

TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2006

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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, 2006 (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2005), 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, 2006 (except the Needham Contributory Retirement System which is as of December 31, 2005), 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 47, 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 48 - 50, 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 17, 2006 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 17, 2006

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, 2006.

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,

2005. A complete copy of the System financial statements can be obtained from the Retirement Board.

Notes to the 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 \$ 128,674,503 (i.e., net assets), a change of \$ 17,009,495 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balance deficit of \$ (7,003,458), a change of \$ (15,888,544) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 5,948,846, a change of \$ (335,913) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 50,190,632 a change of \$ (2,902,811) in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 28,083,000, a change of \$ (199,000) 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 33,901	\$ 51,353	\$ 11,239	\$ 7,342	\$ 45,140	\$ 58,695
Capital assets	<u>129,085</u>	<u>103,887</u>	<u>44,666</u>	<u>45,248</u>	<u>173,751</u>	<u>149,135</u>
Total assets	162,986	155,240	55,905	52,590	218,891	207,830
Long-term liabilities outstanding	43,119	45,592	10,839	11,188	53,958	56,780
Other liabilities	<u>35,882</u>	<u>38,728</u>	<u>376</u>	<u>657</u>	<u>36,258</u>	<u>39,385</u>
Total liabilities	79,001	84,320	11,215	11,845	90,216	96,165

(continued)

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	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net assets:						
Invested in capital assets, net	60,267	52,074	35,548	34,750	95,815	86,824
Restricted	797	1,175	-	-	797	1,175
Unrestricted	<u>22,921</u>	<u>17,671</u>	<u>9,142</u>	<u>5,995</u>	<u>32,063</u>	<u>23,666</u>
Total net assets	<u>\$ 83,985</u>	<u>\$ 70,920</u>	<u>\$ 44,690</u>	<u>\$ 40,745</u>	<u>\$ 128,675</u>	<u>\$ 111,665</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,353	\$ 7,096	\$ 15,530	\$ 13,541	\$ 21,883	\$ 20,637
Operating grants and contributions	17,460	18,219	39	14	17,499	18,233
Capital grants and contributions	160	1,872	-	-	160	1,872
General revenues:						
Property taxes	70,024	64,141	-	-	70,024	64,141
Excises	3,921	4,361	-	-	3,921	4,361
Penalties and interest on taxes	1,411	892	-	-	1,411	892
Grants and contributions not restricted to specific programs	11,104	1,828	-	-	11,104	1,828
Investment income	1,066	766	118	55	1,184	821
Other	<u>433</u>	<u>835</u>	<u>-</u>	<u>-</u>	<u>433</u>	<u>835</u>
Total revenues	<u>111,932</u>	<u>100,010</u>	<u>15,687</u>	<u>13,610</u>	<u>127,619</u>	<u>113,620</u>
Expenses:						
General government	3,504	4,381	-	-	3,504	4,381
Public safety	12,628	11,555	-	-	12,628	11,555
Education	57,555	54,611	-	-	57,555	54,611
Public works	5,100	6,079	-	-	5,100	6,079
Maintenance	7,523	5,573	-	-	7,523	5,573
Human services	1,175	1,135	-	-	1,175	1,135
Culture and recreation	2,478	1,990	-	-	2,478	1,990
Interest on long-term debt	2,550	1,628	-	-	2,550	1,628
Intergovernmental	946	966	-	-	946	966
Employee benefits	6,189	5,107	-	-	6,189	5,107
Sewer operations	-	-	6,169	6,124	6,169	6,124
Water operations	-	-	2,990	3,414	2,990	3,414
Solid waste operations	<u>-</u>	<u>-</u>	<u>1,802</u>	<u>1,743</u>	<u>1,802</u>	<u>1,743</u>
Total expenses	<u>99,648</u>	<u>93,025</u>	<u>10,961</u>	<u>11,281</u>	<u>110,609</u>	<u>104,306</u>
Change in net assets before transfers, permanent fund contributions and payment to fiduciary fund	12,284	6,985	4,726	2,329	17,010	9,314

(continued)

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	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Payment to OPEB fund	-	(880)	-	-	-	(880)
Transfers in (out)	<u>781</u>	<u>862</u>	(<u>781</u>)	(<u>862</u>)	<u>-</u>	<u>-</u>
Change in net assets	13,065	6,967	3,945	1,467	17,010	8,434
Net assets - beginning of year	<u>70,920</u> ⁽¹⁾	<u>63,953</u>	<u>40,745</u>	<u>39,278</u>	<u>111,665</u>	<u>103,231</u>
Net assets - end of year	\$ <u>83,985</u>	\$ <u>70,920</u>	\$ <u>44,690</u>	\$ <u>40,745</u>	\$ <u>128,675</u>	\$ <u>111,665</u>

⁽¹⁾As restated

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 \$ 95,813,990 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, \$ 797,123, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 32,063,390 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 \$ 13,064,725. Key elements of this change are as follows (in thousands):

General fund excess of revenues over expenditures	\$ 2,098
Nonmajor funds excess of expenses over revenue	(1,649)
General fund transfer in from Enterprise funds (indirect costs)	1,343
RTS subsidy	(562)
Capital grants and contribution revenue used to acquire capital assets	6,938
Debt service principal payment (including BAN payoff) in excess of depreciation expense	4,057
Additional MSBA grant recognized on government-wide financial statements	1,250
Other	(<u>410</u>)
Total Increase	\$ <u>13,065</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 3,944,770. 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 \$ 7,003,458, a change of \$ (15,888,544) 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	\$ (276)
Special revenue fund revenues over expenditures	1,648
Excess of capital expenditures over current year current year bond proceeds	<u>(17,261)</u>
Total	\$ <u>(15,889)</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 \$ 5,948,846 while total fund balance was \$ 12,742,920. 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 6.5 percent of total general fund expenditures, while total fund balance represents 13.8 percent of that same amount.

The fund balance of the general fund changed by \$ (275,599) 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	\$ (5,524)
Raising of the prior year deficit	140
Revenues in excess of budget	2,262
Expenditures less than budget	1,212
Excess property tax collections	901
Excess of current year carryforwards over expenditures of prior year carryforwards	<u>733</u>
Total	\$ <u>(276)</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 \$ 9,142,462 a change of \$ 3,147,944 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 \$ 2,342,741. The change in the budget primarily funded additional debt service cost and were funded by the tax levy, bond premium, and MSBA grant received in fiscal year 2005.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$ 173,750,761 (net of accumulated depreciation), a change of \$ 24,615,314 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	\$ 19,225
Public library renovations	7,687
Road and sidewalk improvements	1,422
Public safety building renovations	620
Public safety vehicles	287

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 50,190,632 all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

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

FY 2006 was the first full year under the Town Manager form of government. The first year saw the merging of the building maintenance department and building construction department staff into a Department of Public Facilities; the Assessing Department incorporation into the Finance Department umbrella, and

the consolidation of the Council on Aging, Veteran's Services, and Youth Departments into a single budget identity. The Town Manager presented a balanced budget for FY 2007 to the Finance Committee, the first budget prepared by a Town Manager for the Town of Needham. The new budget process moved smoothly given the changes in procedures required under the New Charter and revised by-laws.

Most all previously approved capital projects are moving forward on schedule. Some projects have not yet started due to permitting or other required approvals, and are not yet finished. The construction market continues to be volatile, and as such some projects will be re-bid, to see if more favorable pricing is possible or changes to the scope of work is necessary to remain within budget. The High School renovation project is on schedule and is within the \$62-million dollar approved budget. The Town also expects significant payments from the Massachusetts School Building Authority (MSBA) on prior school projects which will payoff the State's share of the Eliot School and Newman School projects. A payment stream from MSBA for the Broadmeadow School is still expected to begin in FY 2008. The Town has executed a funding agreement with the MSBA for the High School project which will avoid the need to bond approximately \$29.5 million of the project. The lump sum payments from the MSBA for prior projects will also help defray some of the High School project cost which is currently being financed with bond anticipation notes, further reducing the amount that will eventually be bonded. The first phase of the Town's share of the High School project will be bonded in November to lock into the lower interest rates being offered.

In keeping with its commitment to longer range planning, the Town will soon release the Facility Master Plan (FMP) that was funded at the May 2005 Annual Town Meeting. Various committee meetings were held and public information sessions conducted. The preliminary plan outlines identified major capital investments over a 15 plus year timeline with an approximate \$140+ million cost in current dollars. Management does not expect that all the suggested projects will be approved in the time or manner presented, but the plan will provide guidance for the annual and five-year capital planning processes. The FMP will help the community identify potential increases in operating cost as a consequence of investment decisions in its public building assets. The impact of financing the projects with debt is being studied with the expectation that annual recurring capital projects for general fund infrastructure, extraordinary repairs to public facilities, equipment and technology, and public utilities financed by debt will also continue. Two projects identified in the Facility Master Plan, High Rock School renovation and expansion and the relocation of the Senior Center are expected to be presented for consideration by the Town within the next 12 to 18 months.

The FY 2007 outlook is similar to FY 2006 with continued moderate economic activity for Needham which should keep local tax collections strong, and the Town should continue to realize stable local non-tax revenues. The strength in local receipts is attributable to the continued higher per capita incomes which

results in new higher cost vehicles being purchased, and investment in new and existing homes. In addition, the rate adjustment made by the Town as a result of its review of various permits and fees during the last three years has had a positive impact in local receipts. We do anticipate that the higher annual percentage increases in residential property values will abate significantly - slowing was noticed during FY 2006 - and as such the Town will increase its reserve for property tax abatement and exemption activity. We do not expect any material effect on Town finances in the upcoming year due to the slower growth. The community did vote for a \$597,370 operating override to support general governmental functions for FY 2007, but rejected a \$1,476,017 operating override for school functions. However, there were 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. The Town also continues to address its future post employment health insurance cost by appropriating at least \$380,000 per year to set aside for those future costs. Management expects the Town's Free Cash position to remain stable, 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, 2006

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 12,705,384	\$ 7,455,777	\$ 20,161,161
Investments	16,130,646	-	16,130,646
Receivables, net of allowance for uncollectibles:			
Property taxes	1,513,857	-	1,513,857
Excises	305,827	-	305,827
Utilities	-	3,783,100	3,783,100
Departmental	530,568	-	530,568
Intergovernmental	1,971,290	-	1,971,290
Other	286,075	-	286,075
Other Assets	70,804	-	70,804
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	386,881	-	386,881
Capital assets:			
Non-depreciable capital assets	48,483,438	6,955,752	55,439,190
Depreciable assets, net of accumulated depreciation	<u>80,601,475</u>	<u>37,710,097</u>	<u>118,311,572</u>
TOTAL ASSETS	162,986,245	55,904,726	218,890,971
LIABILITIES			
Current:			
Warrants and accounts payable	2,949,630	264,486	3,214,116
Accrued liabilities	3,161,317	82,469	3,243,786
Retainage payable	1,055,170	-	1,055,170
Tax refunds payable	575,816	-	575,816
Intergovernmental	11,846	-	11,846
Notes payable	28,073,000	10,000	28,083,000
Other liabilities	55,409	19,134	74,543
Current portion of long-term liabilities:			
Bonds payable	4,319,248	1,363,040	5,682,288
Compensated absences	566,954	63,743	630,697
Other liabilities	30,000	-	30,000
Noncurrent:			
Bonds payable, net of current portion	35,096,431	9,411,913	44,508,344
Compensated absences, net of current portion	1,700,862	-	1,700,862
Other liabilities, net of current portion	<u>1,406,000</u>	<u>-</u>	<u>1,406,000</u>
TOTAL LIABILITIES	79,001,683	11,214,785	90,216,468
NET ASSETS			
Invested in capital assets, net of related debt	60,266,511	35,547,479	95,813,990
Restricted for:			
Permanent funds:			
Nonexpendable	168,357	-	168,357
Expendable	245,206	-	245,206
Grants and other statutory restrictions	383,560	-	383,560
Unrestricted	<u>22,920,928</u>	<u>9,142,462</u>	<u>32,063,390</u>
TOTAL NET ASSETS	\$ <u>83,984,562</u>	\$ <u>44,689,941</u>	\$ <u>128,674,503</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
			<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,504,467	\$ 354,054	-	-	\$ (3,150,413)	-	\$ (3,150,413)
Public safety	12,628,497	883,706	205,119	-	(11,539,672)	-	(11,539,672)
Education	57,554,777	3,031,648	16,707,779	-	(37,815,350)	-	(37,815,350)
Public works	5,100,361	2,014,163	120,377	-	(2,965,821)	-	(2,965,821)
Maintenance	7,522,931	-	-	159,837	(7,363,094)	-	(7,363,094)
Health and human services	1,175,171	69,524	103,103	-	(1,002,544)	-	(1,002,544)
Culture and recreation	2,478,141	315	323,668	-	(2,154,158)	-	(2,154,158)
Interest on debt service	2,550,385	-	-	-	(2,550,385)	-	(2,550,385)
Intergovernmental	946,375	-	-	-	(946,375)	-	(946,375)
Unallocated employee benefits	6,189,458	-	-	-	(6,189,458)	-	(6,189,458)
Total Governmental Activities	99,650,563	6,353,410	17,460,046	159,837	(75,677,270)	-	(75,677,270)
Business-Type Activities:							
Sewer services	6,168,975	8,169,725	39,386	-	-	2,040,136	2,040,136
Water services	2,989,615	5,960,856	-	-	-	2,971,241	2,971,241
Solid waste services	1,802,818	1,398,952	-	-	-	(403,866)	(403,866)
Total Business-Type Activities	10,961,408	15,529,533	39,386	-	-	4,607,511	4,607,511
Total	\$ 110,611,971	\$ 21,882,943	\$ 17,499,432	\$ 159,837	(75,677,270)	4,607,511	(71,069,759)
		General Revenues and Transfers:					
		Property taxes			70,024,167	-	70,024,167
		Excise taxes			3,920,943	-	3,920,943
		Penalties, interest, and other taxes			1,411,665	-	1,411,665
		Grants and contributions not restricted to specific programs			11,104,496	-	11,104,496
		Investment income			1,066,203	117,936	1,184,139
		Miscellaneous			433,844	-	433,844
		Total general revenues			87,951,318	117,936	88,079,254
		Excess before transfers			12,284,048	4,725,447	17,009,495
		Transfers, net			780,677	(780,677)	-
		Change in Net Assets			13,064,725	3,944,770	17,009,495
Net Assets:							
Beginning of year, as restated					70,919,837	40,745,171	111,665,008
End of year					\$ 83,984,562	\$ 44,689,941	\$ 128,674,503

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

ASSETS	<u>General</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 3,555,964	\$ 792,390	\$ 7,297,433	\$ 11,645,787
Investments	13,202,747	-	2,927,899	16,130,646
Receivables:				
Property taxes	2,043,668	-	-	2,043,668
Excises	413,842	-	-	413,842
Departmental	608,952	-	27,902	636,854
Intergovernmental	-	-	721,747	721,747
Other	286,075	-	-	286,075
Other assets	<u>70,804</u>	<u>-</u>	<u>-</u>	<u>70,804</u>
TOTAL ASSETS	\$ <u>20,182,052</u>	\$ <u>792,390</u>	\$ <u>10,974,981</u>	\$ <u>31,949,423</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 1,375,450	\$ 1,040,205	\$ 533,916	\$ 2,949,571
Deferred revenues	3,087,732	-	749,734	3,837,466
Accrued liabilities	2,332,879	-	61,724	2,394,603
Due to other governments	11,846	-	-	11,846
Retainage payable	-	1,055,170	-	1,055,170
Tax refunds payable	575,816	-	-	575,816
Anticipation notes payable	-	27,000,000	1,073,000	28,073,000
Other liabilities	<u>55,409</u>	<u>-</u>	<u>-</u>	<u>55,409</u>
TOTAL LIABILITIES	7,439,132	29,095,375	2,418,374	38,952,881
Fund Balances:				
Reserved for encumbrances	1,959,182	-	-	1,959,182
Reserved for expenditures	4,336,236	-	-	4,336,236
Reserved for other specific purposes	498,656	-	-	498,656
Reserved for permanent funds	-	-	168,357	168,357
Unreserved:				
Undesignated, reported in:				
General fund	5,948,846	-	-	5,948,846
Special revenue funds	-	-	8,309,754	8,309,754
Capital project funds	-	(28,302,985)	(166,710)	(28,469,695)
Permanent fund	<u>-</u>	<u>-</u>	<u>245,206</u>	<u>245,206</u>
TOTAL FUND BALANCES	<u>12,742,920</u>	<u>(28,302,985)</u>	<u>8,556,607</u>	<u>(7,003,458)</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>20,182,052</u>	\$ <u>792,390</u>	\$ <u>10,974,981</u>	\$ <u>31,949,423</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

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

JUNE 30, 2006

Total governmental fund balances	\$ (7,003,458)
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	129,084,913
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	4,729,778
<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.	962,093
<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.	(669,269)
<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>(43,119,495)</u>
Net assets of governmental activities	<u>\$ 83,984,562</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, 2006

	<u>General</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 68,795,948	\$ -	\$ 1,289,419	\$ 70,085,367
Excise taxes	4,301,184	-	-	4,301,184
Penalties, interest, and other taxes	708,198	-	-	708,198
Charges for services	848,998	-	3,633,203	4,482,201
Departmental	638,481	-	-	638,481
Licenses and permits	1,666,939	-	-	1,666,939
Intergovernmental	15,879,955	-	10,634,149	26,514,104
Investment income	1,041,352	-	73,146	1,114,498
Fines and forfeitures	189,137	-	-	189,137
Contributions	-	-	598,175	598,175
Other	183,719	-	131,076	314,795
Total Revenues	<u>94,253,911</u>	<u>-</u>	<u>16,359,168</u>	<u>110,613,079</u>
Expenditures:				
Current:				
General government	3,366,835	-	41,197	3,408,032
Public safety	12,151,641	-	146,211	12,297,852
Education	49,483,776	-	6,904,296	56,388,072
Public works	4,251,600	-	41,398	4,292,998
Maintenance	6,002,464	19,224,873	10,323,224	35,550,561
Health and human services	969,336	-	214,298	1,183,634
Culture and recreation	1,661,342	-	338,125	1,999,467
Employee benefits	6,123,100	-	-	6,123,100
Debt service	7,180,775	-	-	7,180,775
Intergovernmental	964,759	-	-	964,759
Total Expenditures	<u>92,155,628</u>	<u>19,224,873</u>	<u>18,008,749</u>	<u>129,389,250</u>
Excess (deficiency) of revenues over expenditures	2,098,283	(19,224,873)	(1,649,581)	(18,776,171)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	2,106,950	2,106,950
Transfers in	1,447,677	-	3,259,559	4,707,236
Transfers out	(3,821,559)	-	(105,000)	(3,926,559)
Total Other Financing Sources (Uses)	<u>(2,373,882)</u>	<u>-</u>	<u>5,261,509</u>	<u>2,887,627</u>
Net change in fund balances	(275,599)	(19,224,873)	3,611,928	(15,888,544)
Fund Balances, at beginning of year, as restated	<u>13,018,519</u>	<u>(9,078,112)</u>	<u>4,944,679</u>	<u>8,885,086</u>
Fund Balances, at end of year	<u>\$ 12,742,920</u>	<u>\$ (28,302,985)</u>	<u>\$ 8,556,607</u>	<u>\$ (7,003,458)</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, 2006

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (15,888,544)

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

Capital outlay purchases	28,057,012
Depreciation	(2,858,994)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 1,258,796

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

Issuance of debt	(2,106,950)
Repayments of debt	4,620,810

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 9,576

- 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. (41,158)

- 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. 14,177

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 13,064,725

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 67,356,019	\$ 67,895,721	\$ 67,895,721	\$ -
Excise taxes	3,950,000	3,950,000	4,300,194	350,194
Penalties, interest, and other taxes	675,000	675,000	708,198	33,198
Licenses and permits	808,000	808,000	1,666,939	858,939
Departmental	544,000	544,000	638,481	94,481
Charges for services	719,000	719,000	848,998	129,998
Intergovernmental	7,229,358	7,229,358	7,361,424	132,066
Investment income	475,000	475,000	1,041,352	566,352
Fines and forfeits	190,000	190,000	189,137	(863)
Other	86,451	86,451	183,719	97,268
Transfers in	1,509,406	1,447,677	1,447,677	-
Use of free cash	3,260,346	3,260,346	3,260,346	-
Other sources	-	1,664,742	1,664,742	-
Use of overlay surplus	399,001	599,000	599,000	-
Total Revenues and Other Sources	87,201,581	89,544,295	91,805,928	2,261,633
Expenditures and Other Uses:				
General government	2,857,042	3,034,973	2,983,180	51,793
Public safety	10,938,627	11,080,330	10,692,825	387,505
Education	36,983,351	36,983,351	36,912,172	71,179
Public works	3,808,505	3,808,505	3,690,869	117,636
Maintenance	4,605,241	5,566,392	5,547,691	18,701
Human services	878,131	917,960	827,495	90,465
Culture and recreation	1,503,451	1,540,119	1,520,104	20,015
Employee benefits	15,389,048	14,284,076	13,865,482	418,594
Debt service	7,567,348	9,590,401	9,571,526	18,875
Intergovernmental	981,582	981,582	964,759	16,823
Transfers out	1,548,808	1,616,159	1,616,159	-
Other uses	140,447	140,447	140,447	-
Total Expenditures and Other Uses	87,201,581	89,544,295	88,332,709	1,211,586
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,473,219	\$ 3,473,219

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
ASSETS					
Current:					
Cash and short-term investments	\$ 3,038,454	\$ 3,417,168	\$ 1,000,155	\$ 7,455,777	\$ 1,059,604
User fees receivable	<u>2,130,245</u>	<u>1,487,182</u>	<u>165,673</u>	<u>3,783,100</u>	<u>-</u>
Total current assets	5,168,699	4,904,350	1,165,828	11,238,877	1,059,604
Noncurrent:					
Land and construction in progress	1,335,788	720,448	4,899,516	6,955,752	-
Other capital assets, net of accumulated depreciation	<u>11,570,824</u>	<u>24,250,393</u>	<u>1,888,880</u>	<u>37,710,097</u>	<u>-</u>
Total noncurrent assets	<u>12,906,612</u>	<u>24,970,841</u>	<u>6,788,396</u>	<u>44,665,849</u>	<u>-</u>
TOTAL ASSETS	18,075,311	29,875,191	7,954,224	55,904,726	1,059,604
LIABILITIES					
Current:					
Accounts payable	12,638	129,374	122,474	264,486	62
Accrued payroll	12,486	15,919	8,629	37,034	961
Accrued liabilities	16,801	28,633	-	45,434	96,488
Notes payable	-	2,500	7,500	10,000	-
Other liabilities	8,158	1,043	9,934	19,135	-
Current portion of long-term liabilities:					
Bonds payable	519,810	641,230	202,000	1,363,040	-
Compensated absences	<u>27,986</u>	<u>13,051</u>	<u>22,706</u>	<u>63,743</u>	<u>-</u>
Total current liabilities	597,879	831,750	373,243	1,802,872	97,511
Noncurrent:					
Bonds payable, net of current portion	<u>4,183,260</u>	<u>5,073,653</u>	<u>155,000</u>	<u>9,411,913</u>	<u>-</u>
Total noncurrent liabilities	<u>4,183,260</u>	<u>5,073,653</u>	<u>155,000</u>	<u>9,411,913</u>	<u>-</u>
TOTAL LIABILITIES	4,781,139	5,905,403	528,243	11,214,785	97,511
NET ASSETS					
Invested in capital assets, net of related debt	9,044,536	19,866,296	6,636,647	35,547,479	-
Unrestricted	<u>4,249,636</u>	<u>4,103,492</u>	<u>789,334</u>	<u>9,142,462</u>	<u>962,093</u>
TOTAL NET ASSETS	\$ <u>13,294,172</u>	\$ <u>23,969,788</u>	\$ <u>7,425,981</u>	\$ <u>44,689,941</u>	\$ <u>962,093</u>

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, 2006

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 8,169,725	\$ 5,960,856	\$ 1,398,952	\$ 15,529,533	\$ -
Other	-	-	-	-	78,056
Total Operating Revenues	8,169,725	5,960,856	1,398,952	15,529,533	78,056
Operating Expenses:					
Personnel services	517,570	773,922	491,035	1,782,527	63,879
Non-personnel services	204,512	787,484	1,118,719	2,110,715	-
Depreciation	639,598	825,824	178,615	1,644,037	-
Intergovernmental assessments	4,640,239	351,877	-	4,992,116	-
Total Operating Expenses	6,001,919	2,739,107	1,788,369	10,529,395	63,879
Operating Income (Loss)	2,167,806	3,221,749	(389,417)	5,000,138	14,177
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	39,386	-	-	39,386	-
Investment income	40,216	45,803	31,917	117,936	-
Interest expense	(167,062)	(250,503)	(14,448)	(432,013)	-
Total Nonoperating Revenues (Expenses), Net	(87,460)	(204,700)	17,469	(274,691)	-
Income (Loss) Before Transfers	2,080,346	3,017,049	(371,948)	4,725,447	14,177
Transfers in	-	-	562,000	562,000	-
Transfers out	(521,863)	(665,819)	(154,995)	(1,342,677)	-
Change in Net Assets	1,558,483	2,351,230	35,057	3,944,770	14,177
Net Assets at Beginning of Year, as restated	11,735,689	21,618,558	7,390,924	40,745,171	947,916
Net Assets at End of Year	\$ 13,294,172	\$ 23,969,788	\$ 7,425,981	\$ 44,689,941	\$ 962,093

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	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	\$ 7,975,069	\$ 5,807,558	\$ 1,405,573	\$ 15,188,200	\$ -
Employer contributions	-	-	-	-	78,056
Payments of utility assessments	(4,640,239)	(351,877)	-	(4,992,116)	-
Payments to vendors and contractors	(227,963)	(796,243)	(1,134,111)	(2,158,317)	-
Payments of employee salaries, benefits, and related expenses	(512,968)	(769,028)	(483,524)	(1,765,520)	(50,389)
Net Cash Provided By (Used For) Operating Activities	2,593,899	3,890,410	(212,062)	6,272,247	27,667
<u>Cash Flows From Noncapital Financing Activities:</u>					
Operating grants received	39,386	-	-	39,386	-
Transfers from other funds	-	-	562,000	562,000	-
Transfers to other funds	(521,863)	(665,819)	(154,995)	(1,342,677)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(482,477)	(665,819)	407,005	(741,291)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(408,865)	(522,741)	(129,727)	(1,061,333)	-
Issuance of bonds and BANs	484,550	508,000	256,500	1,249,050	-
Principal payments on bonds and notes	(789,269)	(682,231)	(396,000)	(1,867,500)	-
Interest expense	(161,675)	(245,521)	(14,448)	(421,644)	-
Net Cash (Used For) Capital and Related Financing Activities	(875,259)	(942,493)	(283,675)	(2,101,427)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	40,216	45,803	31,917	117,936	-
Net Cash Provided By Investing Activities	40,216	45,803	31,917	117,936	-
Net Change in Cash and Short-Term Investments	1,276,379	2,327,901	(56,815)	3,547,465	27,667
Cash and Short-Term Investments, Beginning of Year	1,762,075	1,089,267	1,056,970	3,908,312	1,031,378
Cash and Short-Term Investments, End of Year	\$ 3,038,454	\$ 3,417,168	\$ 1,000,155	\$ 7,455,777	\$ 1,059,045
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income	\$ 2,167,806	\$ 3,221,749	\$ (389,417)	\$ 5,000,138	\$ 14,177
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	639,598	825,824	178,615	1,644,037	-
Changes in assets and liabilities:					
User fees	(202,814)	(153,314)	6,542	(349,586)	-
Accounts payable	(23,451)	(8,759)	(15,392)	(47,602)	62
Accrued liabilities	(5,890)	(8,157)	(8,866)	(22,913)	13,428
Other liabilities	8,158	16	79	8,253	-
Compensated absences	10,492	13,051	16,377	39,920	-
Net Cash Provided By Operating Activities	\$ 2,593,899	\$ 3,890,410	\$ (212,062)	\$ 6,272,247	\$ 27,667
<u>Noncash Capital and Related Financing Activities:</u>					
Purchase of equipment under capital lease	\$ -	\$ -	\$ -	\$ -	\$ -

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

	Pension Trust Fund (As of <u>December 31, 2005</u>)	Post Retirement <u>Fund</u>	Private Purpose Trust <u>Fund</u>	Agency <u>Fund</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 1,509,693	\$ 354,654	\$ 1,315,795	\$ 54,916
Investments	98,815,802	2,199,409	-	-
Receivables	<u>85,570</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	100,411,065	2,554,063	1,315,795	54,916
<u>LIABILITIES AND NET ASSETS</u>				
Accounts payable	56,646	-	-	-
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,916</u>
Total Liabilities	<u>56,646</u>	<u>-</u>	<u>-</u>	<u>54,916</u>
<u>NET ASSETS</u>				
Total net assets held in trust for pension benefits and other purposes	<u>\$ 100,354,419</u>	<u>\$ 2,554,063</u>	<u>\$ 1,315,795</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (For the Year Ended <u>December 31, 2005</u>)	Post Retirement <u>Fund</u>	Private Purpose <u>Trust Fund</u>
Additions:			
Contributions:			
Employers	\$ 4,054,485	\$ 453,035	\$ -
Plan members	1,981,192	-	-
Other	296,428	-	73,158
Total contributions	<u>6,332,105</u>	<u>453,035</u>	<u>73,158</u>
Investment Income:			
Increase in fair value of investments	11,319,592	-	138,124
Less: management fees	(509,491)	-	-
Net investment income	<u>10,810,101</u>	<u>-</u>	<u>138,124</u>
Total additions	17,142,206	453,035	211,282
Deductions:			
Benefit payments to plan members and beneficiaries	8,360,578	-	58,325
Refunds to plan members	153,240	-	-
Administrative expenses	584,258	-	-
Total deductions	<u>9,098,076</u>	<u>-</u>	<u>58,325</u>
Net increase	8,044,130	453,035	152,957
Net assets:			
Beginning of year	<u>92,310,289</u>	<u>2,101,028</u>	<u>1,162,838</u>
End of year	<u>\$ 100,354,419</u>	<u>\$ 2,554,063</u>	<u>\$ 1,315,795</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.

The *Agency Funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others.

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 2006 tax levy reflected an excess capacity of approximately \$ 79,000.

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 \$ 25,000 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	50 - 75

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Personal and vacation time accrues monthly based on years of service and is fully vested and may be carried forward up to ten days plus early accrual maximums. Sick leave accrues monthly and is vested at 25%. With the exception of police officers and firefighters, employees who retire from the public service to the Town after ten years will receive 25% of sick pay. All vested personal and vacation pay is accrued when incurred in the government-wide financial state-

ments. 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 they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

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

J. Fund Equity

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

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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)	\$ 94,253,911	\$ 92,155,628
Other financing sources/uses (GAAP basis)	<u>1,447,677</u>	<u>3,821,559</u>
Subtotal (GAAP Basis)	95,701,588	95,977,187
Reverse beginning of year appropriation carryforwards from expenditures	-	(536,770)
Add end of year appropriation carryforwards to expenditures	-	1,270,376

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<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Use of free cash	3,260,346	-
Recognize use of overlay surplus	599,000	-
Reverse GASB 24 MTRS	(8,518,531)	(8,518,531)
Other sources	1,664,742	140,447
Adjust property tax revenue to the budgetary basis	(901,217)	-
Budgetary basis	<u>\$ 91,805,928</u>	<u>\$ 88,332,709</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, 2006:

Major Governmental Funds:	
High School Project	\$ 28,302,985
Nonmajor Governmental Funds:	
Special Revenue Funds:	
2006 NCLB Title I	47,288
2006 SPED	38,457
2006 NCLB Teach Quality	9,049
2006 SPED Early Childhood	6,242
2005 NCLB Teach Quality	5,643
Bulletproof Vest	1,100
2006 FD Kindergarten	7,250
Capital Project Funds:	
Chapter 90	354,222
2001 Road/Intersection Fund	14,835
Library Fund	965,443
2005 Roads/Bridges/Intersection Fund	82,206
2005 Sidewalk Repairs/Resurfacing Funds	38,421

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, 2006, \$ 15,211,973 of the Town's bank balance of \$ 20,238,161 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, 2005, \$ 39,756 of the System's bank balance of \$ 1,404,952 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>	<u>Fair Value</u>	<u>Average Rating as of Year End</u>
U.S. Treasury notes	\$ 4,685,755	AAA
U.S. Treasury strips	993,950	AAA
Certificates of deposits	542,377	N/A
Corporate equities	2,316,543	N/A
Mutual funds	1,082,327	N/A
Federal agency securities	8,598,447	AAA
Other	<u>110,656</u>	N/A
Total investments	\$ <u>18,330,055</u>	

At December 31, 2005, the System maintained its investments in the State Investment Pool* with a fair value of \$ 98,816 (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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6 - 10</u>
Debt Related Securities:				
U.S. Treasury notes	\$ 4,685,755	\$ 3,238,325	\$ 1,447,430	\$ -
U.S. Treasury strips	993,950	993,950	-	-
Federal agency securities	<u>8,598,447</u>	<u>5,565,619</u>	<u>2,900,865</u>	<u>131,963</u>
Total	<u>\$ 14,278,152</u>	<u>\$ 9,797,894</u>	<u>\$ 4,348,295</u>	<u>\$ 131,963</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, 2006 consist of the following (in thousands):

Real Estate			
2006	\$	709	
2005		13	
Prior		4	
			726
Personal Property			
2006		68	
2005		20	
Prior		147	
			235
Tax Liens			528
Deferred Taxes			<u>555</u>
Total			\$ <u>2,044</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	\$ 18
Personal property taxes	125
Excises	108
Ambulance	106

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 2006. The government-wide financial statements also reflects MSBA (Massachusetts School Board Authority) grant receivable for school construction of \$ 1,249,543.

6. Capital Assets

Capital asset activity for the year ended June 30, 2006 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	\$ 65,347	\$ 15,743	\$ -	\$ 81,090
Machinery, equipment, and furnishings	5,309	99	-	5,408
Vehicles	4,813	375	-	5,188
Infrastructure	<u>21,078</u>	<u>-</u>	<u>-</u>	<u>21,078</u>
Total capital assets, being depreciated	96,547	16,217	-	112,764
Less accumulated depreciation for:				
Buildings and improvements	(15,200)	(1,523)	-	(16,723)
Machinery, equipment, and furnishings	(3,619)	(411)	-	(4,030)
Vehicles	(3,154)	(406)	-	(3,560)
Infrastructure	<u>(7,331)</u>	<u>(518)</u>	<u>-</u>	<u>(7,849)</u>
Total accumulated depreciation	<u>(29,304)</u>	<u>(2,858)</u>	<u>-</u>	<u>(32,163)</u>
Total capital assets, being depreciated, net	67,243	13,359	-	81,601

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	18,469	-	-	18,469
Works of Art	95	-	-	95
Construction in progress	<u>18,080</u>	<u>18,463</u>	<u>(6,623)</u>	<u>29,920</u>
Total capital assets, not being depreciated	<u>36,644</u>	<u>18,463</u>	<u>(6,623)</u>	<u>48,484</u>
Governmental activities capital assets, net	<u>\$ 103,887</u>	<u>\$ 31,822</u>	<u>\$ (6,623)</u>	<u>\$ 129,084</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	\$ 12,270	\$ 5	\$ -	\$ 12,275
Machinery, equipment, and furnishings	3,252	151	-	3,403
Vehicles	517	-	-	517
Infrastructure	<u>56,576</u>	<u>20</u>	<u>-</u>	<u>56,596</u>
Total capital assets, being depreciated	72,615	176	-	72,791
Less accumulated depreciation for:				
Buildings and improvements	(3,476)	(356)	-	(3,832)
Machinery, equipment, and furnishings	(2,143)	(343)	-	(2,486)
Vehicles	(466)	(19)	-	(485)
Infrastructure	<u>(27,351)</u>	<u>(926)</u>	<u>-</u>	<u>(28,277)</u>
Total accumulated depreciation	<u>(33,436)</u>	<u>(1,644)</u>	<u>-</u>	<u>(35,080)</u>
Total capital assets, being depreciated, net	39,179	(1,468)	-	37,711
Capital assets, not being depreciated:				
Land	5,167	-	-	5,167
Construction in progress	<u>903</u>	<u>885</u>	<u>-</u>	<u>1,788</u>
Total capital assets, not being depreciated	<u>6,070</u>	<u>885</u>	<u>-</u>	<u>6,955</u>
Business-type activities capital assets, net	<u>\$ 45,249</u>	<u>\$ (583)</u>	<u>\$ -</u>	<u>\$ 44,666</u>

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

Governmental Activities:	
General government	\$ 85
Public safety	383
Education	1,157
Public works	811
Human services	6
Culture and recreation	<u>416</u>
Total depreciation expense - governmental activities	<u>\$ 2,858</u>

Business-Type Activities:	
Sewer	\$ 640
Water	826
Solid Waste	<u>178</u>
Total depreciation expense - business-type activities	\$ <u>1,644</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 2006 expenditures paid by July 15, 2006 as permitted by law. Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

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, 2006 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, 2006:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2006</u>
Bond anticipation	3.50%	12/08/04	11/01/06	\$ 4,500,000
Bond anticipation	3.50%	06/15/05	11/01/06	8,083,000
Bond anticipation	3.50%	06/15/05	06/15/07	<u>15,500,000</u>
Total				\$ <u>28,083,000.</u>

The following summarizes activity in notes payable during fiscal year 2006:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 600,000	\$ -	\$ (600,000)	\$ -
Bond anticipation	7,682,000	-	(7,682,000)	-
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	<u>-</u>	<u>310,956</u>	<u>(310,956)</u>	<u>-</u>
Total	\$ <u>28,282,000</u>	\$ <u>8,393,956</u>	\$ <u>8,592,956</u>	\$ <u>28,083,000</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:

	<u>Original Amount</u>	<u>Interest Rate(s)%</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount Outstanding as of June 30, 2006</u>
MA Water Pollution Abatement Trust	310,656	Various	06/01/95	02/01/15	\$ 225,568
Municipal Purpose FY 1997	7,430,000	4.10 - 5.00	06/15/97	06/15/07	655,000
MA Water Pollution Abatement Trust	91,400	Various	12/09/98	08/01/18	63,500
MA Water Pollution Abatement Trust	243,300	Various	12/09/98	08/01/18	169,100
MA Water Pollution Abatement Trust	1,261,272	Various	12/09/98	08/01/18	956,515
MA Water Pollution Abatement Trust	175,500	Various	12/09/98	08/01/18	122,100
MA Water Pollution Abatement Trust	422,874	Various	12/09/98	08/01/18	344,948
Municipal Purpose FY 1998	12,726,000	4.75 - 5.00	06/15/99	06/15/19	6,960,000
MA Water Pollution Abatement Trust	85,894	Various	12/09/98	08/01/18	66,782
Municipal Purpose FY 2001	8,883,000	4.00	06/15/01	06/15/11	3,630,000
MA Water Resources Authority	257,304	-	07/19/01	08/15/11	154,382
MA Water Resources Authority	333,685	-	09/20/01	08/15/11	66,737
Municipal Purpose FY 2003	5,590,000	1.87	05/15/03	11/15/10	2,200,000
Elementary School	14,000,000	3.00 - 4.70	11/01/03	11/01/23	12,600,000
Municipal Purpose FY 2004	1,680,000	3.00	06/01/04	11/01/07	480,000
Municipal Purpose FY 2005	12,649,000	3.00 - 4.75	12/01/04	12/01/19	11,825,000
Municipal Purpose FY 2005	6,827,000	3.25 - 4.20	06/01/05	06/01/25	6,325,000
Municipal Purpose FY 2006	3,346,000	3.24 - 3.66	12/15/05	02/15/15	<u>3,346,000</u>
					<u>\$ 50,190,632</u>

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,319,248	\$ 1,461,852	\$ 5,781,100
2008	3,710,876	1,304,985	5,015,861
2009	4,031,421	1,171,488	5,202,909
2010	3,481,977	1,036,711	4,518,688
2011	2,867,979	917,022	3,785,001
2012 - 2016	9,499,074	3,359,326	12,858,400
2017 - 2021	8,305,105	1,521,273	9,826,378
2022 - 2026	<u>3,200,000</u>	<u>256,362</u>	<u>3,456,362</u>
Total	\$ <u>39,415,680</u>	\$ <u>11,029,019</u>	\$ <u>50,444,699</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,363,041	\$ 468,721	\$ 1,831,762
2008	1,088,057	415,391	1,503,448
2009	906,635	377,906	1,284,541
2010	780,365	343,438	1,123,803
2011	739,476	311,838	1,051,314
2012 - 2016	3,689,279	1,106,210	4,795,489
2017 - 2021	<u>2,208,100</u>	<u>215,276</u>	<u>2,423,376</u>
Total	\$ <u>10,774,953</u>	\$ <u>3,238,780</u>	\$ <u>14,013,733</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2006 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
1997	Landfill Closure	\$ 143,000
1998	Telephone System Upgrade	39,000
2000	Eliot School New Construction	73,637
2000	Water Systems - Fire Flow Improvements	40,000
2000	Rosemary Pool Complex - Design	72,500
2001	Road & Intersection Improvements	50,000
2001	Pool Repair - Rosemary	25,000
2002	Fire Truck Quint	2,000
2002	Parking Lot Dedham Avenue	50,000
2002	Sewer Pump Station - Richardson Dr.	500,000
2002	Water System Designs Webster	19,000
2002	Water Pump Station Designs - St. Mary's St.	180,000
2003	Library New Facility	3,950,000
2003	High School	51,300,000
2003	Water System Rehab - Webster St. Area	890,500
2003	Sewer Pump Station Design - Great Plain Avenue Area	10,000
2003	Sewer System Rehab - I/I Work	175,000
2004	Transfer Trailer & Staging Pad	18,000
2004	WTP Computer Systems	10,000
2004	Water System Rehab Designs	25,000
2005	High School	10,700,000
2005	Ridge Hill Rehabilitation	126,875
2005	Road Improvement Program	100,000
2005	Sidewalk Improvement Program	100,000
2005	RTS Scale Replacement	19,600
2005	Sewer Pump Station - Great Plain Ave.	500,000
2005	Water System Improvements - Warren St.	330,000
2005	Rte 128 Sewer System Improvements	3,415,000
2006	Water Service Connections	205,000
2006	School District Technology Replacement	166,000
2006	Roads, Bridges, Sidewalks & Intersection Improvement Program	900,000
2006	Public Works Vehicle & Equipment	140,000
2006	Water System Improvements (Rte 128 area)	<u>3,000,000</u>
Total		\$ <u>77,275,112</u>

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2006, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/05</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 41,930	\$ 2,107	\$ (4,621)	\$ 39,416	\$ (4,320)	\$ 35,096
Other:						
Accrued employee benefits	2,197	71	-	2,268	(567)	1,701
Landfill closure	<u>1,466</u>	<u>-</u>	<u>(30)</u>	<u>1,436</u>	<u>(30)</u>	<u>1,406</u>
Totals	\$ <u>45,593</u>	\$ <u>2,178</u>	\$ <u>(4,651)</u>	\$ <u>43,120</u>	\$ <u>(4,917)</u>	\$ <u>39,203</u>
	Total Balance <u>7/1/05</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 11,164	\$ 1,239	\$ (1,628)	\$ 10,775	\$ (1,363)	\$ 9,412
Other:						
Accrued employee benefits	<u>24</u>	<u>40</u>	<u>-</u>	<u>64</u>	<u>(64)</u>	<u>-</u>
Totals	\$ <u>11,188</u>	\$ <u>1,279</u>	\$ <u>(1,628)</u>	\$ <u>10,839</u>	\$ <u>(1,427)</u>	\$ <u>9,412</u>

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 \$ 1,436,000 reported as landfill postclosure care liability at June 30, 2006 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 2006. 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, 2006:

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

Reserved for Debt Service - Represents the amount of fund balance appropriated to be used for future debt service.

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

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. Subsequent Event

On October 19, 2006, the Town issued \$ 11,970,000 general obligation bond to finance water, library and school improvements and equipment. The interest rate on the bond ranges from 3.75 - 4.50 percent and maturity date is May 1, 2026.

On November 1, 2006, the Town issued \$ 5,525,000 general obligation bond to refinance water and sewer debt. The interest rate on the bond ranges from 3.38 - 3.40 percent and maturity date is May 1, 2019.

20. 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 2006 for providing post-employment health and life insurance benefits was \$3,110,580. Expected benefit payments are \$ 2,147,680, resulting in an increase in annual cost to fund the plan of \$ 962,900. 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.

21. 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, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	524
Terminated plan members entitled to but not yet receiving benefits	68
Active plan members	<u>671</u>
Total	<u>1,263</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%
<ul style="list-style-type: none"> • 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 \$ 25,000,000.

In fiscal year 2006, the Commonwealth of Massachusetts contributed \$ 8,518,531 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 2006 pension expense relating to these employees was approximately \$ 125,000.

22. Self Insurance

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

As of June 30, 2006, the Town's workers compensation fund had a balance of \$ 722,770 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, 2006 of \$ 96,488 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, 2006 are as follows:

	<u>Workers Compensation</u>
Claims liability, July 1, 2005	\$ 82,439
Claims incurred/recognized in fiscal year 2006	63,879
Claims paid in fiscal year 2006	<u>(49,830)</u>
Claims liability, June 30, 2006	\$ <u>96,488</u>

23. 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.

24. Beginning Fund Balance/Net Assets Restatement

<u>Net Assets/Fund Equity</u>	<u>Government-Wide</u>		<u>Governmental Funds</u>		<u>Proprietary Funds</u>
	<u>Governmental Activities</u>	<u>Eliot Project</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>
As previously reported	\$ 61,564,510	\$ (7,545,452)	\$ (8,986,253)	\$ 12,450,126	\$ 715,524
GASB 34 reclassification	-	7,545,452	(91,859)	(7,453,593)	-
Reclassification	-	-	-	(232,392)	232,392
Transfer to agency funds	180,538	-	-	180,538	-
Infrastructure retroactive restatement	9,883,983	-	-	-	-
Compensated absences adjustment	(728,482)	-	-	-	-
Long-term debt adjustment	19,288	-	-	-	-
As restated	\$ <u>70,919,837</u>	\$ <u>-</u>	\$ <u>(9,078,112)</u>	\$ <u>4,944,679</u>	\$ <u>947,916</u>

**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 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]
01/01/05	\$ 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%

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	\$ 3,696,000	100%
2005	\$ 3,525,000	100%
2004	\$ 2,392,000	100%
2003	\$ 2,353,000	100%
2002	\$ 2,315,000	100%
2001	\$ 2,754,000	100%
2000	\$ 2,662,000	100%
1999	\$ 2,520,976	100%
1998	\$ 2,478,195	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	01/01/05
Actuarial cost method	Individual Entry Age
Amortization method	4.5% Increasing Payments
Remaining amortization period	19 years
Asset valuation method	Market Value
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, 2006

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 7,094,502	\$ 7,986,650	\$ 892,148
Interest income	24,000	40,216	16,216
Other sources	<u>51,000</u>	<u>51,000</u>	<u>-</u>
Total Revenues and Other Sources	7,169,502	8,077,866	908,364
Expenditures:			
Sewer expenditures	770,523	744,721	25,802
Intergovernmental	4,703,106	4,640,239	62,867
Debt service	1,123,010	991,298	131,712
Transfers out	<u>572,863</u>	<u>572,863</u>	<u>-</u>
Total Expenditures and Other Uses	<u>7,169,502</u>	<u>6,949,121</u>	<u>220,381</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,128,745</u>	<u>\$ 1,128,745</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, 2006

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 4,425,988	\$ 5,807,543	\$ 1,381,555
Interest income	<u>19,000</u>	<u>45,803</u>	<u>26,803</u>
Total Revenues	4,444,988	5,853,346	1,408,358
Expenditures:			
Water expenditures	1,714,999	1,481,603	233,396
Intergovernmental	360,859	351,877	8,982
Debt service	1,105,601	1,128,527	(22,926)
Transfers out	1,085,819	1,096,208	(10,389)
Other uses	<u>177,710</u>	<u>177,710</u>	<u>-</u>
Total Expenditures and Other Uses	<u>4,444,988</u>	<u>4,235,925</u>	<u>209,063</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ 1,617,421</u>	<u>\$ 1,617,421</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, 2006

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,471,239	\$ 1,405,494	\$ (65,745)
Interest income	11,000	31,917	20,917
Transfer in	570,000	570,000	-
Other sources	<u>170,000</u>	<u>170,000</u>	<u>-</u>
Total Revenues and Other Sources	2,222,239	2,177,411	(44,828)
Expenditures:			
Transfers station expenditures	1,706,947	1,646,750	60,197
Debt service	252,197	226,078	26,119
Transfers out	223,095	227,405	(4,310)
Other uses	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,222,239</u>	<u>2,140,233</u>	<u>82,006</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 37,178</u>	<u>\$ 37,178</u>

See Independent Auditors' Report.