

TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Report

For the Year Ended June 30, 2010

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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, 2010, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2009), 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, 2010, (except the Needham Contributory Retirement system which is as of December 31, 2009), 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.

Additional Offices:

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

The management's discussion and analysis appearing on the following pages, and the supplementary information, appearing on page 55, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 56 - 58, 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 a report dated February 1, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 1, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Town of Needham, we offer readers this narrative overview and analysis of the financial activities of the Town of Needham for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A complete copy of the Needham Contributory Retirement System financial statements can be obtained from the Retirement Board at Town Hall, Needham, Massachusetts 02192.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 214,987,148 (i.e., net assets), a change of \$ 8,395,676 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 34,143,875, a change of \$ 13,856,818 in comparison with the prior year, primarily from the issuance of debt of \$ 17,770,000.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 6,184,718, a change of \$ 44,349 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 85,433,027, a change of \$ 11,664,673 in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 2,199,361, a change of \$ (12,970,039) 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 in this section are presented in thousands.

NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 55,833	\$ 60,558	\$ 15,443	\$ 15,066	\$ 71,276	\$ 75,624
Capital assets	<u>189,805</u>	<u>183,860</u>	<u>54,102</u>	<u>52,186</u>	<u>243,907</u>	<u>236,046</u>
Total assets	245,638	244,418	69,545	67,252	315,183	311,670
Long-term liabilities outstanding	74,868	63,663	14,486	13,969	89,354	77,632
Notes payable	1,483	14,886	716	283	2,199	15,169
Other liabilities	<u>7,823</u>	<u>10,611</u>	<u>820</u>	<u>1,667</u>	<u>8,643</u>	<u>12,278</u>
Total liabilities	84,174	89,160	16,022	15,919	100,196	105,079
Net assets:						
Invested in capital assets, net	119,082	110,767	40,134	39,195	159,216	149,962
Restricted	2,345	875	-	-	2,345	875
Unrestricted	<u>40,037</u>	<u>43,616</u>	<u>13,389</u>	<u>12,138</u>	<u>53,426</u>	<u>55,754</u>
Total net assets	<u>\$ 161,464</u>	<u>\$ 155,258</u>	<u>\$ 53,523</u>	<u>\$ 51,333</u>	<u>\$ 214,987</u>	<u>\$ 206,591</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues						
Charges for services	\$ 8,588	\$ 8,150	\$ 15,386	\$ 14,756	\$ 23,974	\$ 22,906
Operating grants and contributions	23,212	21,944	616	27	23,828	21,971
Capital grants and contributions	2,023	4,700	-	-	2,023	4,700
General revenues:						
Property taxes	89,072	83,027	-	-	89,072	83,027
Excises	3,934	4,105	-	-	3,934	4,105
Penalties and interest on taxes	816	715	-	-	816	715
Grants and contributions not restricted to specific programs	2,039	2,929	-	-	2,039	2,929
Investment income	839	561	33	54	872	615
Other	<u>903</u>	<u>684</u>	<u>-</u>	<u>-</u>	<u>903</u>	<u>684</u>
Total revenues	131,426	126,815	16,035	14,837	147,461	141,652

(continued)

(continued)

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Expenses:						
General government	4,667	4,448	-	-	4,667	4,448
Public safety	14,621	14,053	-	-	14,621	14,053
Education	75,897	69,342	-	-	75,897	69,342
Public works	6,911	6,723	-	-	6,911	6,723
Maintenance	8,390	8,292	-	-	8,390	8,292
Human services	1,584	1,418	-	-	1,584	1,418
Culture and recreation	3,108	2,828	-	-	3,108	2,828
Interest on long-term debt	2,850	2,326	-	-	2,850	2,326
Intergovernmental	1,065	1,043	-	-	1,065	1,043
Employee benefits	7,364	7,214	-	-	7,364	7,214
Sewer operation	-	-	6,884	6,218	6,884	6,218
Water operations	-	-	3,708	5,063	3,708	5,063
Solid waste operations	-	-	2,016	1,621	2,016	1,621
Total expenses	<u>126,457</u>	<u>117,687</u>	<u>12,608</u>	<u>12,902</u>	<u>139,065</u>	<u>130,589</u>
Change in net assets before transfers and payment to fiduciary fund	4,969	9,128	3,427	1,935	8,396	11,063
Transfers in	<u>1,237</u>	<u>1,200</u>	<u>(1,237)</u>	<u>(1,200)</u>	-	-
Change in net assets	6,206	10,328	2,190	735	8,396	11,063
Net assets - beginning of year	<u>155,258</u>	<u>144,930</u>	<u>51,333</u>	<u>50,598</u>	<u>206,591</u>	<u>195,528</u>
Net assets - end of year	<u>\$ 161,464</u>	<u>\$ 155,258</u>	<u>\$ 53,523</u>	<u>\$ 51,333</u>	<u>\$ 214,987</u>	<u>\$ 206,591</u>

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

The largest portion of net assets \$ 159,216 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 2,345 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 53,426 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 \$ 6,206. Key elements of this change are as follows:

General fund excess of revenues over expenditures	\$ 2,072
Special revenue funds in excess of revenues over expenditures	1,137
General fund transfer in from Enterprise funds (indirect costs) less RTS subsidy	1,237
Capital grants and contribution revenue used to acquire capital assets	3,214
Depreciation expense in excess of debt service principal	(277)
Other	<u>(1,177)</u>
Total	<u>\$ 6,206</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 2,190. Strong revenue collections offset by credits applied to customer accounts was the major factor 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 of \$ 34,143,875, a change of \$ 13,856,818 in comparison with the prior year. Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 2,072
General fund transfers in from Enterprise Funds for indirect costs, net	1,237
Special revenue funds in excess of revenues over expenditures	1,137
Capital project funds revenues and bond proceeds in excess of expenditures	9,167
Other	<u>244</u>
Total	<u>\$ 13,857</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 \$ 6,184,718, while total fund balance was \$ 14,149,983. 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 5.46 percent of total general fund expenditures, while total fund balance represents 12.50 percent of that same amount.

The fund balance of the general fund changed by \$ 877,449 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves as funding sources	\$ (4,093)
Revenues in excess of budget	936
Expenditures less than budget	2,243
Excess property tax collections	371
Excess of current year carryforwards over expenditures of prior year carryforwards	1,406
Other	<u>14</u>
Total	<u>\$ 877</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 \$ 13,388,443, a change of \$ 1,249,777 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 only \$ 731 and was funded by use of overlay surplus.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year end amounted to \$ 243,907,583 (net of accumulated depreciation), a change of \$ 7,861,221 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	\$	348
Chestnut Street		344
High Rock School renovations and equipment		1,588
RBS improvement		441
Newman School repairs		493
Public safety building roof		450
DPW building		3,652
Town Hall design and renovation		2,994
Land		915

Business-Type Activities:

Sewer Richardson pump station	\$	436
Wastewater pump station		412
Sewer system rehab		382
Water TIP improvement		253
Water main improvement		923
Water distribution system		702

Debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 85,433,027, all of which was backed by the full faith and credit of the government. The Town's general obligation bond rating continues to carry the highest rating possible, AAA, a rating that has been assigned by Standards & Poor's to the Town debt since 2000.

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

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

The Town's fund balance was essentially unchanged in FY2010, as anticipated. Actions that were taken by the Town over the past few years have and will help mitigate lost revenue due to the weakened economy over the prior 24 plus months. Actions include delayed hiring, review of departmental expenses, and longer term cost containment strategies. The Town has zero cost of living agreements in place with many of the collective bargaining groups for FY2011, the other collective bargaining groups have not yet settled for FY2011. The Town has taken steps to restrict its health insurance offerings to higher out-of-pocket plans for new municipal employees that opt for health insurance; this restriction does not yet apply to some school employee bargaining groups, but all school teachers have converted from the traditional plans to the "rate saver" plans. Moreover, more than 40% of current health insurance participants are enrolled in these "rate saver" plans. We are also seeing benefits from moderating energy prices which helped offset the impact of lower revenues for FY2010

and FY2011. The Town adopted the local option meals excise of 0.75% and amended its room excise from 4% to 6%. Both sources of revenue are more volatile with changes in the economy, but have shown a better than expected increase in revenue to the Town, which suggests that segments of the economy are improving.

The Town's overall fund balance shows an increase of \$ 44,349, from \$ 6,140,369 in FY2009 to \$ 6,184,718 in FY2010 for the aforementioned reasons. The fund balance ratio to general fund revenue (12.3%) is higher than last year and is still comparable to the Town's fund ratios during the last economic slowdowns during the late 1990's, early 2000's. The year-end results are in keeping with management's underlying long-term planning goals of sustainability.

The Town funded a feasibility study to investigate options to modernize the heating and ventilation system at the Newman Elementary School and has settled on an approach that calls for abandonment of the entire H&V system and construction of a new system. Other system upgrades include code compliance, roof, electrical, and information system infrastructure. Students will be moved to a temporary modular classroom structure that will be constructed in 2010/2011. The work on the school building is scheduled for 2011/2012. The total estimated cost is \$ 27,412,128. The Town sought and has received approval for partial funding from Massachusetts School Building Authority (MSBA), due to the nature and magnitude of the project. The balance of the project will be funded by bonds. The voters of Needham approved a debt exclusion to cover the cost of the Town's share of the project at a December 8, 2009 special election.

The MSBA's funding agreement with the Town for the Newman Elementary School project provides for monthly disbursements to the Town for the State's share of the project costs. The payments are issued to the Town as costs for the project are incurred. This funding process avoids the need to issue notes on the State's share of the project cost (less a holdback until a final audit of the project is done), reducing interest expense and avoiding the need to permanently finance the State's share.

The Town of Needham and the MSBA had a similar agreement for the Needham High School project which was a multi-year project. Through June 30, 2010, the Town received payments in the amount of \$ 28,071,018 for the High School project. The close-out audit and the final payment from the MSBA of \$ 1,477,422 was received in October 2010 (FY2011) which effectively closed out the MSBA's share of the project cost.

The Town also approved a \$ 3,500,000 debt authorization to fund a replacement of the Pollard Middle School roof. The MSBA has committed to paying at least 30% of the approved cost for this project, and therefore, only the net portion of the project will be financed by debt. The Town has also funded a condition assessment of the Pollard School, as well as the Hillside and Mitchell elementary schools. The purposes of the condition assessment is to determine to what

extent the buildings need to be upgraded, with the possibility that one may need to be razed and the other elementary school may need a major renovation.

Construction funding for the preservation and renovation of Town Hall in the amount of \$ 18,155,746 was approved at the May 2009 Annual Town Meeting. The funding included \$ 6,829,233 in CPA cash, \$ 26,513 in other available funds, and \$ 11,300,000 in bond authorizations supported by CPA receipts and general fund receipts. All the departments were moved temporarily to the newly constructed Public Services Administration Building (PSAB) while the renovation of Town Hall is done. The scheduled re-opening of Town Hall is the fall of 2011. After the Town Hall departments vacate PSAB, the administrative offices of the Public Works, Public Facilities and Building Inspector will move into and permanently reside at PSAB.

The outlook for the FY2011 year end results are expected to improve marginally over the FY2010 results. FY2010 actual General Fund local receipts (\$ 8,945,903) were lower than FY2009 receipts (\$ 9,325,648), but the year over year decline was much smaller than the decline in FY2009 receipts compared to FY2008 receipts. The FY2010 local receipts declined by \$ 379,746 compared to a \$ 1,817,827 drop in FY2009 from FY2008. State "Cherry Sheet" Aid declined from approximately \$ 7.7 million in FY2009 to \$ 7.6 million for FY2010. The Town is scheduled to receive approximately \$ 8.2 million in FY2011. Property tax revenues remain strong and collection rates, net of property tax refunds and overlay reserves, are consistently in the 98 to 99 percent range.

We still anticipate that the fund balance for FY2011 will be flat, with another tight year in FY2012, but improvement is expected in FY2013. The Town sees its general revenue growth, without overrides, to grow at a three percent level during the next 12 to 24 months. However, because most of the Town's debt has been previously approved by debt exclusion, sewer and water debt is fully self-supporting, existing non-excluded debt drops off rapidly, and the pending authorizations will not be at a non-reversal stage, the Town's debt obligations can be satisfied.

The Town is maintaining a reserve for property tax abatement and exemption activity. The abatement application filings were lower than anticipated. This helps to maintain a reserve for FY2011 and FY2012, as the Town will be conducting its triennial property revaluation. The Town also took steps to further shore up reserves by appropriating another \$ 100,000 to its capital facility fund stabilization account and additional \$ 82,761 for its capital improvement fund stabilization account. Management continues to promote the practice that the non-recurring portion of Free Cash (undesignated fund balance) be used for ongoing capital investment, temporary or extraordinary expenditures, and future reserves rather than for recurring operating expenses.

The Town has held the sewer and water rates stable with no increase for the 6th year since a rate restructure was approved by the Board of Selectmen in April, 2005. The FY2012 outlook calls for no rate increase for FY2011 or FY2012, but we offer guidance that the sewer user rate structure may need to be modified,

and a sewer rate increase for FY2013 is possible. The determination as to whether a rate increase will be necessary will be impacted by the final 2012 MWRA assessments.

REQUESTS FOR INFORMATION

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

Assistant Town Manager/
Director of Finance
Town of Needham, Massachusetts
Town Hall
Needham, Massachusetts 02192

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 19,867,949	\$ 10,791,682	\$ 30,659,631
Investments	20,503,392	-	20,503,392
Receivables, net of allowance for uncollectibles:			
Property taxes	1,443,124	-	1,443,124
Excises	296,571	-	296,571
Utilities	-	4,334,156	4,334,156
Departmental	421,064	-	421,064
Intergovernmental	3,289,425	316,143	3,605,568
Other	21,121	-	21,121
Other assets	-	447	447
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,046,097	-	1,046,097
Intergovernmental	8,944,580	-	8,944,580
Capital assets:			
Non-depreciable capital assets	23,658,956	7,836,940	31,495,896
Depreciable assets, net of accumulated depreciation	<u>166,146,317</u>	<u>46,265,370</u>	<u>212,411,687</u>
TOTAL ASSETS	245,638,596	69,544,738	315,183,334
LIABILITIES			
Current:			
Warrants and accounts payable	2,894,758	548,571	3,443,329
Accrued liabilities	4,252,059	128,090	4,380,149
Retainage payable	104,196	36,767	140,963
Refunds payable	328,930	105,912	434,842
Notes payable	1,483,000	716,361	2,199,361
Unearned revenue	123,845	-	123,845
Other liabilities	119,163	-	119,163
Current portion of long-term liabilities:			
Bonds payable	6,692,979	1,924,278	8,617,257
Compensated absences	698,369	100,352	798,721
Other liabilities	51,384	-	51,384
Noncurrent:			
Bonds payable, net of current portion	64,354,179	12,461,591	76,815,770
Compensated absences, net of current portion	2,095,106	-	2,095,106
Other liabilities, net of current portion	<u>976,296</u>	<u>-</u>	<u>976,296</u>
TOTAL LIABILITIES	84,174,264	16,021,922	100,196,186
NET ASSETS			
Invested in capital assets, net of related debt	119,082,137	40,134,373	159,216,510
Restricted for:			
Permanent funds:			
Nonexpendable	188,478	-	188,478
Expendable	1,368,061	-	1,368,061
Grants and other statutory restrictions	788,965	-	788,965
Unrestricted	<u>40,036,691</u>	<u>13,388,443</u>	<u>53,425,134</u>
TOTAL NET ASSETS	\$ <u>161,464,332</u>	\$ <u>53,522,816</u>	\$ <u>214,987,148</u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 6,287,377	\$ -	\$ 12,855,301	\$ 19,142,678
Investments	13,164,402	1,462,296	5,876,694	20,503,392
Receivables:				
Property taxes	2,716,314	14,360	-	2,730,674
Excises	479,314	-	-	479,314
Departmental	690,451	-	6,735	697,186
Intergovernmental	9,689,961	-	2,544,044	12,234,005
Other	21,121	-	-	21,121
	<u>33,048,940</u>	<u>1,476,656</u>	<u>21,282,774</u>	<u>55,808,370</u>
TOTAL ASSETS	\$ 33,048,940	\$ 1,476,656	\$ 21,282,774	\$ 55,808,370
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 1,851,380	7,986	\$ 1,033,884	\$ 2,893,250
Deferred revenues	13,513,155	14,360	6,735	13,534,250
Accrued liabilities	3,091,656	526	109,525	3,201,707
Retainage payable	-	-	104,196	104,196
Refunds payable	328,930	-	-	328,930
Notes payable	-	-	1,483,000	1,483,000
Other liabilities	113,836	-	5,326	119,162
	<u>18,898,957</u>	<u>22,872</u>	<u>2,742,666</u>	<u>21,664,495</u>
TOTAL LIABILITIES	18,898,957	22,872	2,742,666	21,664,495
Fund Balances:				
Reserved for encumbrances and continuing appropriations	3,047,136	-	-	3,047,136
Reserved for expenditures	4,147,716	-	-	4,147,716
Reserved for other specific purposes	770,413	-	-	770,413
Reserved for permanent funds	-	-	188,478	188,478
Unreserved:				
Undesignated, reported in:				
General fund	6,184,718	-	-	6,184,718
Special revenue funds	-	1,453,784	9,383,009	10,836,793
Capital project funds	-	-	7,600,560	7,600,560
Permanent fund	-	-	1,368,061	1,368,061
	<u>14,149,983</u>	<u>1,453,784</u>	<u>18,540,108</u>	<u>34,143,875</u>
TOTAL FUND BALANCES	14,149,983	1,453,784	18,540,108	34,143,875
TOTAL LIABILITIES AND FUND BALANCES	\$ 33,048,940	\$ 1,476,656	\$ 21,282,774	\$ 55,808,370

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, 2010

Total governmental fund balances	\$ 34,143,875
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	189,805,273
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	12,710,087
• 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.	507,644
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(834,234)
• 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>(74,868,313)</u>
Net assets of governmental activities	<u><u>\$ 161,464,332</u></u>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	Community Preservation <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:				
Property taxes	\$ 87,242,948	\$ 1,472,781	\$ -	\$ 88,715,729
Excise taxes	3,879,790	-	-	3,879,790
Penalties, interest, and other taxes	813,967	2,054	-	816,021
Charges for services	958,007	-	5,227,045	6,185,052
Departmental	974,413	-	-	974,413
Licenses and permits	1,150,532	-	-	1,150,532
Intergovernmental	19,337,306	481,111	8,975,917	28,794,334
Investment income	497,129	60,006	282,154	839,289
Fines and forfeitures	250,588	-	-	250,588
Contributions	-	-	716,179	716,179
Other	96,818	-	225,873	322,691
Total Revenues	<u>115,201,498</u>	<u>2,015,952</u>	<u>15,427,168</u>	<u>132,644,618</u>
Expenditures:				
Current:				
General government	4,072,409	1,920,615	80,927	6,073,951
Public safety	14,199,625	-	49,100	14,248,725
Education	62,159,816	-	9,603,185	71,763,001
Public works	5,248,762	-	35,009	5,283,771
Maintenance	7,288,825	-	12,253,661	19,542,486
Health and human services	1,168,426	-	411,533	1,579,959
Culture and recreation	2,003,985	-	555,219	2,559,204
Employee benefits	6,863,095	-	-	6,863,095
Debt service:				
Principal	6,636,977	-	-	6,636,977
Interest	2,422,598	-	-	2,422,598
Intergovernmental	1,064,984	-	-	1,064,984
Total Expenditures	<u>113,129,502</u>	<u>1,920,615</u>	<u>22,988,634</u>	<u>138,038,751</u>
Excess (deficiency) of revenues over expenditures	2,071,996	95,337	(7,561,466)	(5,394,133)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	17,770,000	17,770,000
Bond premium	244,378	-	-	244,378
Transfers in	1,942,584	-	4,360,800	6,303,384
Transfers out	(3,381,509)	(1,149,120)	(536,182)	(5,066,811)
Total Other Financing Sources (Uses)	<u>(1,194,547)</u>	<u>(1,149,120)</u>	<u>21,594,618</u>	<u>19,250,951</u>
Net change in fund balances	877,449	(1,053,783)	14,033,152	13,856,818
Fund Balances, at beginning of year, as reclassified	<u>13,272,534</u>	<u>2,507,567</u>	<u>4,506,956</u>	<u>20,287,057</u>
Fund Balances, at end of year	<u>\$ 14,149,983</u>	<u>\$ 1,453,784</u>	<u>\$ 18,540,108</u>	<u>\$ 34,143,875</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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 13,856,818																		
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">12,972,738</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(6,913,694)</td> </tr> <tr> <td>Net effect of disposal of assets</td> <td style="text-align: right;">(113,712)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(1,707,335)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(17,770,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">6,636,977</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(426,943)</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(72,163)</td> </tr> </table> • Internal service funds are used by management to account for self-insurance activities. The net activity of internal service funds is reported with Governmental Activities. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(256,448)</u></td> </tr> </table> 		Capital outlay purchases	12,972,738	Depreciation	(6,913,694)	Net effect of disposal of assets	(113,712)		(1,707,335)	Issuance of debt	(17,770,000)	Repayments of debt	6,636,977		(426,943)		(72,163)		<u>(256,448)</u>
Capital outlay purchases	12,972,738																		
Depreciation	(6,913,694)																		
Net effect of disposal of assets	(113,712)																		
	(1,707,335)																		
Issuance of debt	(17,770,000)																		
Repayments of debt	6,636,977																		
	(426,943)																		
	(72,163)																		
	<u>(256,448)</u>																		
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>6,206,238</u>																		

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 86,871,500	\$ 86,871,500	\$ 86,871,500	\$ -
Excise taxes	3,800,000	3,800,000	3,879,790	79,790
Penalties, interest, and other taxes	625,750	625,750	813,967	188,217
Charges for services	895,410	895,410	958,007	62,597
Departmental	833,840	833,840	974,413	140,573
Licenses and permits	900,000	900,000	1,150,532	250,532
Intergovernmental	8,539,395	8,539,395	8,400,413	(138,982)
Investment income	545,000	545,000	497,129	(47,871)
Fines and forfeits	240,000	240,000	250,588	10,588
Other revenue	50,383	50,383	96,818	46,435
Bond premium	55,162	55,162	244,378	189,216
Transfers in	1,785,595	1,785,595	1,940,470	154,875
Use of free cash	3,145,416	3,145,416	3,145,416	-
Use of bond premium	82,381	82,381	82,381	-
Use of MSBA receipts	364,686	364,686	364,686	-
Use of overlay surplus	500,000	500,731	500,731	-
Total Revenues and Other Sources	109,234,518	109,235,249	110,171,219	935,970
Expenditures and Other Uses:				
General government	5,459,624	4,059,942	3,734,817	325,125
Public safety	12,606,225	12,874,868	12,455,858	419,010
Education	45,832,027	45,832,027	45,629,280	202,747
Public works	4,213,810	4,737,595	4,466,967	270,628
Maintenance	7,750,302	7,618,262	7,037,517	580,745
Human services	1,003,002	1,017,376	981,686	35,690
Culture and recreation	1,858,108	1,891,843	1,858,855	32,988
Employee benefits	17,685,025	17,685,025	17,299,269	385,756
Debt service	9,943,937	9,943,937	9,943,218	719
Intergovernmental	1,054,996	1,054,996	1,064,984	(9,988)
Transfers out	1,816,097	2,508,013	2,508,013	-
Other	11,365	11,365	11,365	-
Total Expenditures and Other Uses	109,234,518	109,235,249	106,991,829	2,243,420
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,179,390	\$ 3,179,390

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	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	\$ 5,148,875	\$ 4,337,592	\$ 1,305,215	\$ 10,791,682	\$ 725,271
User fees receivable	2,348,458	1,858,054	127,644	4,334,156	-
Intergovernmental receivable	-	316,143	-	316,143	-
Other current assets	-	-	447	447	-
Total current assets	7,497,333	6,511,789	1,433,306	15,442,428	725,271
Noncurrent:					
Land and construction in progress	1,297,716	1,531,781	5,007,443	7,836,940	-
Other capital assets, net of accumulated depreciation	16,746,366	27,762,707	1,756,297	46,265,370	-
Total noncurrent assets	18,044,082	29,294,488	6,763,740	54,102,310	-
TOTAL ASSETS	25,541,415	35,806,277	8,197,046	69,544,738	725,271
LIABILITIES					
Current:					
Accounts payable	261,439	112,845	174,287	548,571	1,509
Accrued payroll	12,433	31,956	17,391	61,780	-
Accrued liabilities	30,762	35,548	-	66,310	216,118
Retainage payable	36,767	-	-	36,767	-
Refunds payable	70,105	3,759	32,048	105,912	-
Notes payable	-	716,361	-	716,361	-
Current portion of long-term liabilities:					
Bonds payable	841,118	988,160	95,000	1,924,278	-
Compensated absences	38,200	26,761	35,391	100,352	-
Total current liabilities	1,290,824	1,915,390	354,117	3,560,331	217,627
Noncurrent:					
Bonds payable, net of current portion	6,057,860	6,323,731	80,000	12,461,591	-
Total noncurrent liabilities	6,057,860	6,323,731	80,000	12,461,591	-
TOTAL LIABILITIES	7,348,684	8,239,121	434,117	16,021,922	217,627
NET ASSETS					
Invested in capital assets, net of related debt	11,956,729	21,413,904	6,763,740	40,134,373	-
Unrestricted	6,236,002	6,153,252	999,189	13,388,443	507,644
TOTAL NET ASSETS	\$ 18,192,731	\$ 27,567,156	\$ 7,762,929	\$ 53,522,816	\$ 507,644

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, 2010

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 8,119,565	\$ 5,826,956	\$ 1,439,627	\$ 15,386,148	\$ -
Other	-	-	-	-	244,553
Total Operating Revenues	8,119,565	5,826,956	1,439,627	15,386,148	244,553
Operating Expenses:					
Personnel services	646,592	897,494	627,444	2,171,530	501,001
Non-personnel services	256,674	988,299	1,184,130	2,429,103	-
Depreciation	737,971	1,111,016	201,052	2,050,039	-
Intergovernmental assessments	5,028,493	427,332	-	5,455,825	-
Total Operating Expenses	6,669,730	3,424,141	2,012,626	12,106,497	501,001
Operating Income (Loss)	1,449,835	2,402,815	(572,999)	3,279,651	(256,448)
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	437,047	179,090	-	616,137	-
Investment income	15,253	15,271	2,267	32,791	-
Interest expense	(215,013)	(283,904)	(3,651)	(502,568)	-
Total Nonoperating Revenues (Expenses), Net	237,287	(89,543)	(1,384)	146,360	-
Income (Loss) Before Transfers	1,687,122	2,313,272	(574,383)	3,426,011	(256,448)
Transfers in	-	-	535,681	535,681	-
Transfers out	(634,597)	(993,932)	(143,725)	(1,772,254)	-
Change in Net Assets	1,052,525	1,319,340	(182,427)	2,189,438	(256,448)
Net Assets at Beginning of Year	17,140,206	26,247,816	7,945,356	51,333,378	764,092
Net Assets at End of Year	\$ 18,192,731	\$ 27,567,156	\$ 7,762,929	\$ 53,522,816	\$ 507,644

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	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	\$ 7,786,420	\$ 5,572,362	\$ 1,415,094	\$ 14,773,876	\$ -
Employer contributions	-	-	-	-	244,553
Payments of utility assessments	(5,028,493)	(427,332)	-	(5,455,825)	-
Payments to vendors and contractors	(874,735)	(1,329,366)	(1,007,097)	(3,211,198)	-
Payments of employee salaries, benefits, and related expenses	(659,953)	(906,604)	(623,013)	(2,189,570)	(427,068)
Net Cash Provided By (Used For) Operating Activities	1,223,239	2,909,060	(215,016)	3,917,283	(182,515)
<u>Cash Flows From Noncapital Financing Activities:</u>					
Operating grants received	437,047	-	-	437,047	-
Transfers from other funds	-	-	535,681	535,681	-
Transfers to other funds	(634,597)	(993,932)	(143,725)	(1,772,254)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(197,550)	(993,932)	391,956	(799,526)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(1,532,281)	(2,270,655)	(204,580)	(4,007,516)	-
Issuance of bonds and BANs	1,514,015	739,782	125,000	2,378,797	-
Principal payments on bonds and notes	(809,294)	(643,545)	(98,400)	(1,551,239)	-
Interest expense	(201,939)	(287,675)	(3,651)	(493,265)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,029,499)	(2,462,093)	(181,631)	(3,673,223)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	15,253	15,271	2,267	32,791	-
Net Cash Provided By Investing Activities	15,253	15,271	2,267	32,791	-
Net Change in Cash and Short-Term Investments	11,443	(531,694)	(2,424)	(522,675)	(182,515)
Cash and Short-Term Investments, Beginning of Year	5,137,432	4,869,286	1,307,639	11,314,357	907,786
Cash and Short-Term Investments, End of Year	\$ 5,148,875	\$ 4,337,592	\$ 1,305,215	\$ 10,791,682	\$ 725,271
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income (Loss)	\$ 1,449,835	\$ 2,402,815	\$ (572,999)	\$ 3,279,651	\$ (256,448)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	737,971	1,111,016	201,052	2,050,039	-
Loss on disposal of assets	13,267	9,000	19,323	41,590	-
Changes in assets and liabilities:					
User fees	(297,252)	(258,352)	(27,416)	(583,020)	-
Accounts payable	(357,959)	(350,067)	157,711	(550,315)	(2,194)
Accrued liabilities	(2,634)	(1,911)	1,364	(3,181)	(1,523)
Retainage payable	(273,368)	-	-	(273,368)	77,650
Refunds payable	(35,894)	3,759	2,882	(29,253)	-
Compensated absences	(10,727)	(7,200)	3,067	(14,860)	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,223,239	\$ 2,909,060	\$ (215,016)	\$ 3,917,283	\$ (182,515)

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2010

	Pension Trust Fund (As of <u>December 31, 2009</u>)	Private Purpose Trust Fund	Other Post- Employment Benefit Agency Fund	Other Agency Funds
<u>ASSETS</u>				
Cash and short-term investments	\$ 2,720,448	\$ -	\$ -	\$ 191,160
Investments	93,844,069	1,818,767	5,784,247	-
Receivables	<u>77,862</u>	<u>-</u>	<u>-</u>	<u>340,285</u>
Total Assets	96,642,379	1,818,767	5,784,247	531,445
<u>LIABILITIES AND NET ASSETS</u>				
Refunds payable	-	-	-	47,460
Other liabilities	<u>69,627</u>	<u>-</u>	<u>5,784,247</u>	<u>483,985</u>
Total Liabilities	<u>69,627</u>	<u>-</u>	<u>5,784,247</u>	<u>531,445</u>
<u>NET ASSETS</u>				
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>96,572,752</u></u>	\$ <u><u>1,818,767</u></u>	\$ <u><u>-</u></u>	\$ <u><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, 2010

	Pension Trust Fund (For the Year Ended <u>December 31, 2009</u>)	Private Purpose Trust Fund
Additions:		
Contributions:		
Employers	\$ 4,271,094	\$ -
Plan members	2,726,659	-
Other	<u>404,567</u>	<u>48,650</u>
Total contributions	7,402,320	48,650
Investment Income:		
Increase (decrease) in fair value of investments	14,240,337	249,671
Less: management fees	<u>(496,063)</u>	<u>-</u>
Net investment income	<u>13,744,274</u>	<u>249,671</u>
Total additions	21,146,594	298,321
Deductions:		
Benefit payments to plan members and beneficiaries	9,298,060	-
Refunds to plan members	244,264	-
Administrative expenses	209,778	-
Other	<u>172,265</u>	<u>79,152</u>
Total deductions	<u>9,924,367</u>	<u>79,152</u>
Net increase (decrease)	11,222,227	219,169
Net assets:		
Beginning of year	<u>85,350,525</u>	<u>1,599,598</u>
End of year	<u>\$ 96,572,752</u>	<u>\$ 1,818,767</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, Town Hall, Needham, Massachusetts 02191.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are

considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary funds:

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

- The Solid Waste Fund is used to report the Town's transfer station enterprise fund operations.

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

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

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

The *Agency Funds* include the *Other Post-Employment Benefits Fund* which is used to accumulate resources for health and life insurance benefits for retired employees. Other *Agency Funds* include *Student Activity Funds*, and *Police, Fire and Maintenance Detail Funds*.

D. Cash and Short-Term Investments

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

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one

year or less from the date of purchase and repurchase agreements 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 2010 tax levy reflected an excess capacity of approximately \$ 38,375.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of five years. The Town has a capitalization policy with the following established thresholds for capitalization:

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

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

H. Compensated Absences

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

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

I. Long-Term Obligations

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

J. Fund Equity

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 are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison 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)	\$ 115,201,498	\$ 113,129,502
Other financing sources/uses (GAAP basis, net of refunding)	<u>2,186,962</u>	<u>3,381,509</u>
Subtotal (GAAP Basis)	117,388,460	116,511,011
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,133,251)
Add end of year appropriation carryforwards to expenditures	-	2,539,597
Recognize use of free cash	3,145,416	-
Recognize use of bond premium	82,381	-
Recognize use of MSBA revenue appropriated for debt service	364,686	-
Recognize use of overlay surplus	500,731	-
Reverse GASB 24 MTRS	(10,930,261)	(10,930,261)
Other reconciling items	(8,746)	4,733
Adjust property tax revenue to the budgetary basis	<u>(371,448)</u>	<u>-</u>
Budgetary basis	<u>\$ 110,171,219</u>	<u>\$ 106,991,829</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, 2010:

Nonmajor Governmental Funds:

Special Revenue Funds:

2010 NCLB Title I	\$	(9,657)
2006 SPED 94-142		(2,913)
2011 Shine (COA)		(6,086)

Capital Project Funds:

High Rock and Pollard Schools Renovation	(129,030)
Department of Public Works Administration Building	(137,556)
Kendrick Bridge repair	(8,174)
Library construction	(1,243)
Storm drain improvements	(15,737)
Public safety building roof	(11,817)

Other:

Police outside detail	(220,303)
Fire outside detail	(85,438)

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law (MGL) Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's custodial credit risk policy allows unlimited amounts to be deposited in certificates of deposits with a maximum maturity as set by Massachusetts General Laws (MGL) and full collateralization through a third-party agreement. The policy also allows unlimited deposits in Massachusetts State pooled fund and limits the remaining unsecured deposits to 5% of any institution's assets and no more than 25% of the Town's assets. The Town's policy was designed to limit exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and the tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The Contributory Retirement System (the System) does not have a deposit policy for custodial credit risk.

As of June 30, 2010, \$ 13,069,071 of the Town's bank balance of \$ 32,116,521 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name. The Town manages some of this risk by Securities Investor Protection Corporation (SIPC) and excess SIPC coverage.

As of December 31, 2009, \$ 2,602,709 of the Contributory Retirement System's bank balance of \$ 2,797,895 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name. Of the System's exposed risk, \$ 2,321,501 was invested in MMDT and \$ 281,208 was invested in PRIT.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	Fair <u>Value</u>	Average Rating as of <u>Year End</u>
U.S. Treasury notes	\$ 1,865,569	AAA
Certificates of deposits	7,119,644	N/R
Corporate equities	1,596,014	N/A
Mutual funds	2,242,495	N/A
Federal agency securities	10,354,688	AAA
Corporate bonds	<u>4,927,996</u>	A2
Total investments	\$ <u><u>28,106,406</u></u>	

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

At December 31, 2009, the System maintained its investments in the State Investment Pool* with a fair value of \$ 93,844,069. This investment type is not rated.

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

B. Custodial Credit Risk

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

The Town's investments of \$ 22,059,182 were exposed to custodial credit risk as uninsured and uncollateralized. The Town manages some of this risk by Securities Investor Protection Corporation (SIPC) and excess SIPC coverage.

The System's investments of \$ 93,844,069 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State Investment pool (PRIT).

C. Concentration of Credit Risk

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

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

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

D. Interest Rate Risk

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

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
U.S. Treasury notes	\$ 1,865,569	\$ 1,865,569	\$ -	\$ -
Federal agency securities	10,354,688	6,692,557	3,329,333	332,798
Corporate bonds	4,927,996	50,666	4,824,375	52,955
Total	\$ <u>17,148,253</u>	\$ <u>8,608,792</u>	\$ <u>8,153,708</u>	\$ <u>385,753</u>

E. Foreign Currency Risk

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

5. Accounts Receivable

A. Property Taxes

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

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

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate			
2010	\$	744	
2009		<u>5</u>	
			749
Personal Property			
2010		265	
2009		49	
2008		29	
2007		34	
2006		32	
Prior		<u>158</u>	
			567
Tax Liens			801
Deferred Taxes			593
Tax Roll Backs			<u>6</u>
Total	\$		<u><u>2,716</u></u>

B. Allowance for Uncollectibles

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

	<u>Governmental</u>
Property taxes	\$ 241
Excises	183
Ambulance	276

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 2010 and future reimbursements from the MSBA.

6. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 84,419	\$ 84,231	\$ -	\$ 168,650
Machinery, equipment, and furnishings	6,293	3,766	(344)	9,715
Vehicles	3,176	418	(164)	3,430
Infrastructure	<u>25,333</u>	<u>4,340</u>	<u>-</u>	<u>29,673</u>
Total capital assets, being depreciated	119,221	92,755	(508)	211,468
Less accumulated depreciation for:				
Buildings and improvements	(21,512)	(3,924)	-	(25,436)
Machinery, equipment, and furnishings	(4,528)	(1,332)	294	(5,566)
Vehicles	(2,091)	(475)	100	(2,466)
Infrastructure	<u>(10,669)</u>	<u>(1,184)</u>	<u>-</u>	<u>(11,853)</u>
Total accumulated depreciation	<u>(38,800)</u>	<u>(6,915)</u>	<u>394</u>	<u>(45,321)</u>
Total capital assets, being depreciated, net	80,421	85,840	(114)	166,147
Capital assets, not being depreciated:				
Land	17,517	914	-	18,431
Works of art	95	-	-	95
Construction in progress	<u>85,827</u>	<u>3,652</u>	<u>(84,347)</u>	<u>5,132</u>
Total capital assets, not being depreciated	<u>103,439</u>	<u>4,566</u>	<u>(84,347)</u>	<u>23,658</u>
Governmental activities capital assets, net	<u>\$ 183,860</u>	<u>\$ 90,406</u>	<u>\$ (84,461)</u>	<u>\$ 189,805</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,499	\$ 2,423	\$ (34)	\$ 8,888
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	4,041	30	(339)	3,732
Vehicles	625	709	(23)	1,311
Infrastructure	<u>59,029</u>	<u>7,767</u>	<u>-</u>	<u>66,796</u>
Total capital assets, being depreciated	76,794	10,929	(396)	87,327
Less accumulated depreciation for:				
Buildings and improvements	(3,117)	(250)	21	(3,346)
Plant	(1,802)	(228)	-	(2,030)
Machinery, equipment, and furnishings	(2,873)	(224)	311	(2,786)
Vehicles	(431)	(192)	23	(600)
Infrastructure	<u>(31,144)</u>	<u>(1,155)</u>	<u>-</u>	<u>(32,299)</u>
Total accumulated depreciation	<u>(39,367)</u>	<u>(2,049)</u>	<u>355</u>	<u>(41,061)</u>
Total capital assets, being depreciated, net	37,427	8,880	(41)	46,266
Capital assets, not being depreciated:				
Non-Depreciable - WIP	9,484	374	(7,297)	2,561
Land	<u>5,275</u>	<u>-</u>	<u>-</u>	<u>5,275</u>
Total capital assets, not being depreciated	<u>14,759</u>	<u>374</u>	<u>(7,297)</u>	<u>7,836</u>
Business-type activities capital assets, net	<u>\$ 52,186</u>	<u>\$ 9,254</u>	<u>\$ (7,338)</u>	<u>\$ 54,102</u>

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

Governmental Activities:	
General government	\$ 71
Public safety	355
Education	4,101
Public works	1,834
Human service	4
Culture and recreation	<u>549</u>
Total depreciation expense - governmental activities	<u>\$ 6,914</u>
Business-Type Activities:	
Sewer	\$ 738
Water	1,111
Solid Waste	<u>201</u>
Total depreciation expense - business-type activities	<u>\$ 2,050</u>

7. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

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, 2010 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.

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

10. Refunds Payable

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

11. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 15,169,400	\$ -	\$ (15,169,400)	\$ -
Bond anticipation	-	335,000	(335,000)	-
Bond anticipation	-	1,483,000	-	1,483,000
Bond anticipation	-	2,000,800	(2,000,800)	-
MWPAT Loan	-	716,361	-	716,361
Total	<u>\$ 15,169,400</u>	<u>\$ 4,535,161</u>	<u>\$ (17,505,200)</u>	<u>\$ 2,199,361</u>

12. Long-Term Debt

A. Long-Term Debt Supporting Activities

General obligation bonds, issued by the town, are repaid with general and enterprise fund revenues and the use of 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>	Amount Outstanding as of <u>June 30, 2010</u>
MA Water Pollution Abatement Trust	\$ 310,656	Various	06/01/95	02/01/15	\$ 139,067
MA Water Pollution Abatement Trust	91,400	Various	12/09/98	08/01/18	45,600
MA Water Pollution Abatement Trust	243,300	Various	12/09/98	08/01/18	121,400
MA Water Pollution Abatement Trust	1,261,272	Various	12/09/98	08/01/18	686,627
MA Water Pollution Abatement Trust	175,500	Various	12/09/98	08/01/18	87,700
MA Water Pollution Abatement Trust	422,874	Various	12/09/98	08/01/18	259,488
MA Water Pollution Abatement Trust	85,894	Various	12/09/98	08/01/18	47,670
Municipal Purpose FY 2001	8,883,000	4.00	06/15/01	06/15/11	725,000
MA Water Resources Authority	257,304	0.00	07/19/01	08/15/11	51,460
Municipal Purpose FY 2003	5,590,000	1.87	05/15/03	11/15/10	225,000
Elementary School	14,000,000	3.00 - 4.70	11/01/03	11/01/23	9,800,000
Municipal Purpose FY 2005	12,649,000	3.00 - 4.75	12/01/04	12/01/19	8,140,000
Municipal Purpose FY 2005	6,827,000	3.25 - 4.20	06/01/05	06/01/25	4,325,000
Municipal Purpose FY 2006	3,346,000	3.24 - 3.66	12/15/05	02/15/15	1,025,000
Municipal Purpose FY 2007	5,525,000	3.75 - 4.50	11/01/06	11/11/19	4,910,000
Municipal Purpose FY 2007	11,970,000	3.75 - 4.50	11/01/06	11/01/26	8,470,000
Municipal Purpose FY 2008	4,470,000	4.05 - 5.00	06/15/07	06/15/12	2,945,000
Municipal Purpose FY 2008	3,205,000	3.25	12/01/07	06/01/12	840,000
Municipal Purpose FY 2009	12,600,000	3.25 - 5.00	06/03/08	12/01/26	11,150,000
Municipal Purpose FY 2009	5,600,000	4.61	11/01/08	08/01/27	5,105,000
Municipal Purpose FY 2010	6,842,000	2.94	06/01/09	06/01/28	6,020,000
Municipal Purpose FY 2010	15,815,000	2.00 - 4.00	12/15/09	08/01/28	15,815,000
Municipal Purpose FY 2010	4,000,000	2.00 - 3.00	06/15/10	12/01/24	4,000,000
MA Water Resources Authority	215,710	0.00	02/22/10	02/15/10	215,710
MA Water Resources Authority	283,305	0.00	05/17/10	05/15/15	283,305
					<u>\$ 85,433,027</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,692,979	\$ 2,553,616	\$ 9,246,595
2012	5,397,979	2,290,196	7,688,175
2013	5,087,979	2,125,631	7,213,610
2014	4,872,979	1,965,023	6,838,002
2015	4,752,612	1,808,223	6,560,835
2016-2020	22,602,630	6,570,901	29,173,531
2021-2025	16,860,000	2,708,512	19,568,512
2026-2029	4,780,000	322,425	5,102,425
Total	<u>\$ 71,047,158</u>	<u>\$ 20,344,527</u>	<u>\$ 91,391,685</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,924,278	\$ 540,132	\$ 2,464,410
2012	1,903,766	464,209	2,367,975
2013	1,571,931	456,244	2,028,175
2014	1,550,112	350,742	1,900,854
2015	1,385,082	299,456	1,684,538
2016-2020	4,875,700	814,680	5,690,380
2021-2025	950,000	130,419	1,080,419
2026-2029	225,000	19,700	244,700
Total	<u>\$ 14,385,869</u>	<u>\$ 3,075,582</u>	<u>\$ 17,461,451</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2010 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
2001	Rosemary Pool Complex - Design	\$ 72,500
2002	Parking Lot Dedham Avenue	10,500
2003	Sewer Pump Station Richardson Drive	281,290
2003	Water System Rehabilitation Design	11,000
2003	Water Pump Station Designs	180,000
2004	Library Project	3,079,500
2004	High School Project	25,800,000
2004	Sewer System Rehab - I/I work	175,000
2006	High School	3,689,275
2006	Ridge Hill Rehabilitation	104,600
2006	Water System Rehabilitation	30,000
2006	Rte 128 Sewer Main Relocation	155,000
2007	Water system Improvements	735,000
2007	Mitchell School Roof Repair	11,400
2008	High Rock and Pollard School Project	2,884,000
2008	RTS Construction Equipment	14,300
2008	Sewer System Rehab - I/I work	616,695
2009	Municipal Parking Lot Improvements	105,000
2009	Public Safety Building Roof	96,500
2009	Hillside & Mitchell School Parking & Play Area Improvements	3,600
2009	Street & Traffic Light Improvements	25,000
2009	Collection Packer Equipment	23,000
2009	Wastewater Pump Station at GPA	45,000
2009	Water Main Improvements	600,294
2009	Water Storage Tank Cleaning & Painting	75,000
2009	Public Services Administration Bldg.	523,500
2010	Stormwater Master Plan Drainage Improvements	200,000
2010	Sewer Pump Station Design	577,500
2010	Newman School HVAC Design and Engineering	225,000
2010	Town Hall (GF portion)	4,100,000
2010	Town Hall (CPA portion)	7,200,000
2010	Kendrick Street Bridge Design	125,000
2010	Road, Bridges, Sidewalks and Intersection Improvement	180,000
2010	RTS Construction Equipment	210,000
2010	Water Distribution System Rehab	600,000
2010	Newman School Extraordinary Repairs	25,962,128
2011	Road, Bridges, Sidewalks and Intersection Improvement	1,236,300
2011	Kendrick Street Bridge Repair	850,000
	Total	<u>\$ 80,812,882</u>

E. Changes in General Long-term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 07/01/09	Additions	Reductions	Total Balance 06/30/10	Less Current Portion	Equals Long-Term Portion 06/30/10
<u>Governmental Activities</u>						
Bonds payable	\$ 59,914	\$ 17,770	\$ (6,637)	\$ 71,047	\$ (6,693)	\$ 64,354
Other:						
Accrued employee benefits	2,671	122	-	2,793	(698)	2,095
Landfill closure	1,078	-	(51)	1,027	(51)	976
Totals	\$ 63,663	\$ 17,892	\$ (6,688)	\$ 74,867	\$ (7,442)	\$ 67,425

	Total Balance 7/1/09	Additions	Reductions	Total Balance 6/30/10	Less Current Portion	Equals Long-Term Portion 6/30/10
<u>Business-Type Activities</u>						
Bonds payable	\$ 13,854	\$ 2,544	\$ (2,012)	\$ 14,386	\$ (1,924)	\$ 12,462
Other:						
Accrued employee benefits	115	-	(15)	100	(100)	-
Totals	\$ 13,969	\$ 2,544	\$ (2,027)	\$ 14,486	\$ (2,024)	\$ 12,462

F. Prior Year Refundings

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2010, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 4,830,000.

13. Landfill Closure and Postclosure Care Costs

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

The \$ 1,027,680 reported as landfill closure and postclosure care liability at June 30, 2010 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 closure and postclosure care in 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. 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.

15. 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, 2010:

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

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

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

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

16. 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 paragraph summarizes the major difference.

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

17. 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.

18. Subsequent Events

Debt

Subsequent to June 30, 2010, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bond	\$ 4,635,000	1-3%	10/06/10	04/01/17

19. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2009, the

actuarial valuation date, approximately 759 retirees and 764 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2009.

Annual Required Contribution (ARC)	\$ 3,446,556
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	3,446,556
Contributions made	(3,446,556)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ -

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 3,446,556	100%	\$ -
2009	\$ 3,102,311	100%	\$ -

The Town's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 48,888,127
Actuarial value of plan assets	<u>(5,008,484)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 43,879,643</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>10.2%</u>
Covered payroll (active plan members)	<u>\$ 61,582,295</u>
UAAL as a percentage of covered payroll	<u>71.3%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included an 8% investment rate of return and an initial annual healthcare cost trend rate of 8% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

20. Contributory Retirement System

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

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	489
Terminated plan members entitled to but not yet receiving benefits	72
Active plan members	<u>674</u>
Total	<u><u>1,235</u></u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after

January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

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

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

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2010	\$ 4,271,094	100%
2009	4,121,326	100%
2008	3,979,000	100%
2007	3,835,000	100%
2006	3,696,000	100%
2005	3,525,000	100%
2004	2,392,000	100%
2003	2,353,000	100%
2002	2,315,000	100%
2001	2,754,000	100%

B. Summary of Significant Accounting Policies

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

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

C. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/09	\$ 102,421	\$ 139,054	\$ 36,633	73.7%	\$ 28,013	130.8%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 36.6 million was calculated. The actuarial assumptions included (a) 8.25 % investment rate of return and (b) a projected salary increase of 4.5 % per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2009, the unfunded actuarially accrued liability is being amortized over 18 years using 4.5 % increasing payment method.

E. Teachers

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

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

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

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

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

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

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 10,930,261 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

F. Other Employees

Certain retired employees of the Town were exempted from membership or elected not to participate in the System. The Town pays retirement benefits to these employees from the General Fund appropriations. These employees are not included in the Town's actuarial liability. The Town's fiscal 2010 pension expense relating to these employees was approximately \$ 49,737.

21. Self Insurance

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

As of June 30, 2010, the Town's workers compensation fund had a balance of \$ 203,250 in net assets (a component of Total Net Assets). This amount is generated from the remainder of the workers compensation budget voted each year by the Town Meeting. The Town appropriates \$ 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 per employee to an aggregate limit of \$ 1,000,000 per accident. The Town's maximum aggregate liability for all claims paid within one year is

\$ 4,000,000. The Town has no excess liability coverage for public safety employees and no reasonable estimate of claims liability has been determined.

A liability for unpaid claims at June 30, 2010 of \$ 216,118 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, 2010 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 138,468
Claims incurred/recognized in fiscal year 2010	501,001
Claims paid in fiscal year 2010	<u>(423,351)</u>
Claims liability, end of year	<u>\$ 216,118</u>

22. Risk Management

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

23. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year.

Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/09 (<u>as reclassified</u>)
Nonmajor Governmental Funds	\$ 9,986,219	\$ (5,479,263)	\$ 4,506,956
High Rock and Pollard Renovation	(9,266,650)	9,266,650	-
Department of Public Works			
Administration Building	(1,942,726)	1,942,726	-
Town Hall Renovation	<u>5,730,113</u>	<u>(5,730,113)</u>	<u>-</u>
Total	<u>\$ 4,506,956</u>	<u>\$ -</u>	<u>\$ 4,506,956</u>

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

December 31, 2009

(Unaudited)

Employees' Retirement System

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

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/09	\$ 5,008,484	\$ 48,888,127	\$ 43,879,643	10.2%	\$ 61,582,295	71.3%
07/01/07	\$ 3,075,317	\$ 46,672,308	\$ 43,596,991	6.6%	\$ 59,616,565	73.1%
07/01/05	\$ 2,131,044	\$ 43,172,705	\$ 41,041,661	4.9%	\$ 51,915,780	79.1%

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

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

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 7,849,728	\$ 7,825,336	\$ (24,392)
Interest income	20,000	15,253	(4,747)
Use of retained earnings	<u>1,116,000</u>	<u>1,116,000</u>	<u>-</u>
Total Revenues and Other Sources	8,985,728	8,956,589	(29,139)
Expenditures:			
Sewer expenditures	2,057,265	1,965,168	92,097
Intergovernmental	5,095,980	5,028,493	67,487
Debt service	1,200,000	1,192,470	7,530
Transfers out	<u>632,483</u>	<u>632,483</u>	<u>-</u>
Total Expenditures and Other Uses	<u>8,985,728</u>	<u>8,818,614</u>	<u>167,114</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 137,975</u>	<u>\$ 137,975</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, 2010

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 5,066,773	\$ 5,625,821	\$ 559,048
Interest income	20,000	15,271	(4,729)
Use of retained earnings	<u>805,682</u>	<u>805,682</u>	<u>-</u>
Total Revenues	5,892,455	6,446,774	554,319
Expenditures:			
Water expenditures	2,971,127	2,832,610	138,517
Intergovernmental	427,396	427,332	64
Debt service	1,500,000	1,490,309	9,691
Transfers out	<u>993,932</u>	<u>993,932</u>	<u>-</u>
Total Expenditures and Other Uses	<u>5,892,455</u>	<u>5,744,183</u>	<u>148,272</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ 702,591</u>	<u>\$ 702,591</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, 2010

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,608,327	\$ 1,411,857	\$ (196,470)
Interest income	3,300	2,267	(1,033)
Transfer in	535,681	535,681	-
Use of retained earnings	<u>136,609</u>	<u>136,609</u>	<u>-</u>
Total Revenues and Other Sources	2,283,917	2,086,414	(197,503)
Expenditures:			
Transfers station expenditures	1,999,737	1,870,318	129,419
Debt service	150,000	149,051	949
Transfers out	<u>134,180</u>	<u>134,180</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,283,917</u>	<u>2,153,549</u>	<u>130,368</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (67,135)</u>	<u>\$ (67,135)</u>

See Independent Auditors' Report.