

**TOWN OF NEEDHAM, MASSACHUSETTS**

**Annual Financial Report**

**For the Year Ended June 30, 2011**

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# MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 107

Andover, MA 01810-1096

(978) 749-0005 • Fax (978) 749-0006

[www.melansonheath.com](http://www.melansonheath.com)

## 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, 2011, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2010), 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, 2011, (except the Needham Contributory Retirement system which is as of December 31, 2010), 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 59, 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 60 - 62, 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 22, 2012 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 22, 2012

## **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, 2011.

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

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

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

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

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

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

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

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

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

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

**Proprietary funds.** Proprietary funds are maintained as follows:

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

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

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

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 226,909,562 (i.e., net assets), a change of \$ 11,922,414 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 40,256,703, a change of \$ 6,112,828 in comparison to the prior year, primarily from the issuance of debt of \$ 15,349,697.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 8,863,948, a change of \$ 2,679,230 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 91,103,384, a change of \$ 5,670,357 in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 812,105, a change of \$ (1,387,256) 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 59,506	\$ 55,833	\$ 17,212	\$ 15,443	\$ 76,718	\$ 71,276
Capital assets	<u>199,654</u>	<u>189,805</u>	<u>54,450</u>	<u>54,102</u>	<u>254,104</u>	<u>243,907</u>
Total assets	259,160	245,638	71,662	69,545	330,822	315,183
Long-term liabilities outstanding	82,249	74,868	13,364	14,486	95,613	89,354
Notes payable	-	1,483	812	716	812	2,199
Other liabilities	<u>7,128</u>	<u>7,823</u>	<u>359</u>	<u>820</u>	<u>7,487</u>	<u>8,643</u>
Total liabilities	89,377	84,174	14,535	16,022	103,912	100,196
Net assets:						
Invested in capital assets, net	128,342	119,082	42,121	40,134	170,463	159,216
Restricted	2,576	2,345	-	-	2,576	2,345
Unrestricted	<u>38,865</u>	<u>40,037</u>	<u>15,006</u>	<u>13,389</u>	<u>53,871</u>	<u>53,426</u>
Total net assets	<u>\$ 169,783</u>	<u>\$ 161,464</u>	<u>\$ 57,127</u>	<u>\$ 53,523</u>	<u>\$ 226,910</u>	<u>\$ 214,987</u>

**CHANGES IN NET ASSETS**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues						
Charges for services	\$ 9,017	\$ 8,588	\$ 16,363	\$ 15,386	\$ 25,380	\$ 23,974
Operating grants and contributions	24,243	23,212	99	616	24,342	23,828
Capital grants and contributions	1,044	2,023	-	-	1,044	2,023
General revenues:						
Property taxes	94,749	89,072	-	-	94,749	89,072
Excises	4,353	3,934	-	-	4,353	3,934
Penalties and interest on taxes	1,282	816	-	-	1,282	816
Grants and contributions not restricted to specific programs	2,032	2,039	-	-	2,032	2,039
Investment income	540	839	30	33	570	872
Other	<u>686</u>	<u>903</u>	<u>-</u>	<u>-</u>	<u>686</u>	<u>903</u>
Total revenues	137,946	131,426	16,492	16,035	154,438	147,461

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Expenses:						
General government	4,691	4,667	-	-	4,691	4,667
Public safety	15,015	14,621	-	-	15,015	14,621
Education	78,255	75,897	-	-	78,255	75,897
Public works	7,634	6,911	-	-	7,634	6,911
Maintenance	9,139	8,390	-	-	9,139	8,390
Human services	1,563	1,584	-	-	1,563	1,584
Culture and recreation	3,226	3,108	-	-	3,226	3,108
Interest on long-term debt	2,316	2,850	-	-	2,316	2,850
Intergovernmental	1,100	1,065	-	-	1,100	1,065
Other unallocated costs	7,399	7,364	-	-	7,399	7,364
Sewer operation	-	-	6,925	6,884	6,925	6,884
Water operations	-	-	3,485	3,708	3,485	3,708
Solid waste operations	-	-	1,767	2,016	1,767	2,016
Total expenses	<u>130,338</u>	<u>126,457</u>	<u>12,177</u>	<u>12,608</u>	<u>142,515</u>	<u>139,065</u>
Change in net assets before transfers	7,608	4,969	4,315	3,427	11,923	8,396
Transfers	<u>711</u>	<u>1,237</u>	<u>(711)</u>	<u>(1,237)</u>	<u>-</u>	<u>-</u>
Change in net assets	8,319	6,206	3,604	2,190	11,923	8,396
Net assets - beginning 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>
Net assets - end of year	<u>\$ 169,783</u>	<u>\$ 161,464</u>	<u>\$ 57,127</u>	<u>\$ 53,523</u>	<u>\$ 226,910</u>	<u>\$ 214,987</u>

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 \$ 170,464 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 \$ 2,576 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 53,870 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 \$ 8,318. Key elements of this change are as follows:

General fund excess of revenues over expenditures	\$ 3,206
CPA fund excess of revenues over expenditures	1,265
Other special revenue funds excess of revenues over expenditures	665
General fund transfer in from Enterprise funds (indirect costs) less RTS subsidy	867
Capital grants and contribution revenue used to acquire capital assets	1,044
Debt service principal expense in excess of depreciation	1,419
Increase in compensated absences	(666)
Other	<u>518</u>
Total	<u>\$ 8,318</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ 3,604. 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 \$ 40,256,703, a change of \$ 6,112,828 in comparison to the prior year. Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 3,206
General fund transfers in from Enterprise Funds for indirect costs, net	867
CPA fund excess of revenues over expenditures	1,265
Other special revenue funds excess of revenues over expenditures	665
Town Hall renovation fund expenditures over issuance of bonds	(2,592)
Capital project funds revenues and bond proceeds in excess of expenditures	2,555
Other	<u>147</u>
Total	<u>\$ 6,113</u>

In fiscal year 2011, the Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in stabilization funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 8,863,948, while total fund balance was \$ 20,938,703. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
Unassigned fund balance	\$ 8,863,948	\$ 6,184,718	\$ 2,679,230
Total fund balance <sup>1</sup>	20,938,703	18,470,139	2,468,564

<sup>1</sup>Now includes stabilization funds. Prior period balances have been revised to conform to current presentation.

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
Unassigned fund balance as of % of total General Fund expenditures	7.4%	5.5%	1.9%
Total fund balance as of % total General Fund expenditures	17.5%	16.3%	1.2%

The total fund balance of the general fund changed by \$ 2,468,564 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves	\$ (4,465)
Increase in stabilization accounts	88
Revenues in excess of budget	2,772
Expenditures less than budget	2,000
Unused overlay allowance	1,537
Excess of current year carryforwards over expenditures of prior year carryforwards	470
Other	67
Total	<u>\$ 2,469</u>

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

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ 3,504,230	\$ 3,502,573	\$ 1,657
Capital stabilization	<u>1,294,223</u>	<u>1,207,757</u>	<u>86,466</u>
Total	<u>\$ 4,798,453</u>	<u>\$ 4,710,330</u>	<u>\$ 88,123</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 \$ 15,005,463, a change of \$ 1,617,020 in comparison to 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**

In fiscal year 2011, the Town has realized revenue in excess of budget of \$ 2.8m, not including a property tax adjustment of \$ 1.5m. In fiscal year 2011, the Town had a significant property tax adjustment in the GAAP to Budget reconciliation. The property tax revenue exceeding budget resulted from conservative budgeting for reserve for abatements and exemptions. The Town has realized motor vehicle excise fees in excess of budget due to consistently conservative budgeting practices. The Town's Building Department has seen an increase in permit demand in fiscal year 2011. The Town also realized savings of expenditures short of budget by \$ 2m.

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

**Capital assets.** Total capital assets for governmental and business-type activities at year-end amounted to \$ 254,103,416 (net of accumulated depreciation), a change of \$ 10,195,833 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:

Vehicles and highway equipment	\$	665
RBS improvement		517
Newman School repairs		3,748
Pollard School roof replacement and other improvements		1,006
Town Hall design and renovation		8,592
Senior Center design and feasibility study		230

Business-Type Activities:

Sewer system rehab	\$	249
Chapel and May Street Infrastructure		209
Pickering and Garden Street water main replacement		472

**Debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 91,103,384, all of which was backed by the full faith and credit of the government. The Town's general obligation bond rating continues to carry the highest rating possible, AAA, a rating that has been assigned by Standards & Poor's to the Town debt since 2000.

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

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

The Town's fund balance showed stronger than expected improvement due in part to healthier receipts in areas that are more volatile based on the general economy. Although building permit activity has remained strong through the recession, it was even greater during FY2011 than previous. Moreover, restaurant and hotel activity was better and revenues were much higher than the prior year. We do expect the fund balance to slip for FY2012, as decisions are made whether to direct some of those funds toward greater capital investment and reserves. The Town also benefited from the lower increases in compensation for FY2011 and FY2012; base wages were only increased in exchange for employee groups moving members to the higher employee co-pay health plans called Rate Savers. Most all employees, except employees who are a member of the Fire or Police union, have been or soon will convert from the legacy plans to rate-saver health plans. Furthermore, members of the Fire or Police union hired after November 1, 2009 and September 1, 2009, respectively may only elect a Rate-Saver Plan. Overall, at least 87% of current health insurance participants will be enrolled in rate-saver plans by the end of FY2012. This has helped mitigate lower revenue streams during the economic downturn without service reductions. In recognition that improvement in the overall economy is predicted to be slower than past recoveries during the last thirty years, and to maintain balance between anticipated resources and employee compensation, the Town has secured agreements with several groups that provide increases to base wages of 2% in FY2013 and 2½ % in FY2014. However, the Town does not have agreements in

place as yet with the Police unions for FY2012 forward and is entering into negotiations with the BCTIA (custodians and building trades) and the Fire unions for FY2013 forward.

The Town's general fund unassigned balance (previously referred to as undesignated) shows an increase of \$ 2,679,230 from \$ 6,184,718 in FY2010 to \$ 8,863,948 in FY2011 for the aforementioned reasons. The total fund balance ratio to general fund revenue (17%) is the highest it has been in decades, but this is due in great part to the new reporting classifications as a result of GASB Statement 54 which includes the general and capital stabilization fund balances as part of the General rather than other Governmental Funds. The legal purposes and governance of the stabilization funds do not change and appropriations to and from the Funds still requires a vote of Town Meeting (the Town's legislative body). The ratio without the stabilization funds included in the total would be 12.8% which too is an improvement over the previous two years (12.3% and 12.1%), 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 two capital projects that have been approved for funding in part from the Massachusetts School Building Authority (MSBA) school assistance programs are ongoing and will have bonds issued during FY2012 and FY2013. The Town previously approved the \$ 3,500,000 debt authorization to pay for the replacement of the Pollard Middle School roof. The MSBA has committed to a reimbursement rate of 35.42% on the eligible expenses incurred by the Town to replace the roof, and the work for this project is expected to be finished by June 2012, with the final bond issue to happen by December 2012. The Newman School project is still on schedule to be completed by the summer of 2012 with students moving back into the building classrooms in September 2012. The project entails modernization of the heating and ventilation systems in the school and abandonment of the existing system. Other upgrades involve code compliance, roof, electrical, and information system infrastructure. Students were moved to either temporary leased modular classrooms or other school buildings during construction. The total authorized budget for the Newman School project is \$ 27,412,128. The MSBA amended its share of the project cost from \$ 8,598,927 to \$ 8,427,981. This reduction is reflective of the anticipated savings the Town should have based on the actual bid. The Town's share of the project is being financed by debt which has been exempted from the taxation limits of Proposition 2½ by referendum. Needham voters approved the debt exclusion override to cover the cost of the Town's share of the project at a December 8, 2009 special election. The final bond issue for this project is expected by June 2013.

The Town is also moving forward with a condition assessment of the Hillside and Mitchell elementary schools. The current assumption is that both buildings will be fully renovated or replaced and that at least one of the two projects will be eligible for financial assistance from the MSBA. A preliminary report is expected by the end of FY2012 with possible funding for feasibility and design coming as

soon as FY2013. The School Committee's preliminary request for the two buildings is approximately \$ 57 million.

Construction funding for the preservation and renovation of the Town Hall in the amount of \$ 18,155,746 that was approved in 2009 was substantially completed in the fall of 2011, and the building has reopened. 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. Another bond issue is scheduled for FY2012. The final bond issue for this project is expected to be done by December 2012. The Town has recently approved the design and construction of a new Senior Center with an approved budget of \$ 8,075,000. Construction is expected to begin during the spring of 2012. The Town also approved funding of \$ 6,300,000 for the replacement of the Reservoir B sewer pump station. The Reservoir B pump station is one of nine that services the community and serves a number of residential properties including the Town's commercial park district that abuts interstate 95 (Rte. 128). The reconstruction will also address a number of environmental concerns that have been raised because of its location next to the Charles River.

The outlook for the FY2012 year-end results are expected to be stable and on par with FY2011. FY2011 actual General Fund local receipts (\$ 9,867,827) were higher than FY2010 local receipts (\$ 8,945,903) and reversed a two year trend of declining local receipts from the prior fiscal year. State "Cherry Sheet" Aid declined from approximately \$ 7.7 million in FY2009 to \$ 7.6 million for FY2010, but improved to approximately \$ 8.2 million for FY2011. The Town is scheduled to receive approximately \$ 8.6 million in FY2012. 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 overall general fund balance for FY2012 will be flat and possibly lower for the aforementioned reasons; our guidance is that revenues will be better in FY2013, but with pending higher fixed costs, fund balance will be tighter. The Town sees its general revenue growth, without overrides, to grow at a four percent level during the next 12 to 24 months.

The Town maintains an adequate reserve for property tax abatements and exemptions for the fiscal year as well as for uncollected taxes from prior fiscal years. The number of abatement application filings for FY2011 declined by 13 from FY2010. For the FY2010 tax year, the Town received 149 filings; for FY2011, the Town received 136. The Town approved abatements in the aggregate of \$ 81,168 for FY2011 compared to \$ 131,011 for FY2010. However there is an estimated added exposure for abatement filings under appeal before the Appellate Tax Board of \$ 73,199. The required triennial property assessment revaluation is to be done for FY2012. Overall the valuation in FY2012 will be higher than FY2011, producing an increase in new tax revenue of \$ 3.15 million. Due in part to the recent change in State Law (through the 2010 Municipal Relief Act), which now allows the local assessors to audit business equipment filings, referred to as personal property, the Town realized higher tax receipts in FY2011. The new law provides a mechanism for assessors to ensure proper



filings by businesses. The law also allowed the Town to recapture taxes that were not assessed because of incomplete information that was provided to the community for FY2009, FY2010, and FY2011. This resulted in a \$ 571,761 increase in tax revenue, and was a factor in the higher fund balance. The total new tax revenue for business personal property in FY2011 was \$ 460,752 and for FY2012 is expected to be \$ 555,796.

The Town also took steps to further shore up reserves by appropriating \$ 494,288 to its Workers Compensation Reserve Fund for claim contingencies that may exceed the annual appropriation and not be covered by excess loss insurance. The Town made no draws against any of its appropriated stabilization accounts: Capital Improvement Fund, Capital Facility Fund, and General Stabilization Fund. Management continues to promote the practice that the non-recurring portion of Free Cash (unassigned fund balance) be used for ongoing capital investment, temporary or extraordinary expenditures, and future reserves rather than for recurring operating expenses.

The Town has held the sewer and water rates stable with no increase for the 7th year since a rate restructure was approved by the Board of Selectmen in April, 2005. Our outlook last year called for no rate increase for FY2012, which has not changed. We still offer guidance that the sewer user rate structure may need to be modified for FY2013, but is more likely for FY2014. The water rate structure continues to bring revenues in to support the extensive capital improvements necessary over the next several years and buffer against a possible change by Massachusetts Department of Environmental Protection that would mandate a reduction in water use and hence water sales. Furthermore, if water use is reduced, because the sewer rate structure is based on water use, and with the sewer enterprise running on a tighter annual margin than water, such a limit on the sale of water would likely require a sewer user rate increase above that which may be necessary due to Massachusetts Water Resources Authority (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 02492

## TOWN OF NEEDHAM, MASSACHUSETTS

## STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 27,123,843	\$ 12,849,497	\$ 39,973,340
Investments	19,466,693	-	19,466,693
Receivables, net of allowance for uncollectibles:			
Property taxes	1,527,470	-	1,527,470
Excises	396,482	-	396,482
Utilities	-	4,362,649	4,362,649
Departmental	438,708	-	438,708
Intergovernmental	1,176,618	-	1,176,618
Other	66,545	-	66,545
Other assets	-	447	447
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,110,665	-	1,110,665
Intergovernmental	8,199,199	-	8,199,199
Capital assets:			
Non-depreciable capital assets	37,893,420	7,367,941	45,261,361
Depreciable assets, net of accumulated depreciation	<u>161,760,419</u>	<u>47,081,636</u>	<u>208,842,055</u>
<b>TOTAL ASSETS</b>	<b>259,160,062</b>	<b>71,662,170</b>	<b>330,822,232</b>
<b>LIABILITIES</b>			
Current:			
Warrants and accounts payable	3,712,834	90,826	3,803,660
Accrued liabilities	2,766,148	132,703	2,898,851
Refunds payable	343,257	135,896	479,153
Notes payable	-	812,105	812,105
Taxes collected in advance	187,504	-	187,504
Other liabilities	118,574	-	118,574
Current portion of long-term liabilities:			
Bonds payable	7,203,679	2,174,589	9,378,268
Compensated absences	864,796	230,292	1,095,088
Landfill liability	43,156	-	43,156
Noncurrent:			
Bonds payable, net of current portion	70,766,200	10,958,916	81,725,116
Compensated absences, net of current portion	2,594,387	-	2,594,387
Landfill liability, net of current portion	<u>776,808</u>	<u>-</u>	<u>776,808</u>
<b>TOTAL LIABILITIES</b>	<b>89,377,343</b>	<b>14,535,327</b>	<b>103,912,670</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	128,342,446	42,121,380	170,463,826
Restricted for:			
Permanent funds:			
Nonexpendable	188,478	-	188,478
Expendable	1,672,014	-	1,672,014
Grants and other statutory restrictions	715,134	-	715,134
Unrestricted	<u>38,864,647</u>	<u>15,005,463</u>	<u>53,870,110</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>169,782,719</u></b>	<b>\$ <u>57,126,843</u></b>	<b>\$ <u>226,909,562</u></b>

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 4,691,185	\$ 421,041	\$ 22,238	\$ -	\$ (4,247,906)	\$ -	\$ (4,247,906)
Public safety	15,015,604	2,284,629	117,273	-	(12,613,702)	-	(12,613,702)
Education	78,255,668	5,076,662	23,293,436	-	(49,885,570)	-	(49,885,570)
Public works	7,633,938	473,168	199,557	-	(6,961,213)	-	(6,961,213)
Maintenance	9,138,842	-	-	1,039,008	(8,099,834)	-	(8,099,834)
Health and human services	1,562,977	87,674	376,507	-	(1,098,796)	-	(1,098,796)
Culture and recreation	3,225,721	673,494	230,156	5,000	(2,317,071)	-	(2,317,071)
Interest on debt service	2,315,627	-	-	-	(2,315,627)	-	(2,315,627)
Intergovernmental	1,099,885	-	-	-	(1,099,885)	-	(1,099,885)
Other unallocated costs	7,398,996	-	3,723	-	(7,395,273)	-	(7,395,273)
Total Governmental Activities	130,338,443	9,016,668	24,242,890	1,044,008	(96,034,877)	-	(96,034,877)
<b>Business-Type Activities:</b>							
Sewer services	6,925,340	8,150,210	74,873	-	-	1,299,743	1,299,743
Water services	3,484,604	6,599,191	23,936	-	-	3,138,523	3,138,523
Solid waste services	1,766,956	1,614,272	-	-	-	(152,684)	(152,684)
Total Business-Type Activities	12,176,900	16,363,673	98,809	-	-	4,285,582	4,285,582
Total	\$ 142,515,343	\$ 25,380,341	\$ 24,341,699	\$ 1,044,008	(96,034,877)	4,285,582	(91,749,295)
<b>General Revenues and Transfers:</b>							
Property taxes					94,748,749	-	94,748,749
Excise taxes					4,352,701	-	4,352,701
Penalties, interest, and other taxes					1,282,213	-	1,282,213
Grants and contributions not restricted to specific programs					2,032,360	-	2,032,360
Investment income					539,843	29,884	569,727
Miscellaneous					685,959	-	685,959
Total general revenues					103,641,825	29,884	103,671,709
Excess before transfers					7,606,948	4,315,466	11,922,414
Transfers, net					711,439	(711,439)	-
Change in Net Assets					8,318,387	3,604,027	11,922,414
<b>Net Assets:</b>							
Beginning of year					161,464,332	53,522,816	214,987,148
End of year					\$ 169,782,719	\$ 57,126,843	\$ 226,909,562

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Town Hall Renovation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 9,263,369	\$ -	\$ 2,480,536	\$ 14,768,394	\$ 26,512,299
Investments	14,882,578	2,719,038	-	1,865,078	19,466,694
Receivables:					
Property taxes	2,925,803	11,549	-	-	2,937,352
Excises	605,881	-	-	-	605,881
Departmental	717,079	-	-	10,243	727,322
Intergovernmental	8,944,580	-	-	430,957	9,375,537
Other	66,825	-	-	-	66,825
<b>TOTAL ASSETS</b>	<b>\$ <u>37,406,115</u></b>	<b>\$ <u>2,730,587</u></b>	<b>\$ <u>2,480,536</u></b>	<b>\$ <u>17,074,672</u></b>	<b>\$ <u>59,691,910</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants and accounts payable	\$ 863,943	\$ -	\$ 611,192	\$ 2,222,059	\$ 3,697,194
Deferred revenues	13,059,635	11,549	-	11,011	13,082,195
Taxes collected in advance	187,504	-	-	-	187,504
Accrued liabilities	1,899,084	687	-	106,712	2,006,483
Refunds payable	343,257	-	-	-	343,257
Other liabilities	113,989	-	-	4,585	118,574
<b>TOTAL LIABILITIES</b>	<b>16,467,412</b>	<b>12,236</b>	<b>611,192</b>	<b>2,344,367</b>	<b>19,435,207</b>
Fund Balances:					
Nonspendable	-	-	-	188,478	188,478
Restricted	500,990	2,718,351	1,869,344	13,047,777	18,136,462
Committed	5,214,132	-	-	1,534,534	6,748,666
Assigned	6,359,633	-	-	-	6,359,633
Unassigned	8,863,948	-	-	(40,484)	8,823,464
<b>TOTAL FUND BALANCES</b>	<b><u>20,938,703</u></b>	<b><u>2,718,351</u></b>	<b><u>1,869,344</u></b>	<b><u>14,730,305</u></b>	<b><u>40,256,703</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>37,406,115</u></b>	<b>\$ <u>2,730,587</u></b>	<b>\$ <u>2,480,536</u></b>	<b>\$ <u>17,074,672</u></b>	<b>\$ <u>59,691,910</u></b>

See notes to financial statements.

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

JUNE 30, 2011

<b>Total governmental fund balances</b>	\$ 40,256,703
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	199,653,839
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	12,284,963
• 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.	407,022
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(570,782)
• 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>(82,249,026)</u>
<b>Net assets of governmental activities</b>	<u>\$ 169,782,719</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, 2011

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Town Hall Renovation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 93,024,263	\$ 1,564,254	\$ -	\$ -	\$ 94,588,517
Excise taxes	4,256,790	-	-	-	4,256,790
Penalties, interest, and other taxes	1,230,729	2,653	-	-	1,233,382
Charges for services	946,196	-	-	5,506,410	6,452,606
Departmental	842,350	-	-	-	842,350
Licenses and permits	1,441,264	-	-	-	1,441,264
Intergovernmental	20,712,707	401,199	-	6,523,234	27,637,140
Investment income	164,820	36,536	-	338,487	539,843
Fines and forfeitures	260,862	-	-	-	260,862
Contributions	-	-	-	423,032	423,032
Other	130,218	-	-	32,748	162,966
Total Revenues	<u>123,010,199</u>	<u>2,004,642</u>	<u>-</u>	<u>12,823,911</u>	<u>137,838,752</u>
<b>Expenditures:</b>					
Current:					
General government	4,376,308	740,075	-	149,499	5,265,882
Public safety	14,331,213	-	-	105,004	14,436,217
Education	64,720,506	-	-	9,747,801	74,468,307
Public works	5,956,425	-	-	39,377	5,995,802
Maintenance	7,961,342	-	8,591,910	7,833,374	24,386,626
Health and human services	1,205,738	-	-	370,447	1,576,185
Culture and recreation	2,078,044	-	-	707,447	2,785,491
Employee benefits	7,069,136	-	-	-	7,069,136
Debt service:					
Principal	8,426,975	-	-	-	8,426,975
Interest	2,579,079	-	-	-	2,579,079
Intergovernmental	1,099,885	-	-	-	1,099,885
Total Expenditures	<u>119,804,651</u>	<u>740,075</u>	<u>8,591,910</u>	<u>18,952,949</u>	<u>148,089,585</u>
Excess (deficiency) of revenues over expenditures	3,205,548	1,264,567	(8,591,910)	(6,129,038)	(10,250,833)
<b>Other Financing Sources (Uses):</b>					
Issuance of bonds	-	-	6,000,000	9,349,697	15,349,697
Bond premium	302,525	-	-	-	302,525
Transfers in	1,807,490	-	-	2,066,564	3,874,054
Transfers out	(2,846,999)	-	-	(315,616)	(3,162,615)
Total Other Financing Sources (Uses)	<u>(736,984)</u>	<u>-</u>	<u>6,000,000</u>	<u>11,100,645</u>	<u>16,363,661</u>
Net change in fund balances	2,468,564	1,264,567	(2,591,910)	4,971,607	6,112,828
Fund Balances, at beginning of year, as reclassified	<u>18,470,139</u>	<u>1,453,784</u>	<u>4,461,254</u>	<u>9,758,698</u>	<u>34,143,875</u>
Fund Balances, at end of year	<u>\$ 20,938,703</u>	<u>\$ 2,718,351</u>	<u>\$ 1,869,344</u>	<u>\$ 14,730,305</u>	<u>\$ 40,256,703</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, 2011

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 6,112,828</b>																		
<ul style="list-style-type: none"> <li>• 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;">16,988,295</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,007,996)</td> </tr> <tr> <td>Net effect of disposal of assets</td> <td style="text-align: right;">(131,734)</td> </tr> </table> </li>   <li>• 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;">(425,123)</td> </tr> </table> </li>   <li>• 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;">(15,349,697)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">8,426,976</td> </tr> </table> </li>   <li>• 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;">263,452</td> </tr> </table> </li>   <li>• 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;">(457,992)</td> </tr> </table> </li>   <li>• 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>(100,622)</u></td> </tr> </table> </li> </ul>		Capital outlay purchases	16,988,295	Depreciation	(7,007,996)	Net effect of disposal of assets	(131,734)		(425,123)	Issuance of debt	(15,349,697)	Repayments of debt	8,426,976		263,452		(457,992)		<u>(100,622)</u>
Capital outlay purchases	16,988,295																		
Depreciation	(7,007,996)																		
Net effect of disposal of assets	(131,734)																		
	(425,123)																		
Issuance of debt	(15,349,697)																		
Repayments of debt	8,426,976																		
	263,452																		
	(457,992)																		
	<u>(100,622)</u>																		
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>8,318,387</u></b>																		



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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 91,487,189	\$ 91,487,189	\$ 91,487,189	\$ -
Excise taxes	3,250,000	3,250,000	4,256,790	1,006,790
Penalties, interest, and other taxes	747,000	747,000	1,230,729	483,729
Charges for services	893,275	893,275	946,196	52,921
Departmental	764,725	764,725	842,350	77,625
Licenses and permits	800,000	800,000	1,441,264	641,264
Intergovernmental	8,972,835	8,972,835	9,233,863	261,028
Investment income	325,000	325,000	161,028	(163,972)
Fines and forfeits	220,000	220,000	259,292	39,292
Other revenue	22,760	22,760	140,282	117,522
Bond premium	46,404	46,404	302,525	256,121
Transfers in	1,714,665	1,714,665	1,714,665	-
Use of free cash	3,568,037	3,568,037	3,568,037	-
Use of bond premium	32,759	32,759	32,759	-
Use of MSBA receipts	364,686	364,686	364,686	-
Use of overlay surplus	499,716	499,716	499,716	-
<b>Total Revenues and Other Sources</b>	<b>113,709,051</b>	<b>113,709,051</b>	<b>116,481,371</b>	<b>2,772,320</b>
<b>Expenditures and Other Uses:</b>				
General government	5,329,935	3,995,422	3,910,427	84,995
Public safety	13,019,756	13,019,756	12,406,368	613,388
Education	46,923,949	46,923,949	46,892,581	31,368
Public works	4,235,987	5,225,494	4,961,608	263,886
Maintenance	7,502,716	7,542,716	7,414,934	127,782
Human services	1,024,791	1,026,547	982,305	44,242
Culture and recreation	1,889,547	1,892,797	1,871,925	20,872
Employee benefits	18,867,236	19,077,236	18,257,906	819,330
Debt service	11,406,472	11,406,472	11,379,284	27,188
Intergovernmental	1,066,701	1,066,701	1,099,885	(33,184)
Transfers out	2,441,961	2,531,961	2,531,961	-
<b>Total Expenditures and Other Uses</b>	<b>113,709,051</b>	<b>113,709,051</b>	<b>111,709,184</b>	<b>1,999,867</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 4,772,187	\$ 4,772,187

See notes to financial statements.

## TOWN OF NEEDHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
<b>ASSETS</b>					
Current:					
Cash and short-term investments	\$ 4,982,001	\$ 6,448,633	\$ 1,418,863	\$ 12,849,497	\$ 611,544
User fees receivable	2,277,489	1,900,222	184,938	4,362,649	-
Other current assets	-	-	447	447	-
Total current assets	7,259,490	8,348,855	1,604,248	17,212,593	611,544
Noncurrent:					
Land and construction in progress	571,624	1,788,874	5,007,443	7,367,941	-
Other capital assets, net of accumulated depreciation	17,903,150	27,256,252	1,922,234	47,081,636	-
Total noncurrent assets	18,474,774	29,045,126	6,929,677	54,449,577	-
<b>TOTAL ASSETS</b>	25,734,264	37,393,981	8,533,925	71,662,170	611,544
<b>LIABILITIES</b>					
Current:					
Accounts payable	11,380	37,980	41,466	90,826	15,639
Accrued payroll	22,684	31,859	22,295	76,838	-
Accrued liabilities	24,746	31,119	-	55,865	188,883
Refunds payable	91,940	3,831	40,125	135,896	-
Notes payable	-	812,105	-	812,105	-
Current portion of long-term liabilities:					
Bonds payable	931,559	1,153,030	90,000	2,174,589	-
Compensated absences	105,034	73,443	51,815	230,292	-
Total current liabilities	1,187,343	2,143,367	245,701	3,576,411	204,522
Noncurrent:					
Bonds payable, net of current portion	5,378,915	5,455,001	125,000	10,958,916	-
Total noncurrent liabilities	5,378,915	5,455,001	125,000	10,958,916	-
<b>TOTAL LIABILITIES</b>	6,566,258	7,598,368	370,701	14,535,327	204,522
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	12,803,897	22,387,806	6,929,677	42,121,380	-
Unrestricted	6,364,109	7,407,807	1,233,547	15,005,463	407,022
<b>TOTAL NET ASSETS</b>	\$ 19,168,006	\$ 29,795,613	\$ 8,163,224	\$ 57,126,843	\$ 407,022

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, 2011

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
<b>Operating Revenues:</b>					
Charges for services	\$ 8,150,210	\$ 6,596,090	\$ 1,614,272	\$ 16,360,572	\$ -
Other	-	3,101	-	3,101	276,410
Total Operating Revenues	8,150,210	6,599,191	1,614,272	16,363,673	276,410
<b>Operating Expenses:</b>					
Personnel services	588,151	846,722	600,423	2,035,296	377,032
Non-personnel services	286,332	969,174	938,307	2,193,813	-
Depreciation	804,852	1,134,848	222,553	2,162,253	-
Intergovernmental assessments	5,043,945	265,017	-	5,308,962	-
Total Operating Expenses	6,723,280	3,215,761	1,761,283	11,700,324	377,032
Operating Income (Loss)	1,426,930	3,383,430	(147,011)	4,663,349	(100,622)
<b>Nonoperating Revenues (Expenses):</b>					
Intergovernmental revenue	74,873	23,936	-	98,809	-
Investment income	12,377	15,423	2,084	29,884	-
Interest expense	(202,060)	(268,843)	(5,673)	(476,576)	-
Total Nonoperating Revenues (Expenses), Net	(114,810)	(229,484)	(3,589)	(347,883)	-
Income (Loss) Before Transfers	1,312,120	3,153,946	(150,600)	4,315,466	(100,622)
Transfers in	-	-	792,673	792,673	-
Transfers out	(336,845)	(925,489)	(241,778)	(1,504,112)	-
Change in Net Assets	975,275	2,228,457	400,295	3,604,027	(100,622)
Net Assets at Beginning of Year	18,192,731	27,567,156	7,762,929	53,522,816	507,644
Net Assets at End of Year	\$ 19,168,006	\$ 29,795,613	\$ 8,163,224	\$ 57,126,843	\$ 407,022

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds				Governmental
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Fund
<b><u>Cash Flows From Operating Activities:</u></b>					
Receipts from customers and users	\$ 8,243,014	\$ 6,557,094	\$ 1,565,055	\$ 16,365,163	\$ -
Employer contributions	-	-	-	-	276,410
Payments of utility assessments	(5,043,945)	(265,017)	-	(5,308,962)	-
Payments to vendors and contractors	(573,159)	(1,043,631)	(1,071,126)	(2,687,916)	-
Payments of employee salaries, benefits, and related expenses	(511,066)	(800,137)	(579,095)	(1,890,298)	(390,137)
Net Cash Provided By (Used For) Operating Activities	2,114,844	4,448,309	(85,166)	6,477,987	(113,727)
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>					
Operating grants received	74,873	-	-	74,873	-
Transfers from other funds	-	-	792,673	792,673	-
Transfers to other funds	(336,845)	(925,489)	(241,778)	(1,504,112)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(261,972)	(925,489)	550,895	(636,566)	-
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>					
Acquisition and construction of capital assets	(1,235,544)	(885,893)	(388,490)	(2,509,927)	-
Issuance of bonds and notes	404,616	940,123	184,000	1,528,739	-
Principal payments on bonds and notes	(993,120)	(1,208,160)	(144,000)	(2,345,280)	-
Interest expense	(208,075)	(273,272)	(5,675)	(487,022)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,032,123)	(1,427,202)	(354,165)	(3,813,490)	-
<b><u>Cash Flows From Investing Activities:</u></b>					
Investment income	12,377	15,423	2,084	29,884	-
Net Cash Provided By Investing Activities	12,377	15,423	2,084	29,884	-
Net Change in Cash and Short-Term Investments	(166,874)	2,111,041	113,648	2,057,815	(113,727)
Cash and Short-Term Investments, Beginning of Year	5,148,875	4,337,592	1,305,215	10,791,682	725,271
Cash and Short-Term Investments, End of Year	\$ 4,982,001	\$ 6,448,633	\$ 1,418,863	\$ 12,849,497	\$ 611,544
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>					
Operating income (Loss)	\$ 1,426,930	\$ 3,383,430	\$ (147,011)	\$ 4,663,349	\$ (100,622)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	804,852	1,134,848	222,553	2,162,253	-
Loss on disposal of assets	-	407	-	407	-
Changes in assets and liabilities:					
User fees	70,969	(42,168)	(57,294)	(28,493)	-
Accounts payable	(250,060)	(74,865)	(132,819)	(457,744)	14,130
Accrued liabilities	10,251	(97)	4,904	15,058	(27,235)
Retainage payable	(36,767)	-	-	(36,767)	-
Refunds payable	21,835	72	8,077	29,984	-
Compensated absences	66,834	46,682	16,424	129,940	-
Net Cash Provided By (Used For) Operating Activities	\$ 2,114,844	\$ 4,448,309	\$ (85,166)	\$ 6,477,987	\$ (113,727)

See notes to financial statements.

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (As of <u>December 31, 2010</u> )	Private Purpose Trust <u>Fund</u>	Other Post- Employment Benefit <u>Trust Fund</u>	Other Agency <u>Funds</u>
<b><u>ASSETS</u></b>				
Cash and short-term investments	\$ 2,764,907	\$ -	\$ -	\$ 177,837
Investments	103,694,430	2,296,478	6,670,011	-
Receivables	<u>68,722</u>	<u>-</u>	<u>-</u>	<u>315,991</u>
Total Assets	106,528,059	2,296,478	6,670,011	493,828
<b><u>LIABILITIES AND NET ASSETS</u></b>				
Accounts payable	-	116,867	-	-
Accrued liabilities	-	-	-	31,669
Refunds payable	-	-	-	46,104
Other liabilities	<u>53,820</u>	<u>-</u>	<u>-</u>	<u>416,055</u>
Total Liabilities	<u>53,820</u>	<u>116,867</u>	<u>-</u>	<u>493,828</u>
<b><u>NET ASSETS</u></b>				
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>106,474,239</u></u>	\$ <u><u>2,179,611</u></u>	\$ <u><u>6,670,011</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, 2011

	Pension Trust Fund (For the Year Ended December 31, 2010)	Private Purpose Trust Fund	Other Post- Employment Benefit Trust Fund
<b>Additions:</b>			
Contributions:			
Employers	\$ 4,552,978	\$ -	\$ 3,626,375
Plan members	2,845,052	-	-
Other	440,982	52,094	-
Total contributions	<u>7,839,012</u>	<u>52,094</u>	<u>3,626,375</u>
Investment Income:			
Increase (decrease) in fair value of investments	12,607,291	515,274	505,962
Less: management fees	(449,120)	-	-
Net investment income	<u>12,158,171</u>	<u>515,274</u>	<u>505,962</u>
Total additions	19,997,183	567,368	4,132,337
<b>Deductions:</b>			
Benefit payments to plan members and beneficiaries	9,517,343	-	3,246,573
Refunds to plan members	172,860	-	-
Administrative expenses	190,590	-	-
Other	214,903	206,524	-
Total deductions	<u>10,095,696</u>	<u>206,524</u>	<u>3,246,573</u>
Net increase	9,901,487	360,844	885,764
<b>Net assets:</b>			
Beginning of year	<u>96,572,752</u>	<u>1,818,767</u>	<u>5,784,247</u>
End of year	<u>\$ 106,474,239</u>	<u>\$ 2,179,611</u>	<u>\$ 6,670,011</u>

See notes to financial statements.

# TOWN OF NEEDHAM, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

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

#### B. Government-wide and Fund Financial Statements

##### Government-wide Financial Statements

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

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

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

#### Fund Financial Statements

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

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

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

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

The government reports the following major governmental funds:



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

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

The *Agency Funds* include *Student Activity Funds*, and *Police, Fire and Maintenance Detail Funds*.

#### D. Cash and Short-Term Investments

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

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

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

#### E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements 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 2½” limits the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2011 tax levy reflected an excess capacity of approximately \$ 20,000.

*G. Capital Assets*

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

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

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

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

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

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

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

#### *H. Compensated Absences*

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

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

#### *I. Long-Term Obligations*

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

#### *J. Fund Equity*

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

*Fund Balance* - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure.

Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

#### K. Use of Estimates

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

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

### **A. Budgetary Information**

At the annual town meeting, the Finance Committee presents an operating 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 to budgetary data.

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

<u>General fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 123,010,199	\$ 119,804,651
Other financing sources/uses (GAAP Basis, net of refunding)	<u>2,110,015</u>	<u>2,846,999</u>
Subtotal (GAAP Basis)	125,120,214	122,651,650
Adjust property tax revenue to the Budgetary Basis	(1,537,074)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,902,339)
Add end of year appropriation carryforwards to expenditures	-	2,372,754
Recognize use of free cash	3,568,037	-
Recognize use of bond premium	32,759	-
Recognize use of MSBA revenue appropriated for debt service	364,686	-
Recognize use of overlay surplus	499,716	-
Reverse GASB 24 MTRS	(11,471,074)	(11,471,074)
Less nonbudgeted funds	(88,123)	65,963
Less MWPAT subsidy	<u>(7,770)</u>	<u>(7,770)</u>
Budgetary Basis	<u>\$ 116,481,371</u>	<u>\$ 111,709,184</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, 2011:

Nonmajor Governmental Funds:	
Special Revenue Funds:	
2010 Title I	\$ 9,657
2011 911 Department Support and Incentive	2,995
2011 Shine (COA)	23,891
2011 297A CL Early Literacy Gap for Students with Disabilities	3,941
Fiduciary Funds:	
Police outside detail	205,102
Fire outside detail	84,956

### **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, 2011, \$ 15,792,375 of the Town's bank balance of \$ 42,471,520 was exposed to custodial credit risk as uninsured or uncollateralized; however, it was invested in MMDT.

As of December 31, 2010, \$ 2,512,750 of the Contributory Retirement System's bank balance of \$ 2,702,252 was exposed to custodial credit risk as uninsured or uncollateralized. Of the System's exposed risk, \$ 2,257,802 was invested in MMDT and \$ 254,948 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	\$ 753,338	AAA
Certificates of deposits	5,839,319	N/R
Corporate equities	2,980,645	N/A
Mutual funds	2,238,269	N/A
Federal agency securities	9,846,956	AAA
Corporate bonds	<u>6,774,655</u>	A2
Total investments	\$ <u>28,433,182</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, 2010, the System maintained its investments in the State Investment Pool\* with a fair value of \$ 103,694,430. This investment type is not rated.

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

## B. Custodial Credit Risk

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

As of June 30, 2011, \$ 22,593,862 out of the Town's investments of \$ 28,433,182 was 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 \$ 103,694,430 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	\$ 753,338	\$ 753,338	\$ -	\$ -
Federal agency securities	9,846,956	7,084,711	2,762,245	-
Corporate bonds	6,774,655	882,909	5,838,696	53,050
<b>Total</b>	<b>\$ 17,374,949</b>	<b>\$ 8,720,958</b>	<b>\$ 8,600,941</b>	<b>\$ 53,050</b>

**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, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 663	
2010	<u>2</u>	
		665
Personal Property		
2011	227	
2010	254	
2009	46	
2008	29	
2007	33	
Prior	<u>190</u>	
		779
Tax Liens		938
Deferred Taxes		538
Tax Roll Backs		5
CPA		<u>12</u>
Total		<u>\$ 2,937</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	\$ 299
Excises	209
Ambulance	289

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 2011 and future reimbursements from the MSBA.

## 6. Capital Assets

Capital asset activity for the year ended June 30, 2011 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	\$ 168,650	\$ 762	\$ -	\$ 169,412
Machinery, equipment, and furnishings	9,715	526	(495)	9,746
Vehicles	3,430	934	(275)	4,089
Infrastructure	<u>29,673</u>	<u>507</u>	<u>-</u>	<u>30,180</u>
Total capital assets, being depreciated	211,468	2,729	(770)	213,427
Less accumulated depreciation for:				
Buildings and improvements	(25,436)	(3,870)	-	(29,306)
Machinery, equipment, and furnishings	(5,566)	(1,357)	480	(6,443)
Vehicles	(2,466)	(578)	182	(2,862)
Infrastructure	<u>(11,853)</u>	<u>(1,202)</u>	<u>-</u>	<u>(13,055)</u>
Total accumulated depreciation	<u>(45,321)</u>	<u>(7,007)</u>	<u>662</u>	<u>(51,666)</u>
Total capital assets, being depreciated, net	166,147	(4,278)	(108)	161,761
Capital assets, not being depreciated:				
Land	18,431	641	(25)	19,047
Works of art	95	-	-	95
Construction in progress	<u>5,132</u>	<u>13,619</u>	<u>-</u>	<u>18,751</u>
Total capital assets, not being depreciated	<u>23,658</u>	<u>14,260</u>	<u>(25)</u>	<u>37,893</u>
Governmental activities capital assets, net	<u>\$ 189,805</u>	<u>\$ 9,982</u>	<u>\$ (133)</u>	<u>\$ 199,654</u>

The Town exchanged a like-kind parcel of land with MTBA in conveyance in February 2011. The Town received the Needham Heights Station Parking Lot in exchange for the Upper Hershey Commuter Street Parking Lot (part of Great Avenue/Harris Avenue land) for consideration of ten dollars. The new lot is recorded at the book value of the old parcel, since the transaction lacks commercial substance. The Town plans to build a new Senior Center on the lot.

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,888	\$ 16	\$ -	\$ 8,904
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	3,732	539	(202)	4,069
Vehicles	1,311	252	(130)	1,433
Infrastructure	<u>66,796</u>	<u>2,172</u>	<u>-</u>	<u>68,968</u>
Total capital assets, being depreciated	87,327	2,979	(332)	89,974
Less accumulated depreciation for:				
Buildings and improvements	(3,346)	(245)	-	(3,591)
Plant	(2,030)	(229)	-	(2,259)
Machinery, equipment, and furnishings	(2,786)	(243)	202	(2,827)
Vehicles	(600)	(243)	130	(713)
Infrastructure	<u>(32,299)</u>	<u>(1,202)</u>	<u>-</u>	<u>(33,501)</u>
Total accumulated depreciation	<u>(41,061)</u>	<u>(2,162)</u>	<u>332</u>	<u>(42,891)</u>
Total capital assets, being depreciated, net	46,266	817	-	47,083
Capital assets, not being depreciated:				
Non-Depreciable - WIP	2,561	560	(1,029)	2,092
Land	<u>5,275</u>	<u>-</u>	<u>-</u>	<u>5,275</u>
Total capital assets, not being depreciated	<u>7,836</u>	<u>560</u>	<u>(1,029)</u>	<u>7,367</u>
Business-type activities capital assets, net	<u>\$ 54,102</u>	<u>\$ 1,377</u>	<u>\$ (1,029)</u>	<u>\$ 54,450</u>

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

Governmental Activities:	
General government	\$ 78
Public safety	338
Education	4,119
Public works	1,914
Human service	4
Culture and recreation	<u>555</u>
Total depreciation expense - governmental activities	<u>\$ 7,008</u>
Business-Type Activities:	
Sewer	\$ 805
Water	1,135
Solid Waste	<u>222</u>
Total depreciation expense - business-type activities	<u>\$ 2,162</u>

**7. Warrants and Accounts Payable**

Warrants payable represent 2011 expenditures paid by July 15, 2011 as permitted by law.

**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, 2011 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 2011:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 1,483,000	\$ -	\$ (1,483,000)	\$ -
Bond anticipation	-	509,000	(509,000)	-
MWPAT Loan	716,361	95,744	-	812,105
Total	<u>\$ 2,199,361</u>	<u>\$ 604,744</u>	<u>\$ (1,992,000)</u>	<u>\$ 812,105</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 unassigned fund balance or unrestricted retained earnings. Compensated absences are paid from the fund responsible for the employee's compensation - the general fund and the enterprise funds.

### B. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	<u>Original Amount</u>	<u>Interest Rate(s)%</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount Outstanding as of June 30, 2011</u>
MA Water Pollution Abatement Trust	\$ 310,656	Various	06/01/95	02/01/15	\$ 114,249
MA Water Pollution Abatement Trust	91,400	Various	12/09/98	08/01/18	40,800
MA Water Pollution Abatement Trust	243,300	Various	12/09/98	08/01/18	108,600
MA Water Pollution Abatement Trust	1,261,272	Various	12/09/98	08/01/18	614,500
MA Water Pollution Abatement Trust	175,500	Various	12/09/98	08/01/18	78,500
MA Water Pollution Abatement Trust	422,874	Various	12/09/98	08/01/18	236,319
MA Water Pollution Abatement Trust	85,894	Various	12/09/98	08/01/18	42,860
MA Water Resources Authority	257,304	0.00	07/19/01	08/15/11	25,731
Elementary School	14,000,000	3.00 - 4.70	11/01/03	11/01/23	9,100,000
Municipal Purpose FY 2005	12,649,000	3.00 - 4.75	12/01/04	12/01/19	7,325,000
Municipal Purpose FY 2005	6,827,000	3.25 - 4.20	06/01/05	06/01/25	4,025,000
Municipal Purpose FY 2006	3,346,000	3.24 - 3.66	12/15/05	02/15/15	800,000
Municipal Purpose FY 2007	5,525,000	3.75 - 4.50	11/01/06	11/11/19	4,445,000
Municipal Purpose FY 2007	11,970,000	3.75 - 4.50	11/01/06	11/01/26	7,900,000
Municipal Purpose FY 2008	4,470,000	4.05 - 5.00	06/15/07	06/15/12	2,545,000
Municipal Purpose FY 2008	3,205,000	3.25	12/01/07	06/01/12	395,000
Municipal Purpose FY 2009	12,600,000	3.25 - 5.00	06/03/08	12/01/26	10,430,000
Municipal Purpose FY 2009	5,600,000	4.61	11/01/08	08/01/27	4,610,000
Municipal Purpose FY 2010	6,842,000	2.94	06/01/09	06/01/28	5,245,000
Municipal Purpose FY 2010	15,815,000	2.00 - 4.00	12/15/09	08/01/28	14,865,000
Municipal Purpose FY 2010	4,000,000	2.00 - 3.00	06/15/10	12/01/24	3,470,000
MA Water Resources Authority	215,710	0.00	02/22/10	02/15/10	172,568
MA Water Resources Authority	283,305	0.00	05/17/10	05/15/15	226,644
MWRA	57,613	0.00	11/15/10	11/15/15	57,613
Municipal Purpose FY 2011	4,635,000	1.00 - 3.00	10/15/10	04/01/17	2,480,000
Municipal Purpose FY 2011	11,750,000	2.00 - 5.00	05/19/11	10/01/28	11,750,000
					<u>\$ 91,103,384</u>



**C. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,203,679	\$ 2,628,610	\$ 9,832,289
2013	6,787,979	2,420,250	9,208,229
2014	6,307,979	2,232,555	8,540,534
2015	6,027,612	2,041,584	8,069,196
2016	5,517,525	1,860,174	7,377,699
2017-2021	24,260,105	6,519,851	30,779,956
2022-2026	17,620,000	2,436,268	20,056,268
2027-2030	<u>4,245,000</u>	<u>183,159</u>	<u>4,428,159</u>
Total	<u>\$ 77,969,879</u>	<u>\$ 20,322,451</u>	<u>\$ 98,292,330</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,174,589	\$ 440,178	\$ 2,614,767
2013	1,813,454	433,065	2,246,519
2014	1,636,635	330,401	1,967,036
2015	1,431,605	280,278	1,711,883
2016	1,134,122	232,036	1,366,158
2017-2021	4,038,100	516,483	4,554,583
2022-2026	725,000	80,244	805,244
2027-2030	<u>180,000</u>	<u>10,900</u>	<u>190,900</u>
Total	<u>\$ 13,133,505</u>	<u>\$ 2,323,585</u>	<u>\$ 15,457,090</u>

**D. Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2011 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	9,500
2003	Sewer Pump Station Richardson Drive	81,290
2003	Water Pump Station Designs	180,000
2004	Library Project	3,043,503
2004	Sewer System Rehab - I/I work	13,000
2006	Ridge Hill Rehabilitation	104,600
2006	Water System Rehabilitation	30,000
2006	Rte 128 Sewer Main Relocation	115,000
2007	Water system Improvements	735,000
2007	Mitchell School Roof Repair	11,400
2008	High Rock and Pollard School Project	284,000
2008	Sewer System Rehab - I/I work	559,083
2009	Municipal Parking Lot Improvements	105,000
2009	Public Safety Building Roof	61,500
2009	Street & Traffic Light Improvements	25,000
2009	Wastewater Pump Station at GPA	33,000
2009	Water Main Improvements	600,294
2009	Water Storage Tank Cleaning & Painting	75,000
2009	Public Services Administration Bldg.	320,000
2010	Stormwater Master Plan Drainage Improvements	165,000
2010	Sewer Pump Station Design	575,497
2010	Town Hall (GF portion)	1,600,000
2010	Town Hall (CPA portion)	3,700,000
2010	Kendrick Street Bridge Design	45,000
2010	RTS Construction Equipment	35,000
2010	Water Distribution System Rehab	80,000
2010	Newman School Extraordinary Repairs	20,269,128
2011	Road, Bridges, Sidewalks and Intersection Improvement	556,300
2011	Kendrick Street Bridge Repair	850,000
2011	Polland School Roof Remodeling	2,500,000
2011	Senior Center Planning	150,000
2012	Parking and Access Road	55,800
2012	Town Infrastructure Repair	1,100,000
2012	Fire Engine	400,000
2012	School Roof	320,000
2012	Booth Street Reconstruction	125,000
2012	RTS Construction Equipment	86,000
2012	Semi-Tractor Purchase	152,000
	Total	\$ <u>39,223,395</u>

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

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>07/01/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>06/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>06/30/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 71,047	\$ 15,350	\$ (8,427)	\$ 77,970	\$ (7,204)	\$ 70,766
Other:						
Accrued employee benefits	2,793	666	-	3,459	(865)	2,594
Landfill closure	<u>1,027</u>	<u>-</u>	<u>(208)</u>	<u>819</u>	<u>(43)</u>	<u>776</u>
Totals	\$ <u>74,867</u>	\$ <u>16,016</u>	\$ <u>(8,635)</u>	\$ <u>82,248</u>	\$ <u>(8,112)</u>	\$ <u>74,136</u>

	Total Balance <u>7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/11</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 14,386	\$ 1,093	\$ (2,345)	\$ 13,134	\$ (2,175)	\$ 10,959
Other:						
Accrued employee benefits	<u>100</u>	<u>130</u>	<u>-</u>	<u>230</u>	<u>(230)</u>	<u>-</u>
Totals	\$ <u>14,486</u>	\$ <u>1,223</u>	\$ <u>(2,345)</u>	\$ <u>13,364</u>	\$ <u>(2,405)</u>	\$ <u>10,959</u>

#### F. Prior Year Refundings

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2011, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 4,390,000.

### **13. Landfill Postclosure Care Costs**

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

The \$ 819,964 reported as postclosure care liability at June 30, 2011 represents the estimated costs to maintain and monitor the site for the remainder of the thirty years. These amounts are based on what it would cost to perform all postclosure care in 2011. 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. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

In fiscal year 2011, the Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2011:

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

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

**Committed** - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

**Assigned** - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification

includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Following is a breakdown of the Town's fund balances at June 30, 2011:

	General Fund	Community Preservation Fund	Town Hall Renovation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 188,478	\$ 188,478
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,478</u>	<u>\$ 188,478</u>
Restricted					
Debt service	\$ 550,990	\$ -	\$ -	\$ -	\$ 550,990
Bonded projects	-	-	1,869,344	6,101,715	7,971,059
Special revenue funds	-	2,718,351	-	5,274,048	7,992,399
Expendable permanent funds	-	-	-	1,672,014	1,672,014
	<u>\$ 550,990</u>	<u>\$ 2,718,351</u>	<u>\$ 1,869,344</u>	<u>\$ 13,047,777</u>	<u>\$ 18,186,462</u>
Committed					
Continuing appropriations articles	\$ 415,679	\$ -	\$ -	\$ -	\$ 415,679
General and capital stabilization	4,798,453	-	-	-	4,798,453
Capital project funds	-	-	-	1,534,534	1,534,534
	<u>\$ 5,214,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,534,534</u>	<u>\$ 6,748,666</u>
Assigned					
Encumbrances	\$ 2,388,870	\$ -	\$ -	\$ -	\$ 2,388,870
Reserved for expenditures	3,970,763	-	-	-	3,970,763
	<u>\$ 6,359,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,359,633</u>
Unassigned					
	<u>\$ 8,863,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,484)</u>	<u>\$ 8,823,464</u>

## **16. General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). Major differences include an estimate for future potential tax refunds included in these financial statements, which is not recognized under UMAS.

## **17. Commitments and Contingencies**

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

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

**18. Subsequent Events**

Debt

Subsequent to June 30, 2011, 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	\$ 2,460,000	2-3.125%	10/05/11	08/01/26
GOB anticipation note	\$ 5,762,000	1.50%	10/14/11	06/15/12

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

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2009, the actuarial valuation date, approximately 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 2011 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, 2011, 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)	\$ 3,626,375
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>3,626,375</u>
Contributions made	<u>(3,626,375)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ -</u></u>

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>
2011	\$ 3,626,375	100%	\$ -
2010	\$ 3,446,556	100%	\$ -
2009	\$ 3,102,311	100%	\$ -

The Town's net OPEB obligation as of June 30, 2011 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, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 59,122,322
Actuarial value of plan assets	<u>(6,423,760)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 52,698,562</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>10.9%</u>
Covered payroll (active plan members)	<u>\$ 60,859,276</u>
UAAL as a percentage of covered payroll	<u>86.6%</u>

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

*F. Actuarial Methods and Assumptions*

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

In the July 1, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included an 8% investment rate of return and an initial annual healthcare cost trend rate of 8% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 28 years, on a closed basis.



This has been calculated assuming the amortization payment increases at a rate of 4.5%.

## 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. The System also issues a stand-alone financial report, which can be obtained from the System located at 1471 Highland Avenue, Needham, Massachusetts 02492.

Membership of each plan consisted of the following at December 31, 2010:

Retirees and beneficiaries receiving benefits	475
Terminated plan members entitled to but not yet receiving benefits	103
Active plan members	<u>680</u>
Total	<u><u>1,258</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>
2011	\$ 4,552,978	100%
2010	4,271,094	100%
2009	4,121,326	100%
2008	3,979,000	100%
2007	3,835,000	100%
2006	3,696,000	100%
2005	3,525,000	100%
2004	2,392,000	100%
2003	2,353,000	100%
2002	2,315,000	100%

**B. Summary of Significant Accounting Policies**

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

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

**C. Funded Status and Funding Progress**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/10	\$ 115,772	\$ 148,011	\$ 32,239	78.2%	\$ 30,286	106.4%

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

**D. Actuarial Methods and Assumptions**

The annual required contribution for the current year was determined as part of the actuarial valuation using the individual entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 32.2 million was calculated. The actuarial assumptions included (a) 8.00 % investment rate of return and (b) a projected salary increase of 5.25 to 5.50% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.00 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2010, the unfunded actuarially accrued liability is being amortized over 16 years using 4.0 % increasing payment method.

**E. Teachers**

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

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

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

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

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

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

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 11,471,074 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

*F. Other Employees*

Certain retired employees of the Town were exempted from membership or elected not to participate in the System. The Town pays retirement benefits to these employees from the General Fund appropriations. These employees are not included in the Town's actuarial liability. The Town's fiscal 2011 pension expense relating to these employees was approximately \$ 31,484.

**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, 2011, the Town's workers compensation fund had a balance of \$ 84,085 in net assets (a component of Total Net Assets). This amount is generated from the remainder of the workers compensation budget voted each year by the Town Meeting. The Town appropriated \$ 400,000 for workers compensation line item in fiscal year 2011. These funds are used to pay workers compensation related expenses throughout the year, with the unexpended balance rolling into the trust fund noted above. The Town also purchases stop-loss reinsurance as part of its workers compensation program from New York Marine and General Insurance Company. Under the terms of its excess workers compensation coverage, the Town is liable for up to \$ 350,000 per accident per employee to an aggregate limit of \$ 1,000,000 per

accident. The Town's maximum aggregate liability for all claims paid within one year is \$ 4,000,000. The Town has no excess liability coverage for public safety employees and no reasonable estimate of claims liability has been determined.

A liability for unpaid claims at June 30, 2011 of \$ 188,883 has been recorded in the Internal Service Fund. This represents the Town's estimate of future payments based on historical information on active cases.

Changes in the aggregate liability for claims for the year ended June 30, 2011 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 216,118
Claims incurred/recognized in fiscal year 2011	377,032
Claims paid in fiscal year 2011	<u>(404,267)</u>
Claims liability, end of year	<u>\$ 188,883</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 2011, as defined by GASB Statement 34, have changed from the previous fiscal year. Also, GASB Statement 54 has redefined fund types. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/10 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/10 (as reclassified)
General Fund	\$ 14,149,983	\$ 4,320,156	\$ 18,470,139
Community Preservation	1,453,784	-	1,453,784
Town Hall Renovation	-	4,461,254	4,461,254
Nonmajor Governmental Funds	<u>18,540,108</u>	<u>(8,781,410)</u>	<u>9,758,698</u>
Total	<u>\$ 34,143,875</u>	<u>\$ -</u>	<u>\$ 34,143,875</u>

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

June 30, 2011

(Unaudited)

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/10	\$ 115,771,921	\$ 148,011,244	\$ 32,239,323	78.22%	\$ 30,285,518	106.4%
01/01/09	\$ 102,420,630	\$ 139,054,020	\$ 36,633,390	73.66%	\$ 28,012,825	130.8%
01/01/07	\$ 102,235,876	\$ 128,668,586	\$ 26,432,710	79.50%	\$ 26,120,560	101.2%
01/01/05	\$ 89,965,920	\$ 119,994,011	\$ 30,028,091	75.00%	\$ 23,585,296	127.3%
01/01/04	\$ 82,910,726	\$ 113,426,667	\$ 30,515,941	73.10%	\$ 21,633,442	141.1%
01/01/03	\$ 76,356,568	\$ 108,537,756	\$ 32,181,188	70.40%	\$ 21,380,463	150.5%
01/01/00	\$ 80,624,013	\$ 88,236,491	\$ 7,612,478	91.40%	\$ 18,313,876	41.6%
01/01/97	\$ 50,591,567	\$ 69,604,902	\$ 19,013,335	72.70%	\$ 16,120,405	117.9%
01/01/95	\$ 41,448,079	\$ 66,617,237	\$ 25,169,158	62.20%	\$ 12,547,993	200.6%

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/11	\$ 6,423,760	\$ 59,122,322	\$ 52,698,562	10.9%	\$ 60,859,276	86.6%
07/01/09	\$ 5,008,484	\$ 48,888,127	\$ 43,879,643	10.2%	\$ 61,582,295	71.3%
07/01/07	\$ 3,075,317	\$ 46,672,308	\$ 43,596,991	6.6%	\$ 59,616,565	73.1%
07/01/05	\$ 2,131,044	\$ 43,172,705	\$ 41,041,661	4.9%	\$ 51,915,780	79.1%

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, 2011

	<u>Budget</u>	<u>Adjusted Actual</u>	Variance Positive (Negative)
Revenues:			
Current service charges	\$ 7,728,166	\$ 8,221,179	\$ 493,013
Interest income	10,000	12,377	2,377
Transfers in	-	144,126	144,126
Use of retained earnings	<u>376,000</u>	<u>376,000</u>	<u>-</u>
Total Revenues and Other Sources	8,114,166	8,753,682	639,516
Expenditures:			
Sewer expenditures	1,339,250	1,125,452	213,798
Intergovernmental	5,043,945	5,043,945	-
Debt service	1,250,000	1,242,461	7,539
Transfers out	<u>480,971</u>	<u>480,971</u>	<u>-</u>
Total Expenditures and Other Uses	<u>8,114,166</u>	<u>7,892,829</u>	<u>221,337</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u><u>-</u></u>	\$ <u><u>860,853</u></u>	\$ <u><u>860,853</u></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, 2011

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 4,819,688	\$ 6,553,922	\$ 1,734,234
Interest income	10,000	15,423	5,423
Other revenue	-	3,100	3,100
Transfers in	-	11,477	11,477
Use of retained earnings	<u>2,065,400</u>	<u>2,065,400</u>	<u>-</u>
Total Revenues	6,895,088	8,649,322	1,754,234
Expenditures:			
Water expenditures	4,193,105	3,782,482	410,623
Intergovernmental	265,017	265,017	-
Debt service	1,500,000	1,497,133	2,867
Transfers out	<u>936,966</u>	<u>936,966</u>	<u>-</u>
Total Expenditures and Other Uses	<u>6,895,088</u>	<u>6,481,598</u>	<u>413,490</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ 2,167,724</u>	<u>\$ 2,167,724</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, 2011

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,451,010	\$ 1,561,310	\$ 110,300
Interest income	1,500	2,084	584
Transfers in	792,673	792,673	-
Use of retained earnings	<u>235,000</u>	<u>235,000</u>	<u>-</u>
Total Revenues and Other Sources	2,480,183	2,591,067	110,884
Expenditures:			
Transfers station expenditures	2,088,405	1,956,848	131,557
Debt service	150,000	149,673	327
Transfers out	<u>241,778</u>	<u>241,778</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,480,183</u>	<u>2,348,299</u>	<u>131,884</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 242,768</u>	<u>\$ 242,768</u>

See Independent Auditors' Report.