007 are as follows:

	<u>Workers Compensation</u>
Claims liability, July 1, 2006	\$ 96,488
Claims incurred/recognized in fiscal year 2007	247,922
Claims paid in fiscal year 2007	<u>(199,489)</u>
Claims liability, June 30, 2007	<u>\$ 144,921</u>

22. Risk Management

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

Town of Needham, Massachusetts
Contributory Retirement System
Required Supplemental Information (Unaudited)

Scheduled of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25:

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
01/01/07	\$ 102,235,876	\$ 128,668,586	\$ 26,432,710	79.5%	\$ 26,120,560	101.2%
01/01/05	\$ 89,965,920	\$ 119,994,011	\$ 30,028,091	75.0%	\$ 23,585,296	127.3%
01/01/04	\$ 82,910,726	\$ 113,426,667	\$ 30,515,941	73.1%	\$ 21,633,442	141.1%
01/01/03	\$ 76,356,568	\$ 108,537,756	\$ 32,181,188	70.4%	\$ 21,380,463	150.5%
01/01/00	\$ 80,624,013	\$ 88,236,491	\$ 7,612,478	91.4%	\$ 18,313,876	41.6%
01/01/97	\$ 50,591,567	\$ 69,604,902	\$ 19,013,335	72.7%	\$ 16,120,405	117.9%
01/01/95	\$ 41,448,079	\$ 66,617,237	\$ 25,169,158	62.2%	\$ 12,547,993	200.6%

Schedule of Employer's Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	\$ 3,835,000	100%
2006	\$ 3,696,000	100%
2005	\$ 3,525,000	100%
2004	\$ 2,392,000	100%
2003	\$ 2,353,000	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	01/01/07
Actuarial cost method	Individual Entry Age
Amortization method	4.5% Increasing Payments
Remaining amortization period	14 years
Asset valuation method	5 year smoothing
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.25%
Cost of living adjustments	3.00% of the lesser of pension amount or \$ 12,000 a year.

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, 2007

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 7,527,528	\$ 8,274,981	\$ 747,453
Interest income	40,000	109,433	69,433
Other sources	<u>131,950</u>	<u>131,950</u>	<u>-</u>
Total Revenues and Other Sources	7,699,478	8,516,364	816,886
Expenditures:			
Sewer expenditures	969,839	882,406	87,433
Intergovernmental	5,125,624	4,878,286	247,338
Debt service	1,090,000	1,011,022	78,978
Transfers out	<u>514,015</u>	<u>514,015</u>	<u>-</u>
Total Expenditures and Other Uses	<u>7,699,478</u>	<u>7,285,729</u>	<u>413,749</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,230,635</u>	<u>\$ 1,230,635</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, 2007

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 4,424,370	\$ 4,773,320	\$ 348,950
Interest income	45,000	131,456	86,456
Other sources	<u>18,051</u>	<u>18,051</u>	<u>-</u>
Total Revenues	4,487,421	4,904,776	435,406
Expenditures:			
Water expenditures	1,772,680	1,681,326	91,354
Intergovernmental	830,009	801,108	28,901
Debt service	1,128,051	1,116,072	11,979
Transfers out	<u>756,681</u>	<u>756,681</u>	<u>-</u>
Total Expenditures and Other Uses	<u>4,487,421</u>	<u>4,355,187</u>	<u>132,234</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ 549,589</u>	<u>\$ 567,640</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, 2007

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,484,060	\$ 1,529,590	\$ 45,530
Interest income	30,000	28,836	(1,164)
Transfer in	443,500	443,500	-
Other sources	<u>370,879</u>	<u>370,879</u>	<u>-</u>
Total Revenues and Other Sources	2,328,439	2,372,805	44,366
Expenditures:			
Transfers station expenditures	1,918,857	1,839,305	79,552
Debt service	230,000	226,378	3,622
Transfers out	<u>179,582</u>	<u>179,582</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,328,439</u>	<u>2,245,265</u>	<u>83,174</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 127,540</u>	<u>\$ 127,540</u>

See Independent Auditors' Report.