

TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Report

For the Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Needham, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts (the Town), as of and for the year ended June 30, 2015, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2014), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Needham, Massachusetts, as of June 30, 2015, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2014), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budget and actual comparisons for Sewer, Water, and Solid Waste funds appearing on pages 77 through 79 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

December 28, 2015

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, 2015.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary 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 and property and casualty insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$222,962,579 (net position), a change of \$7,853,613 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$53,139,301, a change of \$7,735,991 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,247,969, a change of \$2,002,692 in comparison to the prior year.
- Total long-term bonds and loans payable, including unamortized bond premium, at the close of the current fiscal year was \$97,657,164, a change of \$(4,848,680) in comparison to the prior year.
- There were no short-term notes payable at the close of the current fiscal year, a change of \$(1,607,000) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position Summary (000s)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
	Assets:					
Current and other assets	\$ 75,068	\$ 67,084	\$ 16,750	\$ 17,714	\$ 91,818	\$ 84,798
Capital assets	<u>232,147</u>	<u>237,752</u>	<u>64,826</u>	<u>60,997</u>	<u>296,973</u>	<u>298,749</u>
Total assets	307,215	304,836	81,576	78,711	388,791	383,547
Deferred outflow of resources	<u>1,789</u>	<u>-</u>	<u>110</u>	<u>-</u>	<u>1,899</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 309,004</u>	<u>\$ 304,836</u>	<u>\$ 81,686</u>	<u>\$ 78,711</u>	<u>\$ 390,690</u>	<u>\$ 383,547</u>
Liabilities:						
Long-term liabilities	\$ 137,338	\$ 91,031	\$ 20,116	\$ 16,759	\$ 157,454	\$ 107,790
Notes payable	-	1,607	-	-	-	1,607
Other liabilities	<u>9,391</u>	<u>7,649</u>	<u>857</u>	<u>1,121</u>	<u>10,248</u>	<u>8,770</u>
Total liabilities	146,729	100,287	20,973	17,880	167,702	118,167
Deferred inflow of resources	<u>24</u>	<u>16</u>	<u>1</u>	<u>-</u>	<u>25</u>	<u>16</u>
Net position:						
Net investment in capital assets	151,855	150,581	48,762	47,316	200,617	197,897
Restricted	17,038	14,568	-	-	17,038	14,568
Unrestricted	<u>(6,642)</u>	<u>39,384</u>	<u>11,950</u>	<u>13,515</u>	<u>5,308</u>	<u>52,899</u>
Total net position	<u>162,251</u>	<u>204,533</u>	<u>60,712</u>	<u>60,831</u>	<u>222,963</u>	<u>265,364</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 309,004</u>	<u>\$ 304,836</u> *	<u>\$ 81,686</u>	<u>\$ 78,711</u> *	<u>\$ 390,690</u>	<u>\$ 383,547</u>

Changes in Net Position Summary (000s)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
	Revenues:					
Program revenues:						
Charges for services	\$ 9,784	\$ 10,470	\$ 17,368	\$ 16,013	\$ 27,152	\$ 26,483
Operating grants and contributions	21,962	25,975	28	31	21,990	26,006
Capital grants and contributions	439	1,979	-	-	439	1,979
General revenues:						
Property taxes	114,605	107,351	-	-	114,605	107,351
Excises	5,237	4,984	-	-	5,237	4,984
Penalties and interest on taxes	1,855	1,645	-	-	1,855	1,645
Grants and contributions not restricted to specific programs	2,169	2,020	-	-	2,169	2,020
Investment income	365	552	13	14	378	566
Other	<u>240</u>	<u>295</u>	<u>25</u>	<u>-</u>	<u>265</u>	<u>295</u>
Total revenues	156,656	155,271	17,434	16,058	174,090	171,329

(continued)

(continued)

Changes in Net Position Summary (000s)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Expenses:						
General government	6,079	6,240	-	-	6,079	6,240
Public safety	15,743	14,758	-	-	15,743	14,758
Education	89,349	87,858	-	-	89,349	87,858
Public works	8,706	6,387	-	-	8,706	6,387
Maintenance	11,555	11,802	-	-	11,555	11,802
Human services	2,094	1,885	-	-	2,094	1,885
Culture and recreation	3,218	3,371	-	-	3,218	3,371
Interest on long-term debt	2,718	3,030	-	-	2,718	3,030
Intergovernmental	1,273	1,271	-	-	1,273	1,271
Other unallocated costs	10,356	9,880	-	-	10,356	9,880
Sewer operations	-	-	8,027	7,757	8,027	7,757
Water operations	-	-	4,963	4,981	4,963	4,981
Solid waste operations	-	-	2,155	2,258	2,155	2,258
Total expenses	<u>151,091</u>	<u>146,482</u>	<u>15,145</u>	<u>14,996</u>	<u>166,236</u>	<u>161,478</u>
Change in net position before transfers	5,565	8,789	2,289	1,062	7,854	9,851
Transfers	<u>(507)</u>	<u>24</u>	<u>507</u>	<u>(24)</u>	<u>-</u>	<u>-</u>
Change in net position	5,058	8,813	2,796	1,038	7,854	9,851
Net position - beginning of year, as restated	<u>157,193</u>	<u>195,720</u>	<u>57,916</u>	<u>59,793</u>	<u>215,109</u>	<u>255,513</u>
Net position - end of year	<u>\$ 162,251</u>	<u>\$ 204,533</u>	<u>* \$ 60,712</u>	<u>\$ 60,831</u>	<u>* \$ 222,963</u>	<u>\$ 265,364</u>

* July 1, 2014 net position was restated for GASB 68, while prior periods were not restated.

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

The largest portion of net position \$200,617,333 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

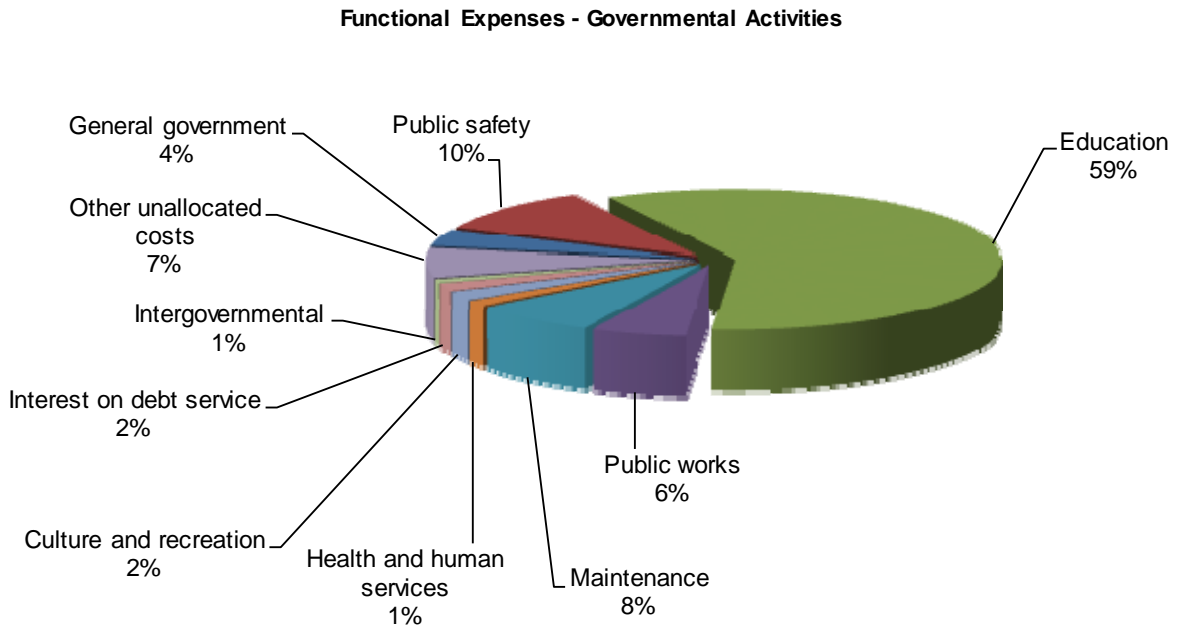
An additional portion of net position \$17,038,226 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$5,307,020 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

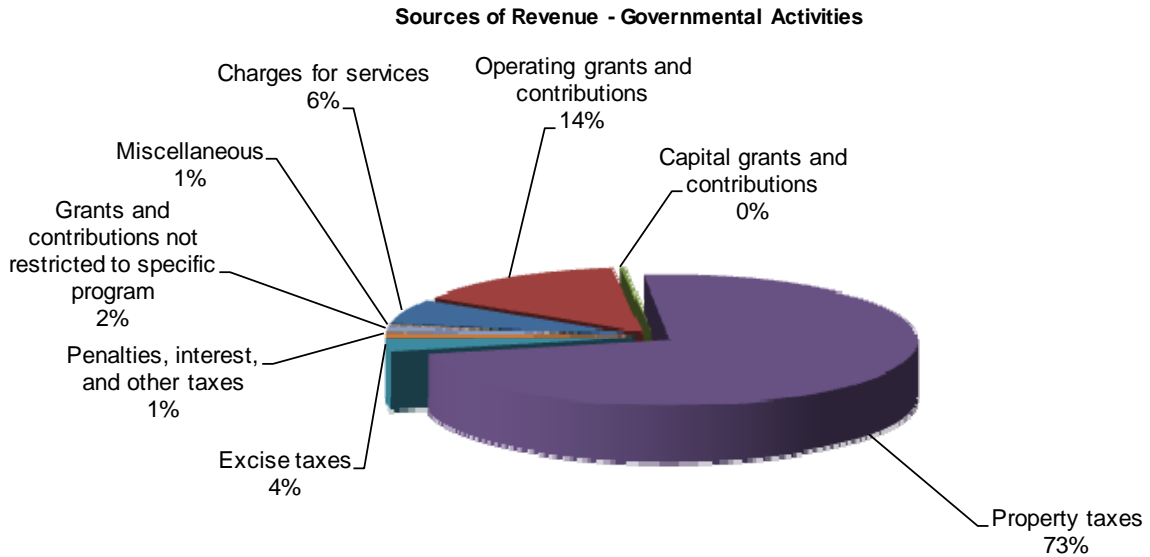
Governmental activities for the year resulted in a change in net position of \$5,057,768. Key elements of this change are as follows (in thousands):

General fund excess of revenues over expenditures - fund basis	\$ 6,137
CPA fund excess of revenues over non capitalized expenses	2,015
Increase in allowance for uncollectibles	(358)
Pension expense, net of deferred inflows and outflows, related to GASB 68 implementation	(2,182)
Other	<u>(554)</u>
Total	<u><u>\$ 5,058</u></u>

The following graph presents the users of resources of the governmental activities. The total cost of all governmental programs and services increased by \$4.4M over the previous year or by 3.0%.



As presented in the following graph, most of the Town's revenue comes from property taxes. Total revenues (excluding transfers) increased by \$1.4M over the prior year or 0.9%.



Business-Type Activities

Business-type activities for the year resulted in a change in net position of \$2,795,845. Positive results are due to strong budgetary performance (softened by the use of fund balance) and the Town's continued practice of financing capital improvements with revenues.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$53,139,301, a change of \$7,735,991 in comparison to the prior year. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 6,137
CPA fund excess of revenues over expenditures	2,238
Capital project funds expenditures	
in excess of revenues and bond proceeds	(1,198)
Special revenue funds revenues in excess of expenditures	828
Other	<u>(269)</u>
Total	\$ <u>7,736</u>

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 \$15,247,969, while total fund balance was \$29,535,720. 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>6/30/15</u>	<u>6/30/14</u>	<u>6/30/13</u>
Unassigned fund balance	\$ 15,247,969	\$ 13,245,277	\$ 15,150,157
Total fund balance	29,535,720	28,564,772	29,595,859
	<u>6/30/15</u>	<u>6/30/14</u>	<u>6/30/13</u>
Unassigned fund balance as of % of total General Fund expenditures	11.9%	9.9%	12.1%
Total fund balance as of % total General Fund expenditures	23.0%	21.3%	23.6%

The total fund balance of the general fund changed by \$970,948 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves for FY15	\$ (5,257)
Use of free cash for FY16	(3,991)
Increase in stabilization accounts	1,161
Increase in continuing appropriation articles	765
Revenues in excess of budget	3,111
Expenditures less than budget	1,958
Unused overlay allowance	3,050
Other	<u>174</u>
Total	\$ <u>971</u>

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

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization	\$ 3,876,809	\$ 3,815,322	\$ 61,487
Capital stabilization	3,946,704	2,847,202	1,099,502
Capital projects	-	2,467,260	(2,467,260)
Compensated absences	195,060	195,060	-
Continuing appropriations	<u>1,001,851</u>	<u>236,424</u>	<u>765,427</u>
Total	<u>\$ 9,020,424</u>	<u>\$ 9,561,268</u>	<u>\$ (540,844)</u>

Other Major Funds

State legislation allows Community Preservation Act fund property taxes and state matching funds to finance projects such as preservation of historical buildings. The Town did not have considerable expenditures in the current year in the fund, other than the \$436,162 for land improvements and other eligible expenditures, and the transfer of \$475,763 to the general fund for eligible debt service.

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$11,950,139, a change of \$(1,564,706) in comparison to the prior year. A breakdown of the total change by fund is shown below:

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
Sewer	\$ 4,991,631	\$ 6,041,620	\$ (1,049,989)
Water	6,096,904	6,078,391	18,513
Solid Waste	<u>861,604</u>	<u>1,394,834</u>	<u>(533,230)</u>
Total	<u>\$ 11,950,139</u>	<u>\$ 13,514,845</u>	<u>\$ (1,564,706)</u>

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

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Most all budgeted appropriations occur at the Annual Town Meeting which is held prior to the start of a fiscal year. Subsequent appropriations and line item amendments are made at a special town meeting usually held in the fall. Often the subsequent actions are known or expected at the time of the Annual Town Meeting, but are not presented or acted upon at that time because additional information or other requisite action is needed. Usually in May, prior to the June 30 fiscal year end, Town Meeting acts on other requests for budget line transfers and reallocation of operating resources to capital, other financial warrant articles, and formal reserves. The final budget total for fiscal year 2015 was amended upward by \$289,592, change of 0.2% from the original budget. The original budget was approved at \$129,242,307.

The Town increased its appropriation by \$200,000 to make an additional payment towards its other post-employment benefit (OPEB) costs. This increase was offset by a reduction of \$200,000 in the Town's health insurance budget. The Town also appropriated an additional \$177,667 to its budgetary reserve fund which is under the control of the Finance Committee. The Town also increased its reserve for classification, performance, and settlements in the amount of \$50,167 which was in connection with labor contract settlements. The three aforementioned budgets are part of the annual operating budget that is referred to as Town-wide expenses. Town Meeting also amended two departmental budgets, the Department of Public Works (DPW) and the Health Department. The DPW operating budget was increased by \$10,000 to support the new off-leash dog area that was constructed in Town. This new amenity is funded in part by an increase in the dog license fee. The increase in the fee was approved last year by the Board of Selectmen in part to pay for associated operating expenses for this new park. The Health Department budget was increased by \$51,758 to provide $\frac{3}{4}$ of the fiscal year funding for a Substance Abuse Coordinator position that was previously funded in full by a Federal Grant.

During fiscal year 2015, the Town realized revenue in excess of budget of \$3.1 million, and realized budget savings of \$2.0 million relative to expenditures. Revenues in excess of budget were similar to the fiscal year 2014 results, but the budget return was lower than the fiscal year 2014 return of approximately \$2.5 million. The overall results were within the range of the past few years.

Motor vehicle excise tax revenue continued to grow and came in at \$1.3 million over budget and was 6.5% more than actual receipts in fiscal year 2014. Revenue generated from other taxes and penalties was more than \$690,000 over budget which was 14.6% more than the fiscal 2014 actual revenue. This was a lower percent increase than 2014 actual over 2013 actual, where 2014 was more than 25% higher than 2013. Revenue from licenses and permits came in over the estimate, by more than \$274,000. However the actual revenue for fiscal 2015 was 26% less than the actual revenue for fiscal 2014 (\$1,702,030 vs \$2,306,750), but there were some very large value commercial permits issued during 2014 that contributed to the higher 2014 total. The Town continues to see a demand for new

construction. The combination of motor vehicle excise, permit and license revenue, and other local tax receipts contributed approximately 73% of the total General Fund surplus, down from the 85% that these sources made up for 2014.

The General Fund operating budget returned \$1,944,545 or approximately 1.5% of the total operating budget appropriation. The return for fiscal 2014 was \$2,463,826 or approximately 2.0% of the appropriation for that year. The highest dollar turn back was from the Police Department in the amount of \$532,994 or approximately 8.8% of the budget. The return was higher than usual due to several vacancies in the department during the year and lower than expected fuel costs for the vehicles. The Finance Department returned \$221,552 (8.8%), which, similar to the Police Department, had several vacancies during the year, in addition the department restructured its tax assessing division which reduced the number F.T.E's hence lowering personnel cost for the year. The Department of Public Facilities also had a number of vacancies during the year which accounts for most of the \$207,492 that was returned, although this amount represents just a 2.5% turn back. The Needham Public Schools returned \$87,330 or 0.2% of the original budget of \$57,961,288 which compares to \$322,124 (0.6%) that was returned in 2014. The other 20 departments returned in total \$478,395 or 2.3% of their combined amended budgets for the year. The budgetary reserve fund returned \$164,835 which was less than the previous year and was due to the demand on the reserve fund in 2015 because of the higher costs incurred for snow and ice removal during the winter. The balance of the Town-wide expense budgets returned a combined \$251,947 or approximately 0.7% of their related total amended budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$296,973,271 (net of accumulated depreciation), a change of \$(1,775,416) 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:

Michell school modular classrooms	\$ 1,042
Public safety CAD replacement	\$ 242
2015 International 7400 dump truck	\$ 191

Business-Type Activities:

St. Mary street pump station replacement	\$ 3,884
Water main replacement	\$ 613
Reservoir B sewage pump upgrades	\$ 475
Townwide I/I study - phase 2	\$ 372
Sewer system rehabilitation	\$ 246

Debt. At the end of the current fiscal year, total long-term bonds and loans outstanding, including unamortized bond premium, were \$97,657,164. The bonds are backed by the full faith and credit of the government. The Town's general obligation bond rating continues to carry the highest rating possible, AAA, a rating that has been assigned by Standards & Poor's to the Town debt since 2000.

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

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

The Total General Fund balance for fiscal year 2015 was higher than 2014. Fund balance was \$29.5 million for fiscal 2015 compared to \$28.6 million for fiscal 2014 or approximately a three-percent change. The unassigned portion of the General Fund also improved with a balance of \$15.2 million for 2015 compared to \$13.2 million for 2014. The 2014 balance was lower than the prior year due in part to the higher amount of the balance that was certified as Free Cash. Free Cash is essentially the portion of the unassigned General Fund balance that the Massachusetts Department of Revenue will allow to be appropriated by the Town. The Free Cash certified for fiscal 2015 was \$6,207,875. The Town appropriated all but \$276,000 of that Free Cash. The Town used a significant amount of the Free Cash for capital investment, special finance warrant articles, and reserves. The Town's use of Free Cash for funding the subsequent fiscal year operating budget was higher than the baseline but some funding for the fiscal 2016 budget included the transfer of technology and equipment capital requests, which did not meet the Town's standard for capital, to the School Department budget. This additional funding in the fiscal 2016 budget will be offset by recurring revenue in 2017. The Town appropriated \$2,394,911 of the Free Cash for cash capital which included \$403,000 in school technology that did meet the standard for cash capital, \$453,500 was for public road and related infrastructure improvements, and \$1,077,249 in core fleet and special equipment investment, with the balance of \$461,162 directed to other various General Fund cash capital improvements. The Town appropriated \$750,000 for two studies and facility repairs and maintenance. The Town also appropriated \$845,700 to its Athletic Facility Improvement Stabilization Fund. Management will continue to recommend that the Free Cash certified be directed to cash capital investment, formal reserves, and other non-recurring expenses and that a limited amount be used for the operating budget.

As expected, property tax New Growth revenue in fiscal 2015 continued to be higher than average, with the combination of the increased commercial development, particularly the Needham Crossing business park, and strong residential market. New Growth revenue for 2015 was \$3.9 million or 4% more than the prior year base tax levy (the tax levy less excluded debt) compared to \$2.8 million for fiscal 2014, an increase of 3% over the prior year base tax levy. The ten-year average increase for New Growth was 2.1%. We still anticipate above average New Growth property tax revenue for 2016 and now 2017. We expect that New

Growth revenue for 2016 will not be as high as 2015, but significantly more than average. As explained last year, the Town continues to see year over year increases in the room and meals excise revenue as the local economy remained strong, and the opening of a new hotel a couple of years ago has increased the number of rooms available in Needham. There is now another proposal for an additional hotel which would increase the excise revenue. These revenue increases are needed as the new development has put increased demands on public safety services, to which we anticipate more resources being directed in the coming years.

The Town has entered into a purchase and sales agreement to purchase several properties that make up approximately ten acres, the most notable property is Owens Farm. The purchase of the properties would allow for the construction of a replacement school for the Hillside elementary school. The proposal has been submitted to the Massachusetts School Building Authority which would partner with the Town to help fund the school construction. The purchase price for the property is approximately \$6.5 million, this is not eligible for MSBA funding, but would be part of the overall project cost which is anticipated to be presented to the voters as a debt exclusion override in calendar 2016. There are two other school projects identified for funding several years out which would be presented as debt exclusions to the voters.

The Town is also studying options relative to the upgrade, expansion, and or replacement of the Department of Public Works facility, the Police/Fire Station complex, the Rosemary Pool facility, and the School Administration building. With the increased development in the business park, the demands on fire station #2, located in Needham Heights, has increased so the Town will conduct a feasibility study as to the capital and staffing needs of that facility in the coming months. The Town has begun planning for improvements to the Memorial Park facility and will seek funding for a feasibility study next year.

The Town made no draw against any of its appropriated stabilization accounts: Athletic Facility Improvement Fund, Capital Improvement Fund, Capital Facility Fund, and General Stabilization Fund. The Town appropriated \$1,026,412 to the Athletic Facility Improvement Fund at the May 2015 Annual Town Meeting. The Town also appropriated an additional \$160,000 from overlay surplus to its OPEB account. This funding was in addition to the 2015 operating budget increase of \$200,000 that came from the health insurance budget. At the May 2015 Special Town Meeting, the Town appropriated \$17,475 to the Capital Improvement Fund, and \$9,113 to the Capital Facility Fund. These funds came from unexpended monies from prior appropriations that were no longer needed.

The outlook for the fiscal year 2016 year end results are expected to be stable with greater tax revenues. We still anticipate that local resources will grow at a five to six percent rate 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. We again caution that

actions at the Federal level will have national consequences and may impact the regional economy.

REQUESTS FOR INFORMATION

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

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

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 34,540,059	\$ 12,076,977	\$ 46,617,036
Investments	27,653,000	-	27,653,000
Receivables, net:			
Property taxes	1,915,056	-	1,915,056
Excises	506,141	-	506,141
Utilities	-	4,672,519	4,672,519
Departmental	430,104	-	430,104
Intergovernmental	1,472,034	-	1,472,034
Other	69,562	-	69,562
Total current assets	<u>66,585,956</u>	<u>16,749,496</u>	<u>83,335,452</u>
Noncurrent:			
Receivables, net:			
Property taxes	1,372,548	-	1,372,548
Intergovernmental	4,866,000	-	4,866,000
OPEB asset	2,243,184	-	2,243,184
Capital assets:			
Non-depreciable capital assets	23,509,685	12,765,776	36,275,461
Depreciable assets, net of accumulated depreciation	<u>208,637,481</u>	<u>52,060,329</u>	<u>260,697,810</u>
Total non-current assets	<u>240,628,898</u>	<u>64,826,105</u>	<u>305,455,003</u>
TOTAL ASSETS	307,214,854	81,575,601	388,790,455
Deferred Outflows of Resources	<u>1,789,162</u>	<u>110,161</u>	<u>1,899,323</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 309,004,016</u>	<u>\$ 81,685,762</u>	<u>\$ 390,689,778</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 2,042,875	\$ 472,990	\$ 2,515,865
Accrued liabilities	6,443,049	70,365	6,513,414
Refunds payable	703,609	313,274	1,016,883
Other liabilities	201,852	-	201,852
Current portion of long-term liabilities:			
Bonds payable	8,356,680	1,818,674	10,175,354
Compensated absences	1,078,479	306,926	1,385,405
Landfill liability	48,671	-	48,671
Total current liabilities	<u>18,875,215</u>	<u>2,982,229</u>	<u>21,857,444</u>
Noncurrent:			
Bonds payable, net of current portion	72,649,697	14,832,113	87,481,810
Compensated absences, net of current portion	3,235,435	-	3,235,435
Net pension liability	51,287,845	3,157,850	54,445,695
Landfill liability, net of current portion	681,394	-	681,394
Total non-current liabilities	<u>127,854,371</u>	<u>17,989,963</u>	<u>145,844,334</u>
TOTAL LIABILITIES	146,729,586	20,972,192	167,701,778
Deferred Inflows of Resources	23,946	1,475	25,421
Net Position:			
Net investment in capital assets	151,855,377	48,761,956	200,617,333
Restricted for:			
Permanent funds:			
Nonexpendable	188,478	-	188,478
Expendable	2,260,892	-	2,260,892
Grants and other statutory restrictions	14,588,856	-	14,588,856
Unrestricted	<u>(6,643,119)</u>	<u>11,950,139</u>	<u>5,307,020</u>
TOTAL NET POSITION	<u>162,250,484</u>	<u>60,712,095</u>	<u>222,962,579</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 309,004,016</u>	<u>\$ 81,685,762</u>	<u>\$ 390,689,778</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 6,079,558	\$ 605,392	\$ 252,003	\$ -	\$ (5,222,163)	\$ -	\$ (5,222,163)
Public safety	15,743,073	2,528,875	143,633	-	(13,070,565)	-	(13,070,565)
Education	89,349,536	5,514,249	20,344,774	-	(63,490,513)	-	(63,490,513)
Public works	8,706,405	232,155	288,810	-	(8,185,440)	-	(8,185,440)
Maintenance	11,554,939	135,907	-	438,757	(10,980,275)	-	(10,980,275)
Health and human services	2,094,479	166,550	247,613	-	(1,680,316)	-	(1,680,316)
Culture and recreation	3,219,423	601,045	682,993	-	(1,935,385)	-	(1,935,385)
Interest on debt service	2,717,818	-	-	-	(2,717,818)	-	(2,717,818)
Intergovernmental	1,272,800	-	-	-	(1,272,800)	-	(1,272,800)
Other unallocated costs	10,355,573	-	1,862	-	(10,353,711)	-	(10,353,711)
Total Governmental Activities	151,093,604	9,784,173	21,961,688	438,757	(118,908,986)	-	(118,908,986)
Business-Type Activities:							
Sewer services	8,027,157	8,754,527	28,411	-	-	755,781	755,781
Water services	4,963,358	7,396,014	-	-	-	2,432,656	2,432,656
Solid waste services	2,154,845	1,217,421	-	-	-	(937,424)	(937,424)
Total Business-Type Activities	15,145,360	17,367,962	28,411	-	-	2,251,013	2,251,013
Total	\$ 166,238,964	\$ 27,152,135	\$ 21,990,099	\$ 438,757	(118,908,986)	2,251,013	(116,657,973)
General Revenues and Transfers:							
Property taxes					114,605,480	-	114,605,480
Excise taxes					5,237,358	-	5,237,358
Penalties, interest, and other taxes					1,855,318	-	1,855,318
Grants and contributions not restricted to specific programs					2,169,037	-	2,169,037
Investment income					365,427	13,299	378,726
Miscellaneous					240,667	25,000	265,667
Total general revenues					124,473,287	38,299	124,511,586
Excess before transfers					5,564,301	2,289,312	7,853,613
Transfers, net					(506,533)	506,533	-
Change in Net Position					5,057,768	2,795,845	7,853,613
Net Position:							
Beginning of year, as restated					157,192,716	57,916,250	215,108,966
End of year					\$ 162,250,484	\$ 60,712,095	\$ 222,962,579

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

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	Community Preservation <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS				
Cash and short-term investments	\$ 19,643,035	\$ 887,377	\$ 12,299,283	\$ 32,829,695
Investments	17,264,599	7,933,808	2,454,593	27,653,000
Receivables:				
Property taxes	4,228,979	13,484	-	4,242,463
Excises	919,939	-	-	919,939
Departmental	1,306,998	-	36,004	1,343,002
Intergovernmental	5,561,184	-	776,850	6,338,034
Other	69,562	-	-	69,562
TOTAL ASSETS	<u>\$ 48,994,296</u>	<u>\$ 8,834,669</u>	<u>\$ 15,566,730</u>	<u>\$ 73,395,695</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 1,490,653	\$ 13,149	\$ 528,455	\$ 2,032,257
Accrued liabilities	5,258,568	832	140,211	5,399,611
Refunds payable	703,609	-	-	703,609
Other liabilities	200,235	-	1,615	201,850
TOTAL LIABILITIES	7,653,065	13,981	670,281	8,337,327
Deferred Inflows of Resources	11,805,511	13,484	100,072	11,919,067
Fund Balances:				
Nonspendable	-	-	188,478	188,478
Restricted	794,835	8,807,204	8,756,913	18,358,952
Committed	9,020,424	-	6,122,886	15,143,310
Assigned	4,472,492	-	-	4,472,492
Unassigned	15,247,969	-	(271,900)	14,976,069
TOTAL FUND BALANCES	<u>29,535,720</u>	<u>8,807,204</u>	<u>14,796,377</u>	<u>53,139,301</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 48,994,296</u>	<u>\$ 8,834,669</u>	<u>\$ 15,566,730</u>	<u>\$ 73,395,695</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

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

JUNE 30, 2015

Total governmental fund balances	\$ 53,139,301
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	232,147,166
• Net other post employment benefits asset is reported on the Statement of Net Position, and not reported in the funds.	2,243,184
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	9,637,511
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	1,498,582
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(842,275)
• Long-term liabilities, net of related deferred outflows and inflows of resources, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Net pension liability, net of related deferred outflows and inflows	(49,522,629)
Bonds and loans payable, net unamortized premiums	(81,006,377)
Compensated absences payable	(4,313,914)
Estimated liability for landfill postclosure care costs	<u>(730,065)</u>
Net position of governmental activities	<u>\$ 162,250,484</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 112,329,687	\$ 1,950,156	\$ -	\$ 114,279,843
Excise taxes	5,242,444	-	-	5,242,444
Penalties, interest, and other taxes	1,852,862	2,456	-	1,855,318
Charges for services	987,849	-	6,123,560	7,111,409
Departmental	654,516	-	-	654,516
Licenses and permits	1,702,030	-	-	1,702,030
Intergovernmental	10,799,610	566,099	5,380,602	16,746,311
Investment income	168,567	154,529	42,332	365,428
Fines and forfeitures	204,198	-	-	204,198
Contributions	-	20,518	1,455,025	1,475,543
Other	345,471	-	15,240	360,711
	<u>134,287,234</u>	<u>2,693,758</u>	<u>13,016,759</u>	<u>149,997,751</u>
Total Revenues				
Expenditures:				
Current:				
General government	4,673,887	455,295	106,259	5,235,441
Public safety	14,829,123	-	149,027	14,978,150
Education	65,814,871	-	10,686,070	76,500,941
Public works	7,678,186	-	215,243	7,893,429
Maintenance	8,660,730	-	4,423,569	13,084,299
Health and human services	1,453,707	-	238,976	1,692,683
Culture and recreation	2,156,905	-	417,795	2,574,700
Employee benefits	10,084,343	-	-	10,084,343
Other	518,182	-	-	518,182
Debt service:				
Principal	8,374,612	-	-	8,374,612
Interest	2,632,650	-	-	2,632,650
Intergovernmental	1,272,800	-	-	1,272,800
	<u>128,149,996</u>	<u>455,295</u>	<u>16,236,939</u>	<u>144,842,230</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	6,137,238	2,238,463	(3,220,180)	5,155,521
Other Financing Sources (Uses):				
Issuance of bonds	-	-	2,850,000	2,850,000
Issuance of refunded debt	7,337,000	-	-	7,337,000
Bond premium	1,225,361	-	-	1,225,361
Transfers in	2,301,520	-	5,837,871	8,139,391
Deposit to refunding escrow	(8,325,359)	-	-	(8,325,359)
Transfers out	(7,704,812)	(475,763)	(465,348)	(8,645,923)
	<u>(5,166,290)</u>	<u>(475,763)</u>	<u>8,222,523</u>	<u>2,580,470</u>
Total Other Financing Sources (Uses)				
Net change in fund balances	970,948	1,762,700	5,002,343	7,735,991
Fund Balances, at beginning of year	28,564,772	7,044,504	9,794,034	45,403,310
Fund Balances, at end of year	<u>\$ 29,535,720</u>	<u>\$ 8,807,204</u>	<u>\$ 14,796,377</u>	<u>\$ 53,139,301</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2015

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 7,735,991																				
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of loss on disposal</td> <td style="text-align: right;">3,477,961</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(9,082,536)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for doubtful accounts. (381,954) • Change in net other post employment benefits asset 214,527 • The issuance of long-term debt (bonds and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any affect net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt, including refunding</td> <td style="text-align: right;">(10,187,000)</td> </tr> <tr> <td>Defeasance of debt refunding</td> <td style="text-align: right;">8,325,359</td> </tr> <tr> <td>Bond premium</td> <td style="text-align: right;">(1,225,361)</td> </tr> <tr> <td>Bond premium amortization</td> <td style="text-align: right;">47,886</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">8,374,612</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (85,168) • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td>Net pension expense, net of related deferred outflows and inflows</td> <td style="text-align: right;">(2,182,184)</td> </tr> <tr> <td>Compensated absences</td> <td style="text-align: right;">(57,424)</td> </tr> <tr> <td>Landfill liability</td> <td style="text-align: right;">53,135</td> </tr> </table> • Internal service funds are used by management to account for self-insurance activities. The net activity of internal service funds is reported with Governmental Activities. 29,924 		Capital outlay purchases, net of loss on disposal	3,477,961	Depreciation	(9,082,536)	Issuance of debt, including refunding	(10,187,000)	Defeasance of debt refunding	8,325,359	Bond premium	(1,225,361)	Bond premium amortization	47,886	Repayments of debt	8,374,612	Net pension expense, net of related deferred outflows and inflows	(2,182,184)	Compensated absences	(57,424)	Landfill liability	53,135
Capital outlay purchases, net of loss on disposal	3,477,961																				
Depreciation	(9,082,536)																				
Issuance of debt, including refunding	(10,187,000)																				
Defeasance of debt refunding	8,325,359																				
Bond premium	(1,225,361)																				
Bond premium amortization	47,886																				
Repayments of debt	8,374,612																				
Net pension expense, net of related deferred outflows and inflows	(2,182,184)																				
Compensated absences	(57,424)																				
Landfill liability	53,135																				
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>5,057,768</u>																				

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

TOWN OF NEEDHAM, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues:				
Property taxes	\$ 110,045,528	\$ 110,045,528	\$ 110,045,528	\$ -
Excise taxes	3,925,000	3,925,000	5,242,444	1,317,444
Penalties, interest, and other taxes	1,175,000	1,175,000	1,852,862	677,862
Charges for services	789,670	789,670	987,849	198,179
Departmental	576,330	576,330	654,516	78,186
Licenses and permits	1,427,700	1,427,700	1,702,030	274,330
Intergovernmental	10,603,902	10,603,902	10,791,985	188,083
Investment income	67,500	67,500	101,273	33,773
Fines and forfeits	162,000	162,000	204,198	42,198
Other revenue	1,500	1,500	302,380	300,880
Total Revenues	128,774,130	128,774,130	131,885,065	3,110,935
Expenditures				
General government	4,036,311	4,093,355	3,821,173	272,182
Land use	423,211	436,068	433,431	2,637
Public safety	13,714,066	13,727,122	13,022,878	704,244
Education	58,854,499	58,854,499	58,767,169	87,330
Public works	5,430,834	6,836,995	6,757,762	79,233
Public facilities	8,067,148	8,205,939	7,998,447	207,492
Community services	3,321,342	3,391,728	3,217,083	174,645
Debt service	11,587,884	11,587,884	11,580,940	6,944
Employee benefits	21,681,522	21,691,474	21,452,471	239,003
Other appropriated expenses	2,125,490	706,835	536,000	170,835
Intergovernmental	1,274,075	1,274,075	1,272,800	1,275
Other amounts provided	12,500	12,500	608	11,892
Total Expenditures	130,528,882	130,818,474	128,860,762	1,957,712
Excess (deficiency) of revenues over expenditures	(1,754,752)	(2,044,344)	3,024,303	5,068,647
Other Financing Sources (Uses)				
Bond premium	-	-	336,304	336,304
Transfers in	2,212,171	2,212,171	2,301,520	89,349
Use of free cash	4,152,348	8,142,959	-	(8,142,959)
Use of bond premium	105,026	105,026	-	(105,026)
Use of overlay surplus	500,000	1,000,000	-	(1,000,000)
Transfers out	(5,214,793)	(9,415,812)	(9,415,812)	-
Total Other Financing Sources (Uses)	1,754,752	2,044,344	(6,777,988)	(8,822,332)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (3,753,685)	\$ (3,753,685)

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Assets:					
Current:					
Cash and short-term investments	\$ 4,273,276	\$ 5,840,171	\$ 1,963,530	\$ 12,076,977	\$ 1,710,363
User fees receivable	2,307,220	2,110,432	254,867	4,672,519	-
Total current assets	6,580,496	7,950,603	2,218,397	16,749,496	1,710,363
Noncurrent:					
Land and construction in progress	1,124,424	6,633,909	5,007,443	12,765,776	-
Other capital assets, net of accumulated depreciation	23,447,479	26,674,117	1,938,733	52,060,329	-
Total noncurrent assets	24,571,903	33,308,026	6,946,176	64,826,105	-
TOTAL ASSETS	31,152,399	41,258,629	9,164,573	81,575,601	1,710,363
Deferred Outflows of Resources	34,188	47,483	28,490	110,161	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 31,186,587	\$ 41,306,112	\$ 9,193,063	\$ 81,685,762	\$ 1,710,363
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND, NET POSITION					
Liabilities:					
Current:					
Accounts payable	\$ 22,271	\$ 308,163	\$ 142,556	\$ 472,990	\$ 10,620
Accrued payroll	27,583	23,148	19,634	70,365	-
Accrued liabilities	-	-	-	-	201,161
Refunds payable	74,100	9,242	229,932	313,274	-
Current portion of long-term liabilities:					
Bonds payable	853,139	865,535	100,000	1,818,674	-
Compensated absences	154,558	98,204	54,164	306,926	-
Total current liabilities	1,131,651	1,304,292	546,286	2,982,229	211,781
Noncurrent:					
Bonds payable, net of current portion	7,786,770	6,925,343	120,000	14,832,113	-
Net pension liability	980,023	1,361,142	816,685	3,157,850	-
Total noncurrent liabilities	8,766,793	8,286,485	936,685	17,989,963	-
TOTAL LIABILITIES	9,898,444	9,590,777	1,482,971	20,972,192	211,781
Deferred Inflow of Resources	458	636	381	1,475	-
Net Position:					
Net investment in capital assets	16,296,054	25,617,795	6,848,107	48,761,956	-
Unrestricted	4,991,631	6,096,904	861,604	11,950,139	1,498,582
TOTAL NET POSITION	21,287,685	31,714,699	7,709,711	60,712,095	1,498,582
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOW OF RESOURCES	\$ 31,186,587	\$ 41,306,112	\$ 9,193,063	\$ 81,685,762	\$ 1,710,363

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 8,754,527	\$ 7,355,119	\$ 1,217,421	\$ 17,327,067	\$ -
Other	-	40,895	-	40,895	408,378
Total Operating Revenues	8,754,527	7,396,014	1,217,421	17,367,962	408,378
Operating Expenses:					
Personnel services	1,041,773	1,099,296	700,899	2,841,968	378,454
Non-personnel services	340,554	1,305,444	1,167,229	2,813,227	-
Depreciation	946,904	1,155,030	279,609	2,381,543	-
Intergovernmental assessments	5,466,144	1,193,697	-	6,659,841	-
Total Operating Expenses	7,795,375	4,753,467	2,147,737	14,696,579	378,454
Operating Income (Loss)	959,152	2,642,547	(930,316)	2,671,383	29,924
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	28,411	-	-	28,411	-
Investment income	4,425	6,360	2,514	13,299	-
Other revenue	25,000	-	-	25,000	-
Interest expense	(231,782)	(209,891)	(7,108)	(448,781)	-
Total Nonoperating Revenues (Expenses), Net	(173,946)	(203,531)	(4,594)	(382,071)	-
Income (Loss) Before Transfers	785,206	2,439,016	(934,910)	2,289,312	29,924
Transfers in	863,671	-	1,492,270	2,355,941	-
Transfers out	(569,518)	(953,573)	(326,317)	(1,849,408)	-
Change in Net Position	1,079,359	1,485,443	231,043	2,795,845	29,924
Net Position at Beginning of Year, as restated	20,208,326	30,229,256	7,478,668	57,916,250	1,468,658
Net Position at End of Year	\$ 21,287,685	\$ 31,714,699	\$ 7,709,711	\$ 60,712,095	\$ 1,498,582

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

TOWN OF NEEDHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 8,792,907	\$ 7,160,101	\$ 1,227,892	\$ 17,180,900	\$ -
Employer contributions	-	-	-	-	408,378
Payments of utility assessments	(5,466,144)	(1,193,697)	-	(6,659,841)	-
Payments to vendors and contractors	(336,066)	(1,603,760)	(1,184,908)	(3,124,734)	-
Payments of employee salaries, benefits, and related expenses	(924,297)	(1,050,816)	(658,542)	(2,633,655)	(305,279)
Net Cash Provided By (Used For) Operating Activities	2,066,400	3,311,828	(615,558)	4,762,670	103,099
<u>Cash Flows From Noncapital Financing Activities:</u>					
Operating grants received	28,411	-	-	28,411	-
Transfers from other funds	863,671	-	1,492,270	2,355,941	-
Transfers to other funds	(569,518)	(953,573)	(326,317)	(1,849,408)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	322,564	(953,573)	1,165,953	534,944	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(1,236,497)	(4,539,427)	(438,178)	(6,214,102)	-
Issuance of bonds and loans	517,807	2,100,000	-	2,617,807	-
Proceeds from issuance of refunding debt	525,000	638,000	-	1,163,000	-
Principal payments on bonds and loans	(1,020,200)	(859,834)	(100,000)	(1,980,034)	-
Payment to defease debt	(525,000)	(675,000)	-	(1,200,000)	-
Interest expense	(231,782)	(209,892)	(7,108)	(448,782)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,970,672)	(3,546,153)	(545,286)	(6,062,111)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	4,422	6,360	2,514	13,296	-
Net Cash Provided By Investing Activities	4,422	6,360	2,514	13,296	-
Net Change in Cash and Short-Term Investments	422,714	(1,181,538)	7,623	(751,201)	103,099
Cash and Short-Term Investments, Beginning of Year	3,850,562	7,021,709	1,955,907	12,828,178	1,607,264
Cash and Short-Term Investments, End of Year	\$ 4,273,276	\$ 5,840,171	\$ 1,963,530	\$ 12,076,977	\$ 1,710,363
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income (loss)	\$ 959,152	\$ 2,642,547	\$ (930,316)	\$ 2,671,383	\$ 29,924
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	946,904	1,155,030	279,609	2,381,543	-
Loss on disposal of assets	-	-	3,398	3,398	-
Changes in assets and liabilities:					
User fees	35,339	(237,373)	(23,844)	(225,878)	-
Accounts payable	4,487	(298,316)	(21,077)	(314,906)	10,620
Accrued liabilities	5,878	(1,331)	7,003	11,550	62,555
Refunds payable	3,041	1,460	34,315	38,816	-
Compensated absences	69,900	(8,103)	607	62,404	-
Net pension liability	41,699	57,914	34,747	134,360	-
Net Cash Provided By (Used For) Operating Activities	\$ 2,066,400	\$ 3,311,828	\$ (615,558)	\$ 4,762,670	\$ 103,099

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

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Pension Trust Fund (As of <u>December 31, 2014</u>)	Private Purpose Trust <u>Fund</u>	Other Post- Employment Benefit <u>Trust Fund</u>	Other Agency <u>Funds</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 1,069,229	\$ -	\$ 517,296	\$ 1,380,905
Investments	135,084,330	4,576,744	17,906,710	-
Receivables	<u>183,311</u>	<u>-</u>	<u>-</u>	<u>137,574</u>
Total Assets	136,336,870	4,576,744	18,424,006	1,518,479
<u>LIABILITIES AND NET POSITION</u>				
Accounts payable	-	150,889	-	40,519
Accrued liabilities	73,597	-	-	37,398
Refunds payable	-	-	-	10,243
Other liabilities	<u>1,599</u>	<u>-</u>	<u>-</u>	<u>1,430,319</u>
Total Liabilities	<u>75,196</u>	<u>150,889</u>	<u>-</u>	<u>1,518,479</u>
<u>NET POSITION</u>				
Total net position held in trust for pension benefits and other purposes	\$ <u><u>136,261,674</u></u>	\$ <u><u>4,425,855</u></u>	\$ <u><u>18,424,006</u></u>	\$ <u><u>-</u></u>

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

TOWN OF NEEDHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (For the Year Ended December 31, 2014)	Private Purpose Trust Fund	Other Post- Employment Benefit Trust Fund
Additions:			
Contributions:			
Employers	\$ 5,621,400	\$ -	\$ 5,300,198
Plan members	3,350,233	-	-
Other	<u>349,370</u>	<u>553,509</u>	<u>8,905</u>
Total contributions	9,321,003	553,509	5,309,103
Investment Income:			
Increase (decrease) in fair value of investments	10,364,244	50,850	676,454
Less: management fees	<u>(702,795)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>9,661,449</u>	<u>50,850</u>	<u>676,454</u>
Total additions	18,982,452	604,359	5,985,557
Deductions:			
Benefit payments to plan members and beneficiaries	10,893,410	-	3,031,085
Refunds to plan members	100,113	-	-
Administrative expenses	163,700	-	-
Other	<u>237,055</u>	<u>159,398</u>	<u>-</u>
Total deductions	<u>11,394,278</u>	<u>159,398</u>	<u>3,031,085</u>
Net increase	7,588,174	444,961	2,954,472
Net position:			
Beginning of year	<u>128,673,500</u>	<u>3,980,894</u>	<u>15,469,534</u>
End of year	<u>\$ 136,261,674</u>	<u>\$ 4,425,855</u>	<u>\$ 18,424,006</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The 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 fiscal year 2015, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

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

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

privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

tures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Government reports the following major governmental funds:

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

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

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, Police, Fire and Maintenance Detail Funds, Traffic Mitigation Fund, Sewer Impact Fees Fund, Needham Retirement Board Fund, Rail Trail Fund and other Miscellaneous 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 2015 tax levy reflected an excess capacity of approximately \$118,000.

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.

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

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

H. Compensated Absences

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

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

I. Long-Term Obligations

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

J. Fund Equity

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

Fund Balance - Generally, fund balance represents the difference between the current assets 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: committed, restricted, assigned and unassigned.

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

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 134,287,234	\$ 128,149,996
Other financing sources/uses (GAAP Basis)	<u>10,863,881</u>	<u>16,030,171</u>
Subtotal (GAAP Basis)	145,151,115	144,180,167
To adjust property tax revenue to the budgetary basis	(2,284,159)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,721,641)
Add end-of-year appropriation carryforwards from expenditures	-	2,018,728
Remove effect of refunding	(8,226,057)	(8,226,057)
Less nonbudgeted funds	(67,294)	2,033,001
Less MWPAT subsidy	(7,624)	(7,624)
Other reconciling items	<u>(43,092)</u>	<u>-</u>
Budgetary Basis	<u>\$ 134,522,889</u>	<u>\$ 138,276,574</u>

D. Deficit Fund Equity

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

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

The following funds had deficits as of June 30, 2015:

Nonmajor Governmental Funds:	
Special Revenue Funds:	
2015 911 Dept Support	\$ 45,280
2014 911 Training	19,549
2015 Shine	18,607
Capital Project Funds	
A 41 ATM 05/13 Public Works Infrastructure	120,129
A 14 STM 11/11 Senior Center	5,010
Chapter 90	<u>63,325</u>
Subtotal Nonmajor Governmental Funds	271,900
Fiduciary Funds:	
Fire outside detail	76,986
Police outside detail	72,552
Needham retirement board	<u>19,279</u>
Subtotal Fiduciary Funds	<u>168,817</u>
Total	<u>\$ 440,717</u>

3. **Cash and Short-Term Investments**

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

As of June 30, 2015, \$14,821,481 of the Town's cash bank balance of \$48,936,209 was exposed to custodial credit risk as uninsured or uncollat-

eralized. Of the Town's exposed risk, \$1,942,924 was mitigated by SIPC and \$6,417,960 was invested in MMDT.

As of December 31, 2014, \$835,681 of the Contributory Retirement System's cash bank balance of \$980,532 was exposed to custodial credit risk as uninsured or uncollateralized. Of the System's exposed risk, \$573,000 was invested in MMDT and \$261,681 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>	<u>Fair Value</u>	<u>Average Rating as of Year-end</u>
Certificates of deposits	\$ 13,765,084	N/A
State investment pool	17,906,710	N/A
Corporate equities	3,949,082	N/A
Mutual funds	4,799,069	N/A
Federal agency securities	5,677,387	AAA
US Treasury notes	1,658,365	AAA
Corporate bonds	2,264,841	A2
Municipal bonds	<u>115,916</u>	AAA
Total investments	\$ <u>50,136,454</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, 2014, the System maintained its investments in the State Investment Pool (PRIT)* with a fair value of \$135,084,330. The PRIT fund is an external investment pool that is not registered with the Securities

Exchange Commission. This investment type is not rated. The PRIT Fund issues separately available financial statements with a year end of June 30.

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

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, 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, 2015, \$36,371,370 out of the Town's investments of \$50,136,454 was exposed to custodial credit risk as uninsured and uncollateralized. The Town manages this risk with Securities Investor Protection Corporation (SIPC) and excess SIPC coverage for \$18,464,660 and \$17,906,710 was held in the State investment pool (PRIT).

As of December 31, 2014, the System's investments of \$135,084,330 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State investment pool (PRIT).

C. Concentration of Credit Risk

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

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

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

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Corporate bonds	\$ 2,264,841	\$ 332,651	\$ 1,932,190	\$ -
Federal agency securities	5,677,387	176,717	5,500,670	-
US Treasury notes	1,658,365	-	1,658,365	-
Municipal bonds	<u>115,916</u>	<u>-</u>	<u>-</u>	<u>115,916</u>
Total	<u>\$ 9,716,509</u>	<u>\$ 509,368</u>	<u>\$ 9,091,225</u>	<u>\$ 115,916</u>

E. Foreign Currency Risk

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

5. Accounts Receivable

A. Property Taxes

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days

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

Taxes receivable at June 30, 2015 consist of the following (in thousands):

Real Estate		
2015		\$ 583
Personal Property		
2015	419	
2014	248	
2013	202	
2012	180	
2011	215	
2010	251	
Prior	<u>295</u>	
	Subtotal	1,810
	Tax Liens	1,201
	Deferred Taxes	629
	Tax Roll Backs	6
	CPA	<u>13</u>
	Total	\$ <u><u>4,242</u></u>

B. Allowance for Uncollectibles

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

	<u>Governmental</u>
Personal property taxes	\$ 955
Excises	\$ 414
Ambulance	\$ 913

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

C. Departmental

Departmental receivables primarily comprise ambulance receivables.

D. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015 and future reimbursements from the MSBA.

6. Interfund Transfers

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,301,520	\$ 7,704,812
Community Preservation Fund	-	475,763
Nonmajor Funds:		
Special Revenue Funds:		
Town grants	-	1,751
Receipts reserved for appropriation	-	40,000
Revolving funds	-	30,377
Trust funds	-	5,700
Other special revenue funds	5,700	-
Capital Project Funds:	<u>5,832,171</u>	<u>387,521</u>
Subtotal Nonmajor Funds	5,837,871	465,349
<u>Business-Type Funds:</u>		
Sewer Fund	863,671	569,518
Water Fund	-	953,573
Solid Waste Fund	<u>1,492,270</u>	<u>326,317</u>
Subtotal Business-Type Funds:	<u>2,355,941</u>	<u>1,849,408</u>
Grand Total	\$ <u><u>10,495,332</u></u>	\$ <u><u>10,495,332</u></u>

The transfers from the sewer, water, and solid waste funds to the general fund are made to cover indirect costs and short term note payments incurred by general fund. The majority of the \$5,832,171 transfer from the General fund to the various Capital Project funds represents the Town's practice of funding certain capital activity from General fund revenues (\$2,467,260 from the May 2014 Annual Town Meeting and \$2,394,911 from the May 2015 Annual Town Meeting). The \$2,355,941 transfer (from General Fund) into the Enterprise Funds represents a subsidy to the Solid Waste Fund and Sewer Fund of \$1,492,270 and \$863,671 respectively. Other transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

7. Capital Assets

Capital asset activity for the year ended June 30, 2015 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	\$ 202,950	\$ 32,881	-	\$ 235,831
Machinery, equipment, and furnishings	13,199	607	(552)	13,254
Vehicles	4,679	732	(678)	4,733
Infrastructure	<u>33,477</u>	<u>1,376</u>	<u>-</u>	<u>34,853</u>
Total capital assets, being depreciated	254,305	35,596	(1,230)	288,671
Less accumulated depreciation for:				
Buildings and improvements	(42,338)	(6,114)	-	(48,452)
Machinery, equipment, and furnishings	(8,428)	(1,107)	546	(8,989)
Vehicles	(4,692)	(598)	646	(4,644)
Infrastructure	<u>(16,685)</u>	<u>(1,264)</u>	<u>-</u>	<u>(17,949)</u>
Total accumulated depreciation	<u>(72,143)</u>	<u>(9,083)</u>	<u>1,192</u>	<u>(80,034)</u>
Total capital assets, being depreciated, net	182,162	26,513	(38)	208,637
Capital assets, not being depreciated:				
Land	22,205	-	-	22,205
Works of Art	120	-	-	120
Construction in progress	<u>33,265</u>	<u>362</u>	<u>(32,442)</u>	<u>1,185</u>
Total capital assets, not being depreciated	<u>55,590</u>	<u>362</u>	<u>(32,442)</u>	<u>23,510</u>
Governmental activities capital assets, net	<u>\$ 237,752</u>	<u>\$ 26,875</u>	<u>\$ (32,480)</u>	<u>\$ 232,147</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,950	\$ 7,248	(505)	\$ 15,693
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	5,005	463	(369)	5,099
Vehicles	1,800	-	(22)	1,778
Infrastructure	<u>70,160</u>	<u>3,601</u>	<u>-</u>	<u>73,761</u>
Total capital assets, being depreciated	92,515	11,312	(896)	102,931
Less accumulated depreciation for:				
Buildings and improvements	(4,341)	(397)	777	(3,961)
Plant	(2,945)	(228)	-	(3,173)
Machinery, equipment, and furnishings	(3,567)	(318)	93	(3,792)
Vehicles	(1,412)	(154)	22	(1,544)
Infrastructure	<u>(37,115)</u>	<u>(1,285)</u>	<u>-</u>	<u>(38,400)</u>
Total accumulated depreciation	<u>(49,380)</u>	<u>(2,382)</u>	<u>892</u>	<u>(50,870)</u>
Total capital assets, being depreciated, net	43,135	8,930	(4)	52,061
Capital assets, not being depreciated:				
Land	5,275	-	-	5,275
Construction in progress	<u>12,587</u>	<u>4,581</u>	<u>(9,678)</u>	<u>7,490</u>
Total capital assets, not being depreciated	<u>17,862</u>	<u>4,581</u>	<u>(9,678)</u>	<u>12,765</u>
Business-type activities capital assets, net	<u>\$ 60,997</u>	<u>\$ 13,511</u>	<u>\$ (9,682)</u>	<u>\$ 64,826</u>

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

Governmental Activities:	
General government	\$ 717
Public safety	456
Education	4,878
Public works	819
Maintenance	1,264
Health and human services	335
Culture and recreation	<u>614</u>
Total depreciation expense - governmental activities	<u>\$ 9,083</u>
Business-Type Activities:	
Sewer	\$ 947
Water	1,155
Solid waste	<u>280</u>
Total depreciation expense - business-type activities	<u>\$ 2,382</u>

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Proprietary Funds</u>		
	<u>Activities</u>	<u>Activities</u>	<u>Sewer</u>	<u>Water</u>	<u>Solid Waste</u>
Changes of pension assumptions	\$ 1,594,591	\$ 98,181	\$ 30,470	\$ 42,319	\$ 25,392
Net difference between projected and actual investment earnings on pension plan investments	<u>194,571</u>	<u>11,980</u>	<u>3,718</u>	<u>5,164</u>	<u>3,098</u>
Total deferred outflows	<u>\$ 1,789,162</u>	<u>\$ 110,161</u>	<u>\$ 34,188</u>	<u>\$ 47,483</u>	<u>\$ 28,490</u>

9. Warrants and Accounts Payable

Warrants and accounts payable represent 2015 expenditures paid after June 30, 2015.

10. Accrued Liabilities

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

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

11. Refunds Payable

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

12. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2015:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 1,607,000	\$ -	\$ (1,607,000)	\$ -
Bond anticipation	-	1,330,000	(1,330,000)	-
Bond anticipation	-	795,000	(795,000)	-
Total	<u>\$ 1,607,000</u>	<u>\$ 2,125,000</u>	<u>\$ (3,732,000)</u>	<u>\$ -</u>

13. Long-Term Debt

A. Long-Term Debt Supporting Activities

General obligation bonds, issued by the Town, are repaid with general and enterprise fund revenues and the use of unassigned fund balance or unrestricted retained earnings. Compensated absences are paid from the fund responsible for the employee's compensation - the general fund and the enterprise funds.

B. General Obligation Bonds

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

	<u>Original Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	Amount Outstanding as of <u>6/30/15</u>
MA Water Pollution Abatement Trust	\$ 85,894	Various	05/01/01	01/01/20	\$ 23,620
MA Water Pollution Abatement Trust	91,400	Various	11/01/04	08/01/18	22,900
MA Water Pollution Abatement Trust	243,300	Various	11/01/04	08/01/18	60,600
MA Water Pollution Abatement Trust	1,261,272	Various	11/01/04	08/01/18	343,400
MA Water Pollution Abatement Trust	496,276	Various	11/01/04	01/01/20	139,011
MA Water Pollution Abatement Trust	175,500	Various	11/01/04	08/01/18	43,800
High School	10,000,000	3.75 - 4.50	11/01/06	11/01/26	550,000
Water and Sewer	5,525,000	3.75 - 4.50	11/01/06	11/11/19	2,395,000
Water and Sewer	3,500,000	4.05 - 5.00	06/15/07	06/15/23	400,000
High School, High Rock and Pollard Schools	12,600,000	3.25 - 5.00	06/03/08	12/01/26	7,550,000
High Rock and Pollard Schools	5,000,000	4.61	11/01/08	08/01/27	3,410,000
High School, Water and Sewer	5,217,000	2.94	06/01/09	06/01/28	3,045,000
Schools, Admin Building, Water and Sewer	15,525,000	2.00 - 4.00	12/15/09	08/01/28	11,250,000
School, Admin Building, Water and Sewer	2,545,000	2.00 - 3.00	06/15/10	12/01/24	1,520,000
Town Hall and Sewer Pump Station	2,700,000	1.00 - 3.00	10/15/10	04/01/17	615,000
MA Water Resources Authority	57,613	0.00	11/15/10	11/15/15	11,523
Town Hall, Newman and Pollard Schools	9,500,000	2.00 - 5.00	05/19/11	10/01/28	6,800,000
Town Hall, Parking and Bridge	2,460,000	2.00 - 3.125	10/05/11	08/01/26	1,825,000
MA Water Resources Authority	220,990	0.00	02/27/12	02/15/17	88,395
MA Water Pollution Abatement Trust	980,226	2.00	06/01/12	07/15/30	662,878
GOB - Refunding FY2012	10,995,000	2.00 - 4.00	06/06/12	11/01/23	10,080,000
Municipal Purpose FY 2013	12,244,000	2.00 - 4.00	10/03/12	07/15/32	10,415,000
MA Water Pollution Abatement Trust	6,034,290	2.00	05/22/13	01/15/33	5,619,290
Municipal Purpose FY 2013	5,945,000	2.00 - 4.00	06/18/13	11/01/32	5,260,000
Municipal Purpose FY 2014	6,085,000	3.00 - 4.00	12/02/13	07/15/33	5,595,000
Municipal Purpose FY 2014	5,032,000	2.00 - 2.50	06/02/14	05/15/34	4,460,000
Municipal Purpose FY 2015	13,425,000	2.00 - 4.00	04/01/15	11/15/33	13,425,000
					<u>\$ 95,610,417</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

	<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$	8,247,526	\$ 2,745,275	\$ 10,992,801
2017		7,977,526	2,297,569	10,275,095
2018		7,269,526	2,073,054	9,342,580
2019		6,857,526	1,845,493	8,703,019
2020		6,412,526	1,612,994	8,025,520
2021 - 2025		25,910,000	5,059,053	30,969,053
2026 - 2030		12,575,000	1,495,703	14,070,703
2031 - 2034		<u>3,710,000</u>	<u>222,463</u>	<u>3,932,463</u>
Total	\$	<u>78,959,630</u>	\$ <u>17,351,604</u>	\$ <u>96,311,234</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,818,674	\$ 473,851	\$ 2,292,525
2017	1,811,704	416,219	2,227,923
2018	1,725,393	357,924	2,083,317
2019	1,717,319	300,361	2,017,680
2020	826,184	242,787	1,068,971
2021 - 2025	3,751,036	874,485	4,625,521
2026 - 2030	3,050,583	444,116	3,494,699
2031 - 2034	<u>1,949,894</u>	<u>98,928</u>	<u>2,048,822</u>
Total	<u>\$ 16,650,787</u>	<u>\$ 3,208,671</u>	<u>\$ 19,859,458</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2015 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 2008	Water Main Improvements	\$ 74,869
May 2009	Stormwater Master Plan Drainage Improvements (Latern & Gayland)	42,000
May 2009	Sewer Pump Station Design (Reservoir B)	5,197
November 2011	Senior Center Construction	33,808
November 2011	Sewer Pump Station Construction (Reservoir B)	187,219
October 2012	RTS Soil Remediation	158,000
May 2013	DPW Complex Renovation	10,000
May 2013	St. Marys Pump Station	965,100
May 2014	Public Works Infrastructure Program	220,000
May 2014	Central Ave, Elliot Street Bridge	650,000
May 2015	Water System Rehabilitation	635,000
May 2015	Public Works Infrastructure Program	1,000,000
May 2015	Central Ave, Elliot Street Bridge	<u>2,000,000</u>
	Total	<u>\$ 5,981,193</u>

E. Changes in General Long-term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/14	Additions	Refunded	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
<u>Governmental Activities</u>							
Bonds payable	\$ 85,122	\$ 10,187	\$ (7,975)	\$ (8,374)	\$ 78,960	\$ (8,248)	\$ 70,712
Unamortized bond premium	870	1,225	-	(48)	2,047	(109)	1,938
Subtotal bonds payable	85,992	11,412	(7,975)	(8,422)	81,007	(8,357)	72,650
Other:							
Accrued employee benefits	4,256	57	-	-	4,313	(1,078)	3,235
Net pension liability	47,340	3,948	-	-	51,288	-	51,288
Landfill closure	783	-	-	(53)	730	(49)	681
Totals	<u>\$ 138,371</u>	<u>\$ 15,417</u>	<u>\$ (7,975)</u>	<u>\$ (8,475)</u>	<u>\$ 137,338</u>	<u>\$ (9,484)</u>	<u>\$ 127,854</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 16,514	\$ 3,317	\$ (1,200)	\$ (1,980)	\$ 16,651	\$ (1,819)	\$ 14,832
Other:							
Accrued employee benefits	245	62	-	-	307	(307)	-
Net pension liability	2,915	243	-	-	3,158	-	3,158
Totals	<u>\$ 19,674</u>	<u>\$ 3,622</u>	<u>\$ (1,200)</u>	<u>\$ (1,980)</u>	<u>\$ 20,116</u>	<u>\$ (2,126)</u>	<u>\$ 17,990</u>

F. Advance and Current Refundings

On April 1, 2015 the City issued general obligation bonds in the amount of \$8,475,000 with a variable interest rate ranging from 2.00% to 4.00% to:

- Currently refund \$2,825,000 of the 2005 term bonds for the Elliot School with an interest rate of 3.75% to 4.125%. The term bonds mature on November 15, 2024 and were callable on June 1, 2015. The proceeds of \$2,846,200 from the refunding bonds, net of underwriter's discount, were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds were called.
- Advance refund \$5,150,000 of the 2006 term bonds for the High School with an interest rate of 4.00% to 4.25%. The term bonds mature on November 15, 2025. The proceeds of \$2,846,200 from the refunding bonds, net of issuance costs, 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.

- Advance refund \$1,200,000 of the 2007 term bonds for Water and Sewer with an interest rate of 4.00% to 4.20%. The term bonds mature on November 15, 2022. The proceeds of \$1,279,765 from the refunding bonds, net of issuance costs, 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.

The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the refunding, the City reduced its total debt service cash flow requirements by \$1,037,104, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$874,763.

Defeased debt still outstanding at June 30, 2015 is \$6,350,000.

G. 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, 2015, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$12,775,000.

14. Landfill Postclosure Care Costs

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

The \$730,065 reported as postclosure care liability at June 30, 2015 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 2015. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>	
	<u>Governmental</u>	<u>Business-type</u>
	<u>Activities</u>	<u>Activities</u>
Difference between expected and actual pension experience	\$ <u>23,946</u>	\$ <u>1,475</u>
Total deferred inflows	\$ <u><u>23,946</u></u>	\$ <u><u>1,475</u></u>

	<u>Fund Basis</u>					
	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		
	<u>General Fund</u>	<u>Community Preservation</u>	<u>Nonmajor</u>	<u>Sewer</u>	<u>Water</u>	<u>Solid Waste</u>
Unavailable revenues	\$ 11,805,511	\$ 13,484	\$ 100,072	\$ -	\$ -	\$ -
Difference between expected and actual pension experience	<u>-</u>	<u>-</u>	<u>-</u>	<u>458</u>	<u>636</u>	<u>381</u>
Total deferred inflows	\$ <u><u>11,805,511</u></u>	\$ <u><u>13,484</u></u>	\$ <u><u>100,072</u></u>	\$ <u><u>458</u></u>	\$ <u><u>636</u></u>	\$ <u><u>381</u></u>

The balance of the General Fund *unavailable revenues* account is equal to the total of all June 30, 2015 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

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

16. Restricted Net Position

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

Permanent fund restricted net position is 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.

17. **Governmental Funds - Balances**

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

The following types of fund balances are reported at June 30, 2015:

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, 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, 2015:

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Permanent funds	\$ -	\$ -	\$ 188,478	\$ 188,478
Total Nonspendable	-	-	188,478	188,478
Restricted				
Debt service	794,835	-	-	\$ 794,835
Community preservation	-	8,807,204	-	8,807,204
Bonded projects	-	-	714,369	714,369
Special revenue funds:				
Expendable trust funds	-	-	2,260,892	2,260,892
School lunch	-	-	985,545	985,545
Kindergarten after school enrichment program	-	-	636,274	636,274
Pupil transportation	-	-	518,584	518,584
Summer School	-	-	375,976	375,976
RRFA - parking meter fund	-	-	320,701	320,701
Insurance loss replacement	-	-	149,335	149,335
Library equalization	-	-	136,478	136,478
Parks and recreation revolving	-	-	130,164	130,164
Other special revenue funds	-	-	2,528,595	2,528,595
Total Restricted	794,835	8,807,204	8,756,913	18,358,952
Committed				
Continuing appropriations articles	1,001,852	-	-	1,001,852
Compensated absences	195,060	-	-	195,060
General and capital stabilization	7,823,512	-	-	7,823,512
Capital projects	-	-	6,122,886	6,122,886
Total Committed	9,020,424	-	6,122,886	15,143,310
Assigned				
Encumbrances	2,018,728	-	-	2,018,728
For next year's expenditures	2,453,764	-	-	2,453,764
Total Assigned	4,472,492	-	-	4,472,492
Unassigned	15,247,969	-	(271,900)	14,976,069
Total Fund Balance	\$ 29,535,720	\$ 8,807,204	\$ 14,796,377	\$ 53,139,301

18. 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.

19. **Commitments and Contingencies**

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

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

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

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

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2013, the actuarial valuation date, approximately 696 retirees and 1,117 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 2015 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, 2015, the amount actually contributed to the plan, and the change in the Town's net OPEB asset (obligation) based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 5,113,405
Interest on net OPEB obligation	(137,994)
Adjustment to ARC	<u>110,260</u>
Annual OPEB cost	5,085,671
Contributions made	<u>5,300,198</u>
Increase in net OPEB asset	214,527 *
Net OPEB asset - beginning of year	<u>2,028,657</u>
Net OPEB asset - end of year	<u>\$ 2,243,184</u>

* represents funding in excess of ARC

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset
2015	\$ 5,085,671	104%	\$ 2,243,184
2014	\$ 4,710,209	118%	\$ 2,028,657
2013	\$ 4,523,887	109%	\$ 900,000
2012	\$ 3,906,275	113%	\$ 500,000
2011	\$ 3,626,375	100%	\$ -
2010	\$ 3,446,556	100%	\$ -
2009	\$ 3,102,311	100%	\$ -

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 62,345,026
Actuarial value of plan assets	<u>15,496,964</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 46,848,062</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>24.9%</u>
Covered payroll (active plan members)	<u>\$ 68,551,814</u>
UAAL as a percentage of covered payroll	<u>68.3%</u>

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2013 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 4.5% long-term rate for all healthcare benefits after 8 years. The amortization costs for the initial UAAL is a level percentage of payroll for a remaining period of 26 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.25%.

21. Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Needham Contributory Retirement System (the System), a cost sharing, multiple-employer public employee defined benefit retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 1471 Highland Avenue, Needham, Massachusetts 02492.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a

refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

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

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

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

The Town's contribution to the System for the year ended June 30, 2015 was \$5,524,150, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At June 30, 2015, the Town reported a liability of \$54,445,695 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial

valuation as of January 1, 2015. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the Town's proportion was 98.27% percent.

Changes of benefit terms: As permitted by Section 19 of Chapter 188 of the Acts of 2010, the Board has increased the Cost of Living Adjustment (COLA) base from \$12,000 to \$14,000 effective July 1, 2015.

For the year ended June 30, 2015, the Town recognized pension expense of \$2,316,543. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 25,421
Changes of assumptions	1,692,772	-
Net difference between projected and actual earnings on pension plan investments	<u>206,551</u>	<u>-</u>
Total	<u>\$ 1,899,323</u>	<u>\$ 25,421</u>

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

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 474,831	\$ 6,355
2017	474,831	6,355
2018	474,831	6,355
2019	<u>474,830</u>	<u>6,356</u>
Total	<u>\$ 1,899,323</u>	<u>\$ 25,421</u>

Actuarial assumptions: The total pension liability in the January 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.75% for Group 1 and 2 5.25% for Group 4
Investment rate of return	7.75%
Post-retirement cost-of-living adjustment	3.00%

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

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of the most recent actuarial experience study.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large cap equities	14.50%	
Small/Mid cap equities	3.50%	
Domestic equity	18.00%	6.40%
International equities	16.00%	7.07%
Emerging international equities	6.00%	9.26%
Total global equities	22.00%	
20+ Year treasury strips	10.00%	
TIPS	3.00%	
Total core fixed income	13.00%	1.53%
High-yield bonds	1.50%	
Bank loans	1.50%	
EMD (external)	1.00%	
EMD (local currency)	2.00%	
Private debt	4.00%	
Total value-added fixed income	10.00%	4.25%
Private equity	10.00%	11.26%
Real estate and commodities	14.00%	4.04%
Hedge funds and GAA	13.00%	3.44%
Total alternative investments	37.00%	
Total	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the

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

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2015	\$ 74,936,838	\$ 54,445,695	\$ 37,008,720

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

22. Massachusetts Teachers’ Retirement System (MTRS)

A. Plan Description

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

Management of MTRS is vested in the Massachusetts Teachers’ Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a

member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timeber/natural resources	<u>4.0%</u>	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

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

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,426,000	\$ 17,233,698	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,354	\$ 12,200,000

G. Special Funding Situation

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

H. Town Proportions

In fiscal year 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense was \$100,708,775 and \$6,996,722 respectively, based on a proportionate share of 0.633534%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

23. 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, 2015, the Town's workers compensation fund had a balance of \$1,498,582 in net position (a component of Total Net Position). This amount is generated from the remainder of the workers compensation budget voted each year by the Town Meeting. The Town appropriated \$586,000 for workers compensation line item in fiscal year 2015. 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 \$400,000 per accident per employee to an aggregate limit of \$1,000,000 per accident. The Town's maximum aggregate liability for all claims paid within one year is \$4,000,000. The Town has no excess liability coverage for public safety employees and no reasonable estimate of claims liability has been determined.

A liability for unpaid claims at June 30, 2015 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, 2015 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 133,101
Claims incurred/recognized in fiscal year 2015	378,454
Claims paid in fiscal year 2015	<u>(310,394)</u>
Claims liability, end of year	<u>\$ 201,161</u>

24. 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 signifi-

cant 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.

25. Beginning Net Position Restatement

Change in Accounting Principle

In fiscal year 2015, the Town’s beginning net position as of July 1, 2014 was restated for the implementation of the new standard – Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Accordingly, the following reconciliation for the net position is provided:

Government-Wide Financial Statements:

	Governmental Activities	Business- Type Activities			Business-Type Total
		Sewer Fund	Water Fund	Solid Waste Fund	
As previously reported GASB 68 implementation for net pension liability	\$ 204,533,161 <u>(47,340,445)</u>	\$ 21,112,920 <u>(904,594)</u>	\$ 31,485,637 <u>(1,256,381)</u>	\$ 8,232,497 <u>(753,829)</u>	\$ 60,831,054 <u>(2,914,804)</u>
As restated	\$ <u>157,192,716</u>	\$ <u>20,208,326</u>	\$ <u>30,229,256</u>	\$ <u>7,478,668</u>	\$ <u>57,916,250</u>

Fiscal year 2014 and prior periods have not been restated for GASB 68 due to impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement for July 1, 2014 does not recognize beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions in accordance with GASB 71.

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

**June 30, 2015
(Unaudited)**

Other Post-Employment Benefits

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

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015
(Unaudited)

<u>Needham Contributory Retirement System</u>		<u>2015</u>
Proportion of the net pension liability for the most recent measurement date		98.27%
Proportionate share of the net pension liability for the most recent measurement date	\$	54,445,695
Covered-employee payroll for the most recent measurement date	\$	35,772,213
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		152.20%
Plan fiduciary net position as a percentage of the total pension liability		71.09%
<u>Massachusetts Teachers' Retirement System:</u>		<u>2015</u>
Proportion of the net pension liability for the most recent measurement date		0.633534%
The Town's proportionate share of the net pension liability for the most recent measurement date	\$	-
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town		<u>100,708,775</u>
Total net pension liability associated with the Town	\$	<u>100,708,775</u>
Covered-employee payroll for the most recent measurement date	\$	39,867,330
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		0%
Plan fiduciary net position as a percentage of the total pension liability		61.64%

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

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>Needham Contributory Retirement System</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 5,524,150
Contributions in relation to the contractually required contribution	<u>(5,524,150)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll for the current fiscal year	\$ 35,772,213
Contributions as a percentage of covered-employee payroll	15.44%

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

See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

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

For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 7,669,435	\$ 8,789,865	\$ 1,120,430
Interest income	<u>4,680</u>	<u>4,425</u>	<u>(255)</u>
Total Revenues	7,674,115	8,794,290	1,120,175
Expenditures:			
Sewer expenditures	1,375,124	1,329,879	45,245
Intergovernmental	5,466,144	5,466,144	-
Debt service	<u>1,500,000</u>	<u>1,328,572</u>	<u>171,428</u>
Total Expenditures	<u>8,341,268</u>	<u>8,124,595</u>	<u>216,673</u>
Excess of revenues over expenditures	(667,153)	669,695	1,336,848
Other Financing Sources and Uses:			
Transfers in	823,671	823,671	-
Use of unrestricted net position	1,260,357	-	(1,260,357)
Transfers out	<u>(1,416,875)</u>	<u>(1,416,875)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>667,153</u>	<u>(593,204)</u>	<u>(1,260,357)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 76,491</u>	<u>\$ 76,491</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, 2015

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 5,527,565	\$ 7,117,746	\$ 1,590,181
Interest income	7,225	6,360	(865)
Other revenue	<u>3,200</u>	<u>3,895</u>	<u>695</u>
Total Revenues	5,537,990	7,128,001	1,590,011
Expenditures:			
Water expenditures	2,272,720	2,231,632	41,088
Intergovernmental	1,193,697	1,193,697	-
Debt service	<u>1,550,000</u>	<u>1,544,726</u>	<u>5,274</u>
Total Expenditures	<u>5,016,417</u>	<u>4,970,055</u>	<u>46,362</u>
Excess of revenues over expenditures	521,573	2,157,946	1,636,373
Other Financing Sources and Uses:			
Use of unrestricted net position	2,141,229	-	(2,141,229)
Transfers out	<u>(2,662,802)</u>	<u>(2,662,802)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(521,573)</u>	<u>(2,662,802)</u>	<u>(2,141,229)</u>
Excess of revenues over expenditures and other uses	<u>\$ -</u>	<u>\$ (504,856)</u>	<u>\$ (504,856)</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, 2015

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 997,284	\$ 1,193,577	\$ 196,293
Interest income	<u>1,510</u>	<u>2,514</u>	<u>1,004</u>
Total Revenues	998,794	1,196,091	197,297
Expenditures:			
Transfers station expenditures	2,062,747	2,038,185	24,562
Debt service	<u>150,000</u>	<u>117,108</u>	<u>32,892</u>
Total Expenditures	<u>2,212,747</u>	<u>2,155,293</u>	<u>57,454</u>
Excess of revenues over expenditures	(1,213,953)	(959,202)	254,751
Other Financing Sources and Uses:			
Transfers in	1,492,270	1,492,270	-
Use of unrestricted net position	321,095	-	(321,095)
Transfers out	<u>(599,412)</u>	<u>(599,412)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>1,213,953</u>	<u>892,858</u>	<u>(321,095)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (66,344)</u>	<u>\$ (66,344)</u>

See Independent Auditors' Report.