



TOWN OF NEEDHAM, MASSACHUSETTS

Annual Financial Report

For the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Select Board
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, 2019, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2018), 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.

Auditors' 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 auditors' 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, 2019, (except for the Needham Contributory Retirement System which is as of and for the year ended December 31, 2018), 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, and the Pension and OPEB schedules appearing on pages 83 to 86 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 87 through 89 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 January 7, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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

January 7, 2020

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, 2019.

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 comprise 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, liabilities, and deferred outflows/inflows of resources with the difference 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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. 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.

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 and deferred outflows exceeded liabilities and deferred inflows by \$225,004,680 (net position), a change of \$19,010,388 in comparison to the prior year, as restated.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$42,634,855, a change of \$(1,488,110) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$19,403,198, a change of \$1,586,087 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	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 97,469	\$ 95,328	\$ 17,896	\$ 22,574	\$ 115,365	\$ 117,902
Capital assets	<u>325,474</u>	<u>272,791</u>	<u>65,848</u>	<u>63,854</u>	<u>391,322</u>	<u>336,645</u>
Total assets	422,943	368,119	83,744	86,428	506,687	454,547
Deferred outflow of resources	<u>38,257</u>	<u>17,445</u>	<u>1,160</u>	<u>626</u>	<u>39,417</u>	<u>18,071</u>
Total assets and deferred outflow of resources	\$ <u>461,200</u>	\$ <u>385,564</u>	\$ <u>84,904</u>	\$ <u>87,054</u>	\$ <u>546,104</u>	\$ <u>472,618</u>
Liabilities:						
Long-term liabilities	\$ 238,189	\$ 189,953	\$ 17,670	\$ 19,219	\$ 255,859	\$ 209,172
Notes payable	35,960	31,980	360	5	36,320	31,985
Other liabilities	<u>14,517</u>	<u>11,803</u>	<u>302</u>	<u>716</u>	<u>14,819</u>	<u>12,519</u>
Total liabilities	288,666	233,736	18,332	19,940	306,998	253,676
Deferred inflow of resources	13,767	12,389	334	558	14,101	12,947
Net position:						
Net investment in capital assets	205,579	178,606	53,863	51,292	259,442	229,898
Restricted	15,584	14,053	-	-	15,584	14,053
Unrestricted	<u>(62,396)</u>	<u>(53,220)</u>	<u>12,375</u>	<u>15,264</u>	<u>(50,021)</u>	<u>(37,956)</u>
Total net position	<u>158,767</u>	<u>139,439</u>	<u>66,238</u>	<u>66,556</u>	<u>225,005</u>	<u>205,995</u>
Total liabilities, deferred inflow of resources, and net position	\$ <u>461,200</u>	\$ <u>385,564</u>	\$ <u>84,904</u>	\$ <u>87,054</u>	\$ <u>546,104</u>	\$ <u>472,618</u>

Changes in Net Position Summary (000s)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 13,719	\$ 13,442	\$ 16,657	\$ 17,301	\$ 30,376	\$ 30,743
Operating grants and contributions	32,834	32,402	34	32	32,868	32,434
Capital grants and contributions	7,344	3,648	710	147	8,054	3,795
General revenues:						
Property taxes	144,182	134,594	-	-	144,182	134,594
Excises	6,131	5,911	-	-	6,131	5,911
Penalties and interest on taxes	2,412	2,064	-	-	2,412	2,064
Grants and contributions not restricted to specific programs	2,253	2,125	-	-	2,253	2,125
Investment income	1,782	660	63	87	1,845	747
Other	560	549	-	-	560	549
Total revenues	<u>211,217</u>	<u>195,395</u>	<u>17,464</u>	<u>17,567</u>	<u>228,681</u>	<u>212,962</u>
Expenses:						
General government	8,478	7,197	-	-	8,478	7,197
Public safety	21,501	19,958	-	-	21,501	19,958
Education	124,661	114,549	-	-	124,661	114,549
Public works	24,706	21,459	-	-	24,706	21,459
Building design and construction	668	509	-	-	668	509
Human services	3,367	2,966	-	-	3,367	2,966
Culture and recreation	4,257	3,586	-	-	4,257	3,586
Interest on long-term debt	2,938	2,578	-	-	2,938	2,578
Intergovernmental	1,389	1,333	-	-	1,389	1,333
Other unallocated costs	2,382	3,140	-	-	2,382	3,140
Sewer operations	-	-	8,240	8,169	8,240	8,169
Water operations	-	-	4,689	4,841	4,689	4,841
Solid waste operations	-	-	2,395	2,524	2,395	2,524
Total expenses	<u>194,347</u>	<u>177,275</u>	<u>15,324</u>	<u>15,534</u>	<u>209,671</u>	<u>192,809</u>
Change in net position before transfers	16,870	18,120	2,140	2,033	19,010	20,153
Transfers	<u>2,458</u>	<u>(374)</u>	<u>(2,458)</u>	<u>374</u>	<u>-</u>	<u>-</u>
Change in net position	19,328	17,746	(318)	2,407	19,010	20,153
Net position - beginning of year	<u>139,439</u>	<u>121,693</u>	<u>66,556</u>	<u>64,149</u>	<u>205,995</u>	<u>185,842</u>
Net position - end of year	\$ <u>158,767</u>	\$ <u>139,439</u>	\$ <u>66,238</u>	\$ <u>66,556</u>	\$ <u>225,005</u>	\$ <u>205,995</u>

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 \$259,441,806 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.

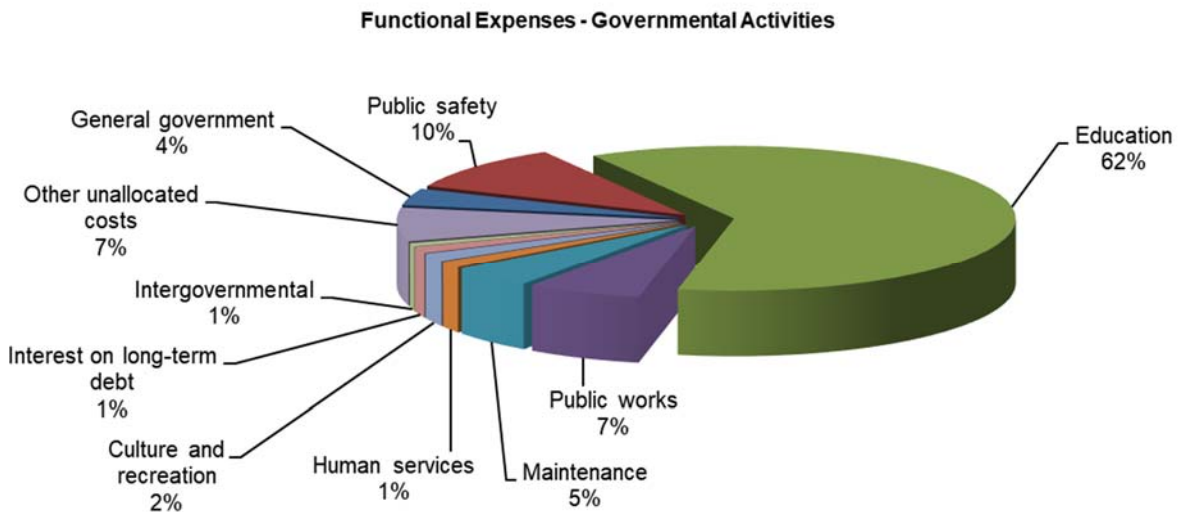
An additional portion of net position \$15,584,345 represents resources that are subject to external restrictions on how they may be used. The remaining balance is a deficit of \$(50,021,471) as a result of our net pension and net OPEB liabilities.

Governmental Activities

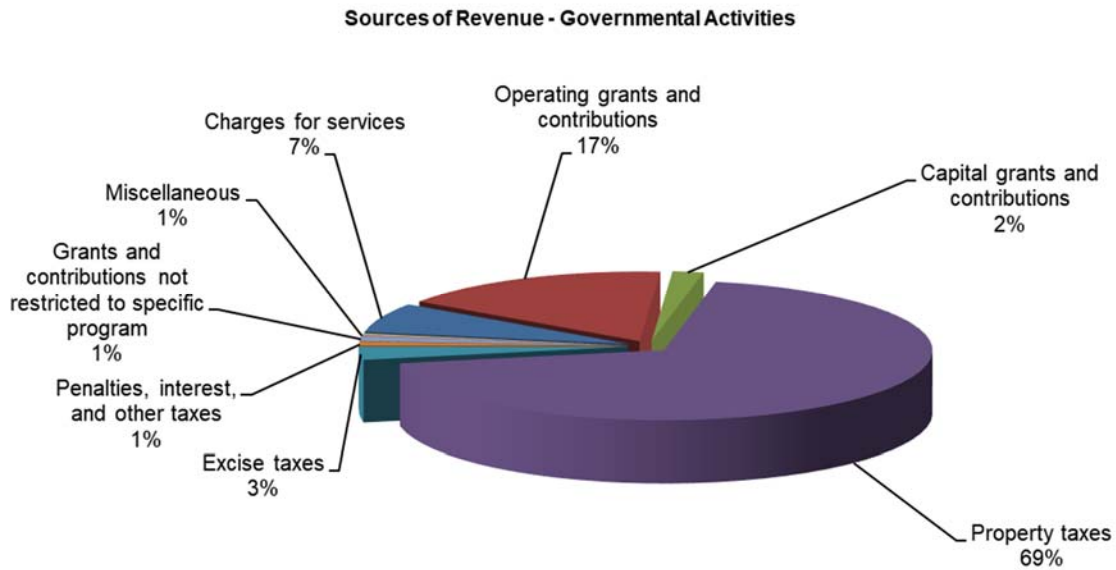
Governmental activities for the year resulted in a change in net position of \$19,328,227. Key elements of this change are as follows (in thousands):

General fund transfer for cash capital	\$ 20,916
Capital grants and contributions (MSBA)	7,344
Increase in net pension liability, net of related deferrals	(4,602)
Depreciation in excess of debt service principal	(3,158)
Other	<u>(1,172)</u>
Total	<u><u>\$ 19,328</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 \$17.0m over the previous year or by 9.6%.



As presented in the following graph, most of the Town’s revenue comes from property taxes. Total revenues (excluding transfers) increased by \$15.8m over the prior year or 8.1%.



Business-Type Activities

Business-type activities for the year resulted in a change in net position of (\$317,839). The decrease in net position is a result of our Business-Type Activities contributing to governmental capital activity, specifically Public Works Infrastructure and Storage Facility projects.

D. FINANCIAL ANALYSIS OF 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 \$42,634,855, a change of (\$1,488,110) 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, including transfers	\$	(1,012)
CPA fund revenues in excess of expenditures and transfers out		1,963
Sunita Williams major bond proceeds and revenues in excess of expenditures		2,370
Public Safety Building major fund expenditures financed with bond anticipation notes		(5,880)
Nonmajor funds revenues and other sources in excess of expenditures		<u>1,071</u>
Total	\$	<u><u>(1,488)</u></u>

General Fund

The general fund is the chief operating fund. 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>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>
Unassigned fund balance	\$ 19,403,198	\$ 17,817,111	\$ 19,434,334
Total fund balance	\$ 47,040,908	\$ 48,053,088	\$ 45,300,057
	<u>6/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>
Unassigned fund balance as of % of total General Fund expenditures	12.5%	12.1%	15.7%
Total fund balance as of % total General Fund expenditures	30.3%	32.5%	27.9%

Expenditure amounts used to calculate the above percentages have been adjusted to exclude the on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System.

The total fund balance of the general fund changed by (\$1,012,180) during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay surplus and other reserves used for FY2019 appropriations	\$ (13,948)
Transfer to stabilization accounts	1,527
Revenues and other financing sources in excess of budget	7,078
Expenditures less than budget	4,926
Other	<u>(595)</u>
Total	<u>\$ (1,012)</u>

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

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
General stabilization	\$ 4,187,516	\$ 4,128,629	\$ 58,887
Capital improvement stabilization	910,577	747,227	163,350
Capital facility stabilization	1,886,376	26,767	1,859,609
Athletic facility stabilization	2,686,229	4,409,021	(1,722,792)
Debt service stabilization	2,114,506	2,062,952	51,554
Compensated absences	204,995	199,997	4,998
Continuing appropriations	<u>1,610,524</u>	<u>1,189,163</u>	<u>421,361</u>
Total	<u>\$ 13,600,723</u>	<u>\$ 12,763,756</u>	<u>\$ 836,967</u>

In fiscal year 2019 general fund intergovernmental revenues and education expenditures include \$9,056,616 in on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System.

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. Capital expenditures in the current year resulted from the development of the Needham Accessible Reservoir Trail.

Sunita L. Williams School – At the October 2016 Special Town Meeting, article 2 appropriated \$57,542,500 for the architectural design, engineering, and construction of the Sunita L. Williams School. The Massachusetts School Building Authority (MSBA) approved a school construction grant of \$13,066,791 and reimbursement rates of 34.72% for the project. During fiscal year 2019, the Town expended \$27,493,314 on the project, and received \$7,252,591 in reimbursements from MSBA.

Public Safety Building – At the October 2018 Special Town Meeting, article 10 was passed appropriating fund for the renovations of the Public Safety Building and Fire Station #2. Nearly \$6m was expended in fiscal year 2019 for renovation costs.

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 by enterprise fund at the end of the year in comparison to the prior year is shown below:

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
Sewer	\$ 6,024,336	\$ 6,952,846	\$ (928,510)
Water	5,526,376	7,315,364	(1,788,988)
Solid Waste	<u>823,939</u>	<u>995,115</u>	<u>(171,176)</u>
Total	<u>\$ 12,374,651</u>	<u>\$ 15,263,325</u>	<u>\$ (2,888,674)</u>

Unrestricted net position of the proprietary funds decreased primarily from the voted use of certified retained earnings (a component of unrestricted net position) much of which was used for the acquisition of capital assets, including the funds’ contribution to the Public Works Infrastructure and Storage Facility projects. Total net position of the Sewer fund also decreased given the contribution to town-wide capital projects. The Solid Waste Fund is scheduled to be dissolved in fiscal year 2020.

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 2019 was amended upward by \$16,115 from the original budget. The original operating budget was approved at \$162,720,589, with the amendment, and inclusive of non-appropriated items, state and county charges, and other amounts to be provided totaled \$164,158,174.

The Town increased the appropriation for the Park and Recreation Department by \$16,115. The increase was necessary to cover the higher cost for cleaning public bathrooms at the parks and playing fields as a result of a new contract. This was the only increase to the

operating budget for the fiscal year. Town Meeting also approved line item transfers to the Finance Department budget from salary and wages to expenses and operating capital, which resulted in no net change to the bottom line.

During fiscal year 2019, the Town realized revenue in excess of budget of \$6.8 million and realized budget returns of \$4.9 million. General Fund revenue in excess of budget was higher than the fiscal year 2018 results. The \$4.9 million budget return was higher than the fiscal year 2018 return of approximately \$4.5 million. The higher revenue surplus was primarily due to motor vehicle excise, other excise, and interest income. The budget return was on par with recent years, with a return of 3.0% of the final budget for fiscal year 2019 compared to a return of 2.9% for fiscal year 2018.

Motor vehicle excise tax revenue was 3.9% more than the prior year's actual receipts (\$6,138,951 for FY2019 vs \$5,910,555 for FY2018 vs \$5,701,527 for FY2017), the margin between budgeted and actual revenue was slightly higher, with actual receipts for fiscal year 2019 at \$1.24 million over the budget, compared to \$1.16 million over the budget for fiscal year 2018, but was below the \$1.30 million that actual receipts over the budget was for fiscal year 2017.

Revenue generated from other taxes, penalties, and payments in lieu of tax was approximately \$0.77 million over the budget for fiscal year 2019 which compares to the \$0.52 million over the budget for fiscal year 2018, but the fiscal year 2019 result was below the fiscal year 2017, when actual revenue exceeded the budget by approximately \$0.80 million. Comparing the actual revenue from those sources for fiscal year 2019 to fiscal year 2018 shows mixed results, with the total receipt being approximately \$277,000 more (\$2,408,784 for FY2019 compared to \$2,132,175 for FY2018). However, the result was due to a significant increase in room excise, which was \$311,850 more than the fiscal year 2018 revenue; the meals excise was \$49,943 more than the prior year. An increase in the room excise was anticipated for fiscal year 2018 due to the opening of a third hotel, but did not materialize in fiscal year 2018, that changed in fiscal year 2019. The increases in the room and meal excises helped to offset the decline in penalty for late payment related and payment in lieu of tax revenue, which together declined by approximately \$81,000 for the year.

Revenue from licenses and permits declined by less than one percent, but residential and commercial construction activity remains strong. The total permit income for fiscal year 2019 was \$2,590,858 compared to \$2,603,017 for fiscal year 2018, and the \$4,477,430 for fiscal year 2017. Fiscal year 2017 was a record year.

Overall total actual General Fund revenue (\$170,553,852) for fiscal year 2019 was \$13,907,477 more than the total for fiscal year 2018 (\$156,646,375). The increase was principally related to the growth in property taxes with \$11.75 million more in fiscal year 2019, approximately 84% of the increase in total General Fund revenue. The increase resulted from the high New Growth tax revenue, and a higher amount of excluded debt

which was added to the tax levy, for projects previously approved by the voters of Needham. The total General Fund revenue surplus for fiscal year 2019 was \$6,821,736 which was \$2,000,164 more than fiscal year 2018. The combination of motor vehicle excise revenue permit and license revenue, and other local tax receipts contributed approximately 39.2% of the total General Fund surplus for fiscal year 2019, down from the 56.6% that these sources comprised in 2018.

The General Fund appropriated operating budget, excluding county and state assessments and other amounts to be provided, accounting for most of the expenditures, returned \$4,894,717 or approximately 3.0% of the operating budget appropriation; the return for fiscal year 2018 was \$4,450,548 or approximately 2.9% of the appropriation for that year. The budgetary reserve fund (reserve fund) returned \$1,552,099 which represents 31.7% of the total General Fund operating budget return for the fiscal year 2019 and was the highest dollar amount returned. The reserve fund budget amount returned was more than fiscal year 2018 reserve fund budget return (\$834,939), which was 18.8% of the total return. The \$1,552,099 return of the reserve fund budget represents approximately 83% of the original voted reserve fund budget of \$1,859,891. There was only one draw on the reserve fund during fiscal year 2019, which was the transfer to cover snow and ice removal expenses above the base budget. The base budget for snow and ice removal was \$416,232 which required a \$307,792 transferred from the from the budgetary reserve fund to cover the total expense of \$724,024. The \$724,024 snow and ice removal expense for fiscal year 2019 compares to the expense for fiscal year 2018 of \$1,296,983 and the fiscal year 2017 expense of \$1,004,369.

The second highest dollar turn back was from the Group Health Insurance, Employee Benefits and Administrative Costs budget in the amount of \$1,464,592, which accounts for approximately 29.9% of the total General Fund budget return. A much higher participation rate by employees in the new High Deductible Health Plan offerings than in the more traditional health plans, the so-called Benchmark HMO plans, contributed to the larger budget return. The return was approximately 9.6% of that budget line.

Looking at the individual department budget turn backs, the Department of Public Works returned the highest amount with \$399,993 or 3.1% of its amended budget of \$12,954,150. The department returned \$78,225 (1.2%) for fiscal year 2018. The Operations division of the Public Facilities Department was incorporated into DPW effective for FY2019. They became the building maintenance division of Public Works. The Construction division of the Public Facilities Department was reconstituted as the Building Design and Construction Department. The Building Design and Construction Department had the second highest department budget turn back with \$228,658 or 44.1% of the amended fiscal year 2019 budget. The large turn back represents the significant portion of the personnel time that was chargeable to specific construction projects, rather than the department operating budget. The turn back represents 4.7% of the total amount returned.

The Police Department returned \$139,620 or 2.0% of its budget which compares to the \$272,159 or 4.1% of its fiscal year 2018 budget. Approximately 61% of the turn back (\$86,465) was from salary and wages due to delays with filling vacant positions. The balance (\$53,155) was from operating expenses and lower vehicle replacement costs for the year. The Health and Human Services Department had several vacancies during the year which accounts for most of the \$136,803 that was returned, 88% (\$120,970).

The Needham Public Schools had a very small turnback, with \$18,954 of the \$71,105,943 being returned for fiscal year 2019. The school department had returned \$503,575 or 0.7% of its fiscal year 2018 budget of \$68,350,083 and returned \$542,220 (0.8%) of the fiscal year 2017 budget.

The other 16 departmental budgets returned in total \$501,941 or 2.8% of their combined amended budgets for the year. The Town wide expense budgets (excluding the budgetary reserve fund and employee benefits) returned a combined \$452,057 or approximately 1.3% of their related total amended budgets, which compares to the same budgets last year returning \$711,711 or approximately 2.3% of their related total amended budgets.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$391,322,521 (net of accumulated depreciation), a change of \$54,676,963 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:

Sunita L. Williams elementary school	\$	27,493
Public safety building	\$	5,880
Needham High expansion	\$	9,489
Rosemary recreation complex	\$	4,095
Public works infrastructure	\$	1,738
Memorial park improvements	\$	4,699
Public works storage	\$	1,431

Business-Type Activities:

Water distribution improvements	\$	1,771
Water service connections	\$	369
Sewer pump station improvement	\$	498
Sewer system rehab program	\$	393

Debt. At the end of the current fiscal year, total long-term bonds and loans outstanding, including unamortized bond premium, were \$104,033,479. 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. The Town also has \$36,320,000 in bond anticipation notes outstanding as of June 30, 2019.

Additional information on capital assets and 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 2019 was lower than fiscal year 2018. Fund balance was \$47.0 million for fiscal year 2019 compared to \$48.1 million for fiscal year 2018, approximately a 2.3% change. However, the unassigned portion of the General Fund increased from the prior fiscal year with a balance of \$19.4 million for fiscal year 2019 compared to \$17.8 million for fiscal year 2018. The State certified \$10,387,871 available as Free Cash for fiscal year 2019. 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 prior year was \$13,518,622.

The Town allocated \$7,418,252 of the Free Cash for capital equipment and projects for fiscal year 2020. The Free Cash appropriated for capital included \$2,169,550 for public roads and related infrastructure improvements, \$630,000 for the construction of modular classrooms at the Mitchell Elementary School, \$295,000 for improvements at the transfer station, \$275,00 for a new gym floor at the Newman Elementary School, \$69,200 to construct a custom shade shelter for the Newman School preschool playground, \$67,000 for a design to upgrade the restrooms at the Mitchell School, \$37,500 for reconfiguration and addition to the lockers at the High School, and \$30,000 for score boards in the Pollard School gyms. Free Cash was also used to fund capital equipment which included \$1,270,648 in core fleet and special equipment, \$852,550 for fire and police radios, computer equipment, and mobile devices, \$719,820 in cash capital equipment and technology for the Needham Public Schools, and \$876,984 was directed to other General Fund cash capital investments in equipment, technology, and facility upgrades for Town departments. The balance of the Free Cash for capital of \$125,000 was appropriated as supplemental funding for a school master plan.

The Town also allocated \$2,068,301 of Free Cash to the fiscal year 2020 operating budget, \$76,000 for a temporary staffing program, \$50,000 for a small repair grant program for homeowners, and \$100,000 for an ongoing Town-owned property land surveys. The Town also funded a feasibility study for the Ridge Hill and former Nike site for \$50,000. The Town's use of Free Cash for funding the subsequent fiscal year operating budget was in line with

management's guidance of not more than two-percent of the previous year's final budget (excluding the budgetary reserve fund) or the actual turn back, whichever is less.

The Town transferred \$166,612 of Free Cash to the Capital Improvement Fund, and appropriated \$283,706 to the Town's workers compensation account reserve. The Town also appropriated \$125,000 for the compensated absences fund. The \$50,000 balance in Free Cash was closed out at year end to fund balance. Management continues 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 ongoing operating budget expenses. The Select Board endorsed this best practice.

Property tax collections remain consistently strong, and revenue increase from "New Growth" was another above average year with \$4,394,835 for fiscal year 2019, however it was lower than the fiscal year 2018 record at \$4,841,774. This compares to the \$2,830,797 in fiscal year 2017, \$3,684,955 in fiscal year 2016, and \$3,922,530 for fiscal year 2015. The source of the New Growth tax revenue is from the continued demand for large new single-family residential construction, some new large multi-family complexes, and more commercial development, particularly the Needham Crossing business park as was reported for the past few years. The ten-year average annual increase from New Growth property tax was 2.9% of the prior year tax levy, excluding the levy from excluded debt, and the increase from New Growth for fiscal year 2019 was 3.5%, a decline from the fiscal year 2018 New Growth levy increase of 4.1%, but still a solid increase over the average. The New Growth for fiscal year 2020 will be like fiscal year 2019, and we continue to forecast that New Growth revenue is expected to be above average through fiscal year 2021 and perhaps 2022. Increased development in the park includes NBC Universal which is expected to begin broadcasting at its new studios before the end of fiscal year 2020. The Tax Increment Financing (TIF) plan with TripAdvisor will decline from a 76% exemption to 1% exemption so the Town will receive a greater amount of the New Growth revenue from that development starting in fiscal year 2021 or 2022. Room and meals excise revenue has improved, due to the increase in restaurants and the opening of a third hotel, and with the possibility of a fourth hotel to be permitted in the Needham Crossing area, we have confidence that this revenue source will increase. However, we are mindful that these revenue sources (meals and room excise) are more volatile to market conditions than property tax revenue.

As we stated in previous reports, this new development has put increased demands on public safety services, to which we have directed and are directing more resources in the coming years. Funding for two additional police officers (one in FY2019 and one for FY2020) has been approved, and the plan is still to increase the police staffing by an additional two officers in fiscal year 2021, which would have four additional officers in total over a three year period. The Town was awarded a Federal Grant last year to hire eight additional firefighters, and over a three year period will need to phase funding from the grant to local resources. The fiscal year 2020 budget assumed a 35% Town contribution. The Town has funded full-day kindergarten effective for fiscal year 2020. The Town has also increased and expects to increase staff in equipment and building maintenance support to service the

increased number and larger buildings that have come online and will soon, including Sunita L. Williams elementary school, the classroom building wing addition to the High School, Memorial Park Field House, and the Jack Cogswell Building. The priorities are still anticipated to be fundable within the Proposition 2-1/2 limits.

The Sunita L. Williams elementary school opened in September 2019 (FY2020) and the additional operating costs for the facility were fundable within current resources. The estimated final cost of the project, including property acquisition, is \$66 million. The estimate to be paid by the MSBA is \$12.5 with the balance to be financed by long-term debt. The debt service has been exempted from the limits imposed under Proposition 2-1/2 by a vote of the citizens.

The Town has approved funding for the construction of a new Fire Station #2, a new Fire and Police public safety complex and the project is now under construction. The estimated cost of the public safety projects is \$70 million. The three buildings are expected to be fully complete in 2022. The debt service has been exempted from the limits imposed under Proposition 2-1/2 by a vote of the citizens at the November 2018 State election.

The Town transferred \$2,500,000 from the Athletic Facility Improvement Fund (AFIF), as planned, to pay for the athletic artificial turf carpets improvements at DeFazio Field and Memorial Park. The Town may need to draw on the Debt Service Stabilization Fund over the next several years, as planned. The Town created the reserve to be one of the tools used to manage the financing demands of the various building and facility improvements.

The Town's water and sewer operations are solid and the identified capital infrastructure improvements over the next several years are fundable within the current annual revenue stream and financing plan. As reported previously, Coca Cola ceased bottling production operations at its Needham facility. The company has consolidated other operations from nearby communities to Needham. The company was one of the largest users of water and its loss has impacted revenues. However, because of prior actions by the Town to account for less water use for conservation reasons, the Town still anticipates that it will be able to mitigate the loss with smaller annual rate adjustments over a three year period, rather than needing a significant one year jump in the rates. The rate change for fiscal year 2020 was the first step.

As we have reported for several years, the Town's solid waste and recycling program was a challenge to fund on an enterprise approach as costs to provide these services continue to increase because of market conditions (lower recycling revenues), more stringent regulations, and other long term costs of disposing of waste. The Town's efforts to promote greater recycling by its citizens have required a greater contribution from the tax levy to offset other fees previously charged. Management conducted an analysis of whether to dissolve the solid waste and recycling enterprise and incorporate the budget into the General Fund operating budget. We determined that incorporating the operation into the General Fund budget was the most prudent, and made that recommendation to the Town.

Town Meeting approved the recommendation to dissolve the enterprise beginning in fiscal year 2020. All the activities for solid waste disposal and recycling will be recorded under the General Fund beginning in the year ending June 30, 2020.

The outlook for the fiscal year 2020 year end results are expected to be stable with greater tax revenues, with another year of heavy use of reserves to fund capital investments. The Town still assumes significant increases in the General Fund operating budget during the next couple of fiscal years as the Town funds increases in public safety personnel, assessments from the Minuteman regional school, and funds additional personnel needs for the community going forward. There has been upward cost pressure on personnel and contracted services because of the competitive labor market, and near full employment. 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 year years. We still anticipate that local resources will remain solid for the next 12 to 24 months based on permitted private construction activity. However, management will continue its prudent approach with its budget estimates to help buffer any decline in the major local revenue sources in the next two to three years.

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
1471 Highland Avenue
Needham, Massachusetts 02492

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 70,586,373	\$ 13,158,288	\$ 83,744,661
Investments	20,081,521	-	20,081,521
Receivables, net:			
Property taxes	1,559,840	-	1,559,840
Excises	380,373	-	380,373
Utilities	-	4,737,286	4,737,286
Departmental	403,779	-	403,779
Intergovernmental	1,086,970	-	1,086,970
Other	10,476	-	10,476
Deposits	182,226	-	182,226
Total current assets	<u>94,291,558</u>	<u>17,895,574</u>	<u>112,187,132</u>
Noncurrent:			
Receivables, net:			
Property taxes	1,092,002	-	1,092,002
Intergovernmental	2,085,444	-	2,085,444
Capital assets:			
Non-depreciable capital assets	96,372,491	9,616,164	105,988,655
Depreciable assets, net of accumulated depreciation	<u>229,101,756</u>	<u>56,232,110</u>	<u>285,333,866</u>
Total non-current assets	<u>328,651,693</u>	<u>65,848,274</u>	<u>394,499,967</u>
TOTAL ASSETS	422,943,251	83,743,848	506,687,099
Deferred Outflows of Resources			
Related to pensions	13,043,664	726,831	13,770,495
Related to OPEB	<u>25,213,742</u>	<u>433,364</u>	<u>25,647,106</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>38,257,406</u>	<u>1,160,195</u>	<u>39,417,601</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>461,200,657</u>	\$ <u>84,904,043</u>	\$ <u>546,104,700</u>

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TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 6,517,571	\$ 94,034	\$ 6,611,605
Accrued liabilities	6,211,760	55,833	6,267,593
Unearned revenue	1,245,683	-	1,245,683
Refunds payable	371,711	152,109	523,820
Notes payable	35,960,000	360,000	36,320,000
Other liabilities	170,632	-	170,632
Current portion of long-term liabilities:			
Bonds payable	9,843,032	1,145,220	10,988,252
Compensated absences	1,376,227	340,156	1,716,383
Landfill liability	56,415	-	56,415
Total current liabilities	61,753,031	2,147,352	63,900,383
Noncurrent:			
Bonds payable, net of current portion	82,559,466	10,485,761	93,045,227
Net pension liability	74,610,588	4,157,518	78,768,106
Net OPEB liability	65,107,262	1,541,220	66,648,482
Compensated absences, net of current portion	4,128,679	-	4,128,679
Landfill liability, net of current portion	507,738	-	507,738
Total non-current liabilities	226,913,733	16,184,499	243,098,232
TOTAL LIABILITIES	288,666,764	18,331,851	306,998,615
Deferred Inflows of Resources			
Related to pensions	370,603	20,651	391,254
Related to OPEB	13,252,919	313,723	13,566,642
Taxes paid in advance	143,509	-	143,509
TOTAL DEFERRED INFLOWS OF RESOURCES	13,767,031	334,374	14,101,405
Net Position:			
Net investment in capital assets	205,578,639	53,863,167	259,441,806
Restricted for:			
Permanent funds:			
Nonexpendable	160,152	-	160,152
Expendable	2,550,626	-	2,550,626
Grants and by enabling legislation	12,873,567	-	12,873,567
Unrestricted	(62,396,122)	12,374,651	(50,021,471)
TOTAL NET POSITION	158,766,862	66,237,818	225,004,680
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 461,200,657	\$ 84,904,043	\$ 546,104,700

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

TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities:					
General government	\$ 8,477,798	\$ 596,926	\$ 25,853	\$ -	\$ (7,855,019)
Public safety	21,501,159	3,443,807	422,607	-	(17,634,745)
Education	124,661,223	6,829,029	31,264,317	7,344,145	(79,223,732)
Public works	24,706,134	1,510,001	-	-	(23,196,133)
Building design and construction	668,018	160,789	-	-	(507,229)
Health and human services	3,366,677	180,867	577,478	-	(2,608,332)
Culture and recreation	4,256,992	997,706	543,312	-	(2,715,974)
Interest on debt service	2,938,314	-	-	-	(2,938,314)
Intergovernmental	1,389,486	-	-	-	(1,389,486)
Other unallocated costs	2,380,163	-	-	-	(2,380,163)
Total Governmental Activities	194,345,964	13,719,125	32,833,567	7,344,145	(140,449,127)
Business-Type Activities:					
Sewer services	8,239,923	9,004,469	34,374	369,573	1,168,493
Water services	4,689,095	6,447,189	-	340,660	2,098,754
Solid waste services	2,394,823	1,205,419	-	-	(1,189,404)
Total Business-Type Activities	15,323,841	16,657,077	34,374	710,233	2,077,843
Total	\$ 209,669,805	\$ 30,376,202	\$ 32,867,941	\$ 8,054,378	(138,371,284)

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TOWN OF NEEDHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	(140,449,127)	2,077,843	(138,371,284)
General Revenues and Transfers:			
Property taxes	144,181,574	-	144,181,574
Excise taxes	6,131,064	-	6,131,064
Penalties, interest, and other taxes	2,411,973	-	2,411,973
Grants and contributions not restricted to specific programs	2,253,017	-	2,253,017
Investment income	1,781,519	62,738	1,844,257
Miscellaneous	559,787	-	559,787
Total general revenues	<u>157,318,934</u>	<u>62,738</u>	<u>157,381,672</u>
Excess before transfers	16,869,807	2,140,581	19,010,388
Transfers, net	<u>2,458,420</u>	<u>(2,458,420)</u>	<u>-</u>
Change in Net Position	19,328,227	(317,839)	19,010,388
Net Position:			
Beginning of year	<u>139,438,635</u>	<u>66,555,657</u>	<u>205,994,292</u>
End of year	<u>\$ 158,766,862</u>	<u>\$ 66,237,818</u>	<u>\$ 225,004,680</u>

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

TOWN OF NEEDHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	General	Community Preservation	Sunita L. Williams School	Public Safety Building	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and short-term investments	\$ 41,606,429	\$ -	\$ 4,583,142	\$ 7,435,741	\$ 16,024,864	\$ 69,650,176
Investments	9,670,699	7,697,896	-	-	2,712,926	20,081,521
Receivables:						
Property taxes	3,294,447	17,395	-	-	-	3,311,842
Excises	943,373	-	-	-	-	943,373
Departmental	612,668	-	-	-	23,110	635,778
Intergovernmental	2,780,592	-	-	-	391,821	3,172,413
Other	10,476	-	-	-	-	10,476
Deposits	-	-	-	-	182,226	182,226
TOTAL ASSETS	\$ 58,918,684	\$ 7,715,291	\$ 4,583,142	\$ 7,435,741	\$ 19,334,947	\$ 97,987,805
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Warrants and accounts payable	\$ 906,255	\$ 119,294	\$ 1,666,688	\$ 1,315,493	\$ 2,509,840	\$ 6,517,570
Unearned revenue	-	-	-	-	1,245,683	1,245,683
Accrued liabilities	3,174,950	-	-	-	42,009	3,216,959
Anticipation notes payable	-	-	11,100,000	12,000,000	12,860,000	35,960,000
Refunds payable	371,711	-	-	-	-	371,711
Other liabilities	169,017	-	-	-	1,615	170,632
TOTAL LIABILITIES	4,621,933	119,294	12,766,688	13,315,493	16,659,147	47,482,555
Deferred Inflows of Resources:						
Unavailable revenues	7,112,334	17,395	-	-	597,157	7,726,886
Taxes paid in advance	143,509	-	-	-	-	143,509
TOTAL DEFERRED INFLOWS OF RESOURCES	7,255,843	17,395	-	-	597,157	7,870,395
Fund Balances:						
Nonspendable	-	-	-	-	160,152	160,152
Restricted	897,985	7,578,602	-	-	7,994,743	16,471,330
Committed	13,600,723	-	-	-	7,401,706	21,002,429
Assigned	13,139,002	-	-	-	-	13,139,002
Unassigned	19,403,198	-	(8,183,546)	(5,879,752)	(13,477,958)	(8,138,058)
TOTAL FUND BALANCES	47,040,908	7,578,602	(8,183,546)	(5,879,752)	2,078,643	42,634,855
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 58,918,684	\$ 7,715,291	\$ 4,583,142	\$ 7,435,741	\$ 19,334,947	\$ 97,987,805

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, 2019

Total governmental fund balances	\$ 42,634,855
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	325,474,247
Revenues are reported on the accrual basis of accounting and are not deferred until collection.	6,271,887
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.	(560,297)
In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(1,498,307)
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	(74,610,588)
Pension related deferred outflows of resources	13,043,664
Pension related deferred inflows of resources	(370,603)
Net OPEB liability, net of related deferred outflows and inflows	(65,107,262)
OPEB related deferred outflows of resources	25,213,742
OPEB related deferred inflows of resources	(13,252,919)
Bonds and loans payable, net unamortized premiums	(92,402,498)
Compensated absences payable	(5,504,906)
Estimated liability for landfill postclosure care costs	<u>(564,153)</u>
Net position of governmental activities	\$ <u>158,766,862</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, 2019

	<u>General</u>	<u>Community Preservation</u>	<u>Sunita L. Williams School</u>	<u>Public Safety Building</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ 141,476,623	\$ 2,468,833	\$ -	\$ -	\$ -	\$ 143,945,456
Excise taxes	6,138,951	-	-	-	-	6,138,951
Penalties, interest, and other taxes	2,408,784	3,189	-	-	-	2,411,973
Charges for services	1,684,919	-	-	-	7,475,916	9,160,835
Departmental	2,052,584	-	-	-	-	2,052,584
Licenses and permits	2,587,095	-	-	-	-	2,587,095
Intergovernmental	21,724,476	438,305	7,252,591	-	6,405,203	35,820,575
Investment income (loss)	1,223,466	384,021	-	-	174,032	1,781,519
Fines and forfeitures	209,162	-	-	-	-	209,162
Contributions	-	-	-	-	472,767	472,767
Other	356,613	-	-	-	36,589	393,202
Total Revenues	179,862,673	3,294,348	7,252,591	-	14,564,507	204,974,119
Expenditures:						
Current:						
General government	6,830,257	2,115	-	-	109,819	6,942,191
Public safety	20,033,593	-	-	-	354,416	20,388,009
Education	98,145,562	-	-	-	12,271,053	110,416,615
Public works	19,923,360	-	-	-	457,303	20,380,663
Building design and construction	645,481	-	-	-	-	645,481
Health and human services	2,461,346	-	-	-	569,605	3,030,951
Culture and recreation	2,987,961	3,480	-	-	548,663	3,540,104
Employee benefits	790,238	-	-	-	-	790,238
Other	556,798	-	-	-	-	556,798
Capital outlay	-	384,506	27,493,314	5,879,752	29,835,802	63,593,374
Debt service:						
Principal	7,722,526	-	-	-	-	7,722,526
Interest	2,282,765	-	-	-	-	2,282,765
Intergovernmental	1,389,486	-	-	-	-	1,389,486
Total Expenditures	163,769,373	390,101	27,493,314	5,879,752	44,146,661	241,679,201
Excess (deficiency) of revenues over expenditures	16,093,300	2,904,247	(20,240,723)	(5,879,752)	(29,582,154)	(36,705,082)
Other Financing Sources (Uses):						
Issuance of bonds	-	-	18,000,000	-	13,000,000	31,000,000
Bond premium	-	-	1,745,331	-	13,221	1,758,552
Transfers in	2,214,458	-	2,865,000	-	18,050,979	23,130,437
Transfers out	(19,319,938)	(941,494)	-	-	(410,585)	(20,672,017)
Total Other Financing Sources (Uses)	(17,105,480)	(941,494)	22,610,331	-	30,653,615	35,216,972
Net change in fund balances	(1,012,180)	1,962,753	2,369,608	(5,879,752)	1,071,461	(1,488,110)
Fund Balances, at beginning of year, as reclassified	48,053,088	5,615,849	(10,553,154)	-	1,007,182	44,122,965
Fund Balances, at end of year	\$ 47,040,908	\$ 7,578,602	\$ (8,183,546)	\$ (5,879,752)	\$ 2,078,643	\$ 42,634,855

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, 2019

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (1,488,110)
<p>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:</p>	
Capital outlay purchases, net of loss on disposal	63,563,571
Depreciation	(10,880,965)
<p>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.</p>	
	(1,284,808)
<p>The issuance of long-term debt (bonds) 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:</p>	
Bond premium	(1,745,331)
Bond premium amortization	332,853
Issuance of debt	(31,000,000)
Repayments of debt	7,722,526
Amortization of deferred amount on refunding	(195,865)
<p>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</p>	
	(792,537)
<p>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.</p>	
Change in net pension liability and related deferred outflows and inflows of resources	(4,601,832)
Change in net OPEB liability and related deferred outflows and inflows of resources	336,618
Change in compensated absences	320,135
Change in landfill liability	56,415
<p>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.</p>	
	<u>(1,014,443)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 19,328,227</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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		
Revenues:				
Property taxes	\$ 139,925,876	\$ 139,925,876	\$ 141,476,623	\$ 1,550,747
Excise taxes	4,900,000	4,900,000	6,138,951	1,238,951
Penalties, interest, and other taxes	1,635,000	1,635,000	2,408,784	773,784
Charges for services	1,029,010	1,029,010	1,684,919	655,909
Departmental	1,465,990	1,465,990	2,052,584	586,594
Licenses and permits	1,929,106	1,929,106	2,587,095	657,989
Intergovernmental	12,470,984	12,470,984	12,659,472	188,488
Investment income	250,000	250,000	979,649	729,649
Fines and forfeits	122,150	122,150	209,162	87,012
Other revenue	4,000	4,000	356,613	352,613
Total Revenues	163,732,116	163,732,116	170,553,852	6,821,736
Expenditures				
General government	4,764,807	4,825,057	4,618,615	206,442
Land use	554,873	564,283	508,579	55,704
Public safety	15,738,080	15,778,251	15,446,562	331,689
Education	72,020,179	72,020,179	72,001,225	18,954
Public works	16,148,684	16,635,948	16,040,074	595,874
Public facilities	507,856	518,220	289,562	228,658
Community services	4,307,040	4,395,799	4,233,371	162,428
Debt service	14,904,503	14,904,503	14,891,903	12,600
Employee benefits	30,776,911	30,776,911	29,187,748	1,589,163
Other appropriated expenses	3,013,771	2,317,553	625,373	1,692,180
Intergovernmental	1,408,970	1,408,970	1,389,486	19,484
Other amounts provided	12,500	12,500	-	12,500
Total Expenditures	164,158,174	164,158,174	159,232,498	4,925,676
Excess (deficiency) of revenues over expenditures	(426,058)	(426,058)	11,321,354	11,747,412
Other Financing Sources (Uses)				
Transfers in	2,049,558	2,049,558	2,305,981	256,423
Use of free cash for operating budget	2,506,298	2,506,298	-	(2,506,298)
Use of free cash for stabilization	1,590,791	1,590,791	-	(1,590,791)
Use of free cash for capital projects	8,589,289	9,219,289	-	(9,219,289)
Use of free cash for special articles	181,000	181,000	-	(181,000)
Use of bond premium	115,147	115,147	-	(115,147)
Use of overlay surplus for operating budget	335,000	335,000	-	(335,000)
Use of overlay surplus for special articles	665,000	665,000	-	(665,000)
Transfers out	(15,606,025)	(16,236,025)	(16,016,029)	219,996
Total Other Financing Sources (Uses)	426,058	426,058	(13,710,048)	(14,136,106)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (2,388,694)	\$ (2,388,694)

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

TOWN OF NEEDHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities Enterprise Funds			Total	Governmental
	Sewer Fund	Water Fund	Solid Waste Fund		Activities Internal Service Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Assets:					
Current:					
Cash and short-term investments	\$ 5,347,971	\$ 6,296,719	\$ 1,513,598	\$ 13,158,288	\$ 936,196
User fees receivable	<u>2,694,691</u>	<u>1,774,910</u>	<u>267,685</u>	<u>4,737,286</u>	-
Total current assets	8,042,662	8,071,629	1,781,283	17,895,574	936,196
Noncurrent:					
Land and construction in progress	2,350,059	2,240,464	5,025,641	9,616,164	-
Other capital assets, net of accumulated depreciation	<u>22,117,298</u>	<u>31,955,279</u>	<u>2,159,533</u>	<u>56,232,110</u>	-
Total noncurrent assets	<u>24,467,357</u>	<u>34,195,743</u>	<u>7,185,174</u>	<u>65,848,274</u>	-
TOTAL ASSETS	32,510,019	42,267,372	8,966,457	83,743,848	936,196
Deferred Outflows of Resources:					
Related to pensions	216,085	333,949	176,797	726,831	-
Related to OPEB	<u>208,079</u>	<u>225,285</u>	-	<u>433,364</u>	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>424,164</u>	<u>559,234</u>	<u>176,797</u>	<u>1,160,195</u>	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ <u>32,934,183</u>	\$ <u>42,826,606</u>	\$ <u>9,143,254</u>	\$ <u>84,904,043</u>	\$ <u>936,196</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND, NET POSITION					
Liabilities:					
Current:					
Accounts payable	\$ 17,657	\$ 36,275	\$ 40,102	\$ 94,034	\$ -
Accrued payroll	20,642	20,018	15,173	55,833	-
Accrued liabilities	-	-	-	-	1,496,493
Refunds payable	92,639	22,559	36,911	152,109	-
Notes payable	-	360,000	-	360,000	-
Current portion of long-term liabilities:					
Bonds payable	463,614	641,606	40,000	1,145,220	-
Compensated absences	<u>178,748</u>	<u>135,764</u>	<u>25,644</u>	<u>340,156</u>	-
Total current liabilities	773,300	1,216,222	157,830	2,147,352	1,496,493
Noncurrent:					
Bonds payable, net of current portion	4,927,835	5,557,926	-	10,485,761	-
Net pension liability	1,236,019	1,910,211	1,011,288	4,157,518	-
Net OPEB liability	<u>740,014</u>	<u>801,206</u>	-	<u>1,541,220</u>	-
Total noncurrent liabilities	<u>6,903,868</u>	<u>8,269,343</u>	<u>1,011,288</u>	<u>16,184,499</u>	-
TOTAL LIABILITIES	7,677,168	9,485,565	1,169,118	18,331,851	1,496,493
Deferred Inflow of Resources:					
Related to pensions	6,140	9,488	5,023	20,651	-
Related to OPEB	<u>150,633</u>	<u>163,090</u>	-	<u>313,723</u>	-
TOTAL DEFERRED INFLOW OF RESOURCES	<u>156,773</u>	<u>172,578</u>	<u>5,023</u>	<u>334,374</u>	-
Net Position:					
Net investment in capital assets	19,075,906	27,642,087	7,145,174	53,863,167	-
Unrestricted	<u>6,024,336</u>	<u>5,526,376</u>	<u>823,939</u>	<u>12,374,651</u>	<u>(560,297)</u>
TOTAL NET POSITION	<u>25,100,242</u>	<u>33,168,463</u>	<u>7,969,113</u>	<u>66,237,818</u>	<u>(560,297)</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ <u>32,934,183</u>	\$ <u>42,826,606</u>	\$ <u>9,143,254</u>	\$ <u>84,904,043</u>	\$ <u>936,196</u>

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, 2019

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 9,004,469	\$ 6,441,669	\$ 1,205,419	\$ 16,651,557	\$ -
Other	-	5,520	-	5,520	562,738
Total Operating Revenues	9,004,469	6,447,189	1,205,419	16,657,077	562,738
Operating Expenses:					
Personnel services	662,714	1,291,023	716,108	2,669,845	1,577,181
Non-personnel services	372,037	1,055,827	1,281,068	2,708,932	-
Depreciation	895,147	1,323,127	393,835	2,612,109	-
Intergovernmental assessments	6,173,219	856,049	-	7,029,268	-
Total Operating Expenses	8,103,117	4,526,026	2,391,011	15,020,154	1,577,181
Operating Income (Loss)	901,352	1,921,163	(1,185,592)	1,636,923	(1,014,443)
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	34,374	-	-	34,374	-
Investment income	27,735	30,329	4,674	62,738	-
Other revenue	-	-	-	-	-
Interest expense	(136,806)	(163,069)	(3,812)	(303,687)	-
Total Nonoperating Revenues (Expenses), Net	(74,697)	(132,740)	862	(206,575)	-
Income (Loss) Before Contributions and Transfers	826,655	1,788,423	(1,184,730)	1,430,348	(1,014,443)
Capital contributions	369,573	340,660	-	710,233	-
Transfers in	724,750	68,000	1,772,602	2,565,352	-
Transfers out	(1,635,071)	(2,945,743)	(442,958)	(5,023,772)	-
Change in Net Position	285,907	(748,660)	144,914	(317,839)	(1,014,443)
Net Position at Beginning of Year	24,814,335	33,917,123	7,824,199	66,555,657	454,146
Net Position at End of Year	\$ 25,100,242	\$ 33,168,463	\$ 7,969,113	\$ 66,237,818	\$ (560,297)

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, 2019

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Solid Waste Fund	Total	Internal Service Fund
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 8,844,813	\$ 6,710,899	\$ 1,049,457	\$ 16,605,169	\$ -
Employer contributions	-	-	-	-	562,738
Payments of utility assessments	(6,173,219)	(856,049)	-	(7,029,268)	-
Payments to vendors and contractors	(389,051)	(1,049,213)	(1,485,633)	(2,923,897)	-
Payments of employee salaries, benefits, and related expenses	(928,986)	(1,258,819)	(737,361)	(2,925,166)	(1,091,453)
Net Cash Provided By (Used For) Operating Activities	1,353,557	3,546,818	(1,173,537)	3,726,838	(528,715)
Cash Flows From Noncapital Financing Activities:					
Operating grants received	34,374	-	-	34,374	-
Transfers from other funds	724,750	68,000	1,772,603	2,565,353	-
Transfers to other funds	(1,635,071)	(2,945,743)	(442,958)	(5,023,772)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(875,947)	(2,877,743)	1,329,645	(2,424,045)	-
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(1,029,474)	(2,216,836)	(649,925)	(3,896,235)	-
Proceeds of notes	-	360,000	-	360,000	-
Principal payments on bonds and loans	(842,507)	(1,153,848)	(55,000)	(2,051,355)	-
Paydowns of notes	-	-	(5,000)	(5,000)	-
Interest expense	(136,806)	(163,069)	(3,812)	(303,687)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,008,787)	(3,173,753)	(713,737)	(5,896,277)	-
Cash Flows From Investing Activities:					
Investment income	27,735	30,329	4,674	62,738	-
Net Cash Provided By Investing Activities	27,735	30,329	4,674	62,738	-
Net Change in Cash and Short-Term Investments	(1,503,442)	(2,474,349)	(552,955)	(4,530,746)	(528,715)
Cash and Short-Term Investments, Beginning of Year	6,851,413	8,771,068	2,066,553	17,689,034	1,464,911
Cash and Short-Term Investments, End of Year	\$ 5,347,971	\$ 6,296,719	\$ 1,513,598	\$ 13,158,288	\$ 936,196
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:					
Operating income (loss)	\$ 901,352	\$ 1,921,163	\$ (1,185,592)	\$ 1,636,923	\$ (1,014,443)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Loss on disposal of an asset	-	-	-	-	-
Depreciation	895,147	1,323,127	393,835	2,612,109	-
Changes in assets, liabilities, and deferred outflows/inflows:					
User fees	(153,394)	264,235	36,200	147,041	-
Deferred outflows - related to pensions	(8,402)	(81,041)	(28,601)	(118,044)	-
Deferred outflows - related to OPEB	(208,079)	(208,079)	-	(416,158)	-
Accounts payable	(17,015)	6,614	(204,565)	(214,966)	-
Accrued liabilities	157	(678)	973	452	485,728
Refunds payable	(6,261)	(525)	(192,162)	(198,948)	-
Compensated absences	13,403	4,530	(11,421)	6,512	-
Net pension liability	78,963	367,470	111,356	557,789	-
Net OPEB liability	(87,829)	25,599	-	(62,230)	-
Deferred inflows - related to pensions	(205,118)	(226,230)	(93,560)	(524,908)	-
Deferred inflows - related to OPEB	150,633	150,633	-	301,266	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,353,557	\$ 3,546,818	\$ (1,173,537)	\$ 3,726,838	\$ (528,715)

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

TOWN OF NEEDHAM, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	Pension Trust Fund (As of <u>December 31, 2018</u>)	Other Post- Employment Benefit <u>Trust Fund</u>	Private Purpose Trust <u>Fund</u>	Agency <u>Funds</u>
ASSETS				
Cash and short-term investments	\$ 3,997,043	\$ 645,867	\$ -	\$ 1,077,967
Investments:				
PRIT - external investment pool	154,662,006	-	-	-
SRBT - external investment pool	-	37,691,254	-	-
Other	-	-	5,385,950	-
Receivables	<u>83,584</u>	<u>-</u>	<u>-</u>	<u>244,066</u>
TOTAL ASSETS	\$ <u>158,742,633</u>	\$ <u>38,337,121</u>	\$ <u>5,385,950</u>	\$ <u>1,322,033</u>
 LIABILITIES AND NET POSITION				
Liabilities:				
Accounts payable	\$ 13,515	\$ -	\$ 9,000	\$ 12,142
Accrued liabilities	-	-	-	42,088
Refunds payable	-	-	-	20,166
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,247,637</u>
TOTAL LIABILITIES	<u>13,515</u>	<u>-</u>	<u>9,000</u>	<u>1,322,033</u>
Net Position:				
Total net position restricted for pension, other post employment benefits, and other purposes	<u>158,729,118</u>	<u>38,337,121</u>	<u>5,376,950</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>158,742,633</u>	\$ <u>38,337,121</u>	\$ <u>5,385,950</u>	\$ <u>1,322,033</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, 2019

	Pension Trust Fund (For the Year Ended <u>December 31, 2018</u>)	Other Post- Employment Benefit <u>Trust Fund</u>	Private Purpose <u>Trust Fund</u>
Additions:			
Contributions:			
Employers	\$ 7,934,482	\$ 7,800,967	\$ -
Plan members	4,057,100	-	-
Other	<u>237,246</u>	<u>-</u>	<u>45,417</u>
Total contributions	12,228,828	7,800,967	45,417
Investment Income:			
Earnings and change in fair value of investments	(2,859,697)	1,831,609	336,732
Less: management fees	<u>(846,786)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>(3,706,483)</u>	<u>1,831,609</u>	<u>336,732</u>
Total additions	8,522,345	9,632,576	382,149
Deductions:			
Benefit payments to plan members and beneficiaries	13,350,840	4,174,262	-
Refunds to plan members	288,248	-	-
Administrative expenses	328,142	-	-
Other	<u>209,137</u>	<u>-</u>	<u>135,406</u>
Total deductions	<u>14,176,367</u>	<u>4,174,262</u>	<u>135,406</u>
Net increase (decrease)	(5,654,022)	5,458,314	246,743
Net position restricted for pensions and other purposes:			
Beginning of year	<u>164,383,140</u>	<u>32,878,807</u>	<u>5,130,207</u>
End of year	<u>\$ 158,729,118</u>	<u>\$ 38,337,121</u>	<u>\$ 5,376,950</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 Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the Town and applicable component units for which the Town is considered to be financially accountable.

Component unit fiduciary in nature: The Needham Contributory Retirement System (the 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 Town 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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* was adopted on November 2, 2004 by a state-wide act enabling legislation to allow Cities and Towns to choose to create a new funding source that can be used to address three core community concerns:
 - Acquisition and preservation of open space
 - Creation and support of affordable housing
 - Acquisition and preservation of historic buildings and landscapes
- The *Sunita L. Williams School Fund* was created in accordance with Article 2 of the October 2016 Special Town Meeting for the construction of the new elementary school. Expenditures in the current year result mainly from the architectural and engineering costs. This fund specifically excludes land acquisition costs associated with the project.
- The *Public Safety Building Fund* was created in accordance with Article 10 of the October 2018 Annual Town Meeting for the construction and reconstruction of the building and Fire Station #2. Expenditures in the current year result mainly from the architectural and engineering costs as well as general construction costs.

The proprietary fund financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 Town 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The Pension Trust Fund accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The Other Post-Employment Benefits Trust Fund is used to accumulate resources for health and life insurance benefits for retired employees.
- The Private-Purpose Trust Fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The Agency Funds 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. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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.

The Town reports its investment in Massachusetts Municipal Depository Trust (MMDT), an external investment pool overseen by the Treasurer of the Commonwealth of Massachusetts, at amortized cost per GASB 79.

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 three years 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 in the OPEB Trust Fund are maintained at the Massachusetts State Retiree Trust Fund. Investments for the Contributory Retirement System are maintained at the Massachusetts Pension Reserve Investment Trust Fund.

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 2019 tax levy reflected an excess capacity of \$1,528,768.

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 Town 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 acquisition value.

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/deferred outflows and current liabilities/deferred inflows. 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 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 Town (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 represent the residual classification for the general fund and include all amounts not contained in other classifications. Unassigned

amounts are available for any purpose. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Positive unassigned amounts are reported only in the general fund.

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

Net 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)	\$ 179,862,673	\$ 163,769,373
Other financing sources/uses (GAAP Basis)	<u>2,214,458</u>	<u>19,319,938</u>
Subtotal (GAAP Basis)	182,077,131	183,089,311
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,790,500)
Add end-of-year appropriation carryforwards from expenditures	-	2,418,634
Add transfer to special article fund	-	1,424,300
To reverse gross up for MTRS on behalf payment	(9,056,616)	(9,056,616)
Less nonbudgeted funds	(152,294)	171,786
Less MWPAT subsidy	<u>(8,388)</u>	<u>(8,388)</u>
Budgetary Basis	<u>\$ 172,859,833</u>	<u>\$ 175,248,527</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, 2019:

A 2 STM 10/16 Sunita L. Williams School	\$ 8,183,546
Public Safety Buildings Construction	5,879,752
Nonmajor Governmental Funds:	
Special Revenue Funds:	
Other	13,850
Capital Project Funds	
Rosemary Recreation Complex	3,870,598
NHS Expansion Construction	4,056,238
Public Safety Design	3,402,056
Memorial Park Building	1,994,038
Other Deficit Funds	<u>141,179</u>
Subtotal Nonmajor Governmental Funds	<u>13,477,959</u>
Fiduciary Funds:	
Fire outside detail	72,132
Police outside detail	67,675
Needham retirement board	<u>15,804</u>
Subtotal Fiduciary Funds	<u>155,611</u>
Total	<u><u>\$ 27,696,868</u></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 Retirement System does not have a deposit policy for custodial credit risk.

As of June 30, 2019, the Town had the following cash and short term investments:

Insured by FDIC	\$ 6,551,904
Insured by DIF	7,435,177
Insured by SIF	4,417,699
Collateralized	51,756,672
Held by counterparty or counterparty's agent in the Town's name	2,774,099
Held in state pool (MMDT), not subject to disclosure	8,289,504
Exposed to custodial credit risk	<u>6,808,347</u>
Total	<u>\$ 88,033,402</u>

As of June 30, 2019, the OPEB Plan had short term investments of \$913,518 in a money market account held by the counterparty's agent in the Town's name.

As of December 31, 2018, the Retirement System's bank balance of \$3,929,858 represented deposits of \$5,584 insured by FDIC, \$1,978,160 invested in state pool (MMDT) and \$230,579 invested in Pension Reserves Investment Trust (PRIT). The MMDT Cash Portfolio is an external state investment pool and is not SEC-registered. The fund is State-regulated and is valued at amortized cost. PRIT Cash Fund III is measured at fair value and maintains a stable net position value of \$1.00 per unit (NAV) with daily redemption frequency. Amounts invested in the state pools are not subject to custodial credit risk disclosure.

4. Investments

Town

The following is a summary of the Town's investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Federal agency securities	\$ 6,765,810
US treasury notes	4,155,532
Corporate bonds	1,980,186
Fixed income mutual funds	1,311,779
Corporate equities	4,599,555
Equity mutual funds	2,929,004
Certificates of deposits	<u>3,725,605</u>
Total investments	<u>\$ 25,467,471</u>

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). Effective November 7, 2016, legislation (referred to as the Municipal Modernization Act) expanded the listing of legal investments and now permits most investments to have a maturity date from date of purchase of up to 3 years.

Presented below is the actual rating as of year-end for debt related investments of the Town. All federal agency securities and US treasury notes have an implied credit rating of AAA.

<u>Investment Type</u>	<u>Ratings as of Year End</u>				
	<u>Fair Value</u>	<u>Aaa-A3</u>	<u>Baa1-B3</u>	<u>Caa-C3</u>	<u>Other/Unrated</u>
Corporate bonds	\$ 1,980,186	\$ 1,327,817	\$ 652,369	\$ -	\$ -
Fixed income mutual funds	1,311,779	1,076,281	153,215	2,479	79,804
Total	<u>\$ 3,291,965</u>	<u>\$ 2,404,098</u>	<u>\$ 805,584</u>	<u>\$ 2,479</u>	<u>\$ 79,804</u>

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, the Town 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.

As of June 30, 2019, the Town had the following investments:

Insured by FDIC	\$ 500,000
Insured by DIF	422,413
Collateralized	7,534,362
Held by counterparty or counterparty's agent in the Town's name	15,204,102
Exposed to custodial credit risk	<u>1,806,594</u>
Total	<u>\$ 25,467,471</u>

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 Town 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.

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>Average Effective Duration (in years)</u>
Debt related:		
Federal agency securities	\$ 6,765,810	2.77
US treasury notes	4,155,532	2.13
Corporate bonds	1,980,186	1.72
Fixed income mutual funds	<u>1,311,779</u>	6.19
Total debt securities	<u>\$ 14,213,307</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.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by *Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72)*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

(level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Town's and OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

The Town has the following fair value measurements as of June 30, 2019:

Description	Fair Value Measurements Using:			
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments by fair value level:				
Debt securities:				
Federal agency securities	\$ 6,765,810	\$ -	\$ 6,765,810	\$ -
US treasury notes	4,155,532	-	4,155,532	-
Corporate bonds	1,980,186	-	1,980,186	-
Fixed income mutual funds	1,311,779	-	1,311,779	-
Equity securities				
Consumer discretionary	836,428	836,428	-	-
Consumer cyclical	98,111	98,111	-	-
Utilities	501,550	501,550	-	-
Information technology	448,243	448,243	-	-
Healthcare	855,567	855,567	-	-
Industrials	332,982	332,982	-	-
Financials	163,266	163,266	-	-
Consumer staples	282,592	282,592	-	-
Materials	311,871	311,871	-	-
Other	768,945	768,945	-	-
Equity mutual funds	2,929,004	2,929,004	-	-
Subtotal	<u>21,741,866</u>	<u>\$ 7,528,559</u>	<u>\$ 14,213,307</u>	<u>\$ -</u>

OPEB Plan

A. Credit Risk

At June 30, 2019, the OPEB Plan maintained its investments in State Retiree Trust Fund (SRBT) with a fair value of \$37,691,254, same as the value of the pool share. The SRBT fund is an external investment pool that is not registered with the Securities Exchange Commission. This investment type is not rated. SBRT was created under Massachusetts General Law (MGL), Chapter 32A, Section 24. SBRT assets are invested by the PRIT Fund.

B. Custodial Credit Risk

All OPEB Plan's investments were held in the SBRT, pooled investment fund not subject to custodial credit risk disclosure.

C. Concentration of Credit Risk

MGL limits the amount that may be invested in any one issuer or security type, with the exception of the PRIT fund. All of the OPEB Plan's investments were held in SBRT, invested by the PRIT fund.

D. Fair Value

Investments held in SBRT are valued at net asset value (NAV). There were no unfunded commitments. The redemption frequency is monthly with a 30-day redemption notice period.

Retirement System

A. Credit Risk

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, 2018, the System maintained its investments in PRIT with a fair value of \$154,662,006, same as the value of the pool share. The PRIT fund is an external investment pool that is not registered with the Securities Exchange Commission. This investment type is not rated. PRIT Fund issues separately available financial statements with a year end of June 30. PRIT was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. PRIT is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board (PRIM). PRIM chooses 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

As of December 31, 2018, the System's investments of \$154,662,006 were held in the State investment pool (PRIT) and are not subject to custodial credit risk disclosure.

C. Concentration of Credit Risk

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.

D. Fair Value

Investments held in PRIT are valued at net asset value (NAV). There were no unfunded commitments. The redemption frequency is monthly with a 30-day redemption notice period.

The System values its investments in good faith at the System’s pro-rata interest in PRIT based upon audited financial statements or other information provided to the Plan by the underlying investment manager (PRIM). The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

5. Accounts Receivable

A. Property Taxes and Excises Receivable

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.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes receivable at June 30, 2019 consist of the following (in thousands):

<u>Receivables:</u>	<u>Gross Amount (fund basis)</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount (accrual basis)</u>
Real estate taxes	\$ 956,950	\$ -	\$ 956,950
Personal property taxes	876,824	(660,000)	216,824
Tax liens	955,161	-	955,161
Deferred taxes	505,512	-	505,512
CPA	<u>17,395</u>	<u>-</u>	<u>17,395</u>
Total property taxes	3,311,842	(660,000)	2,651,842
Motor vehicle excise	<u>943,373</u>	<u>(563,000)</u>	<u>380,373</u>
Grand total	<u>\$ 4,255,215</u>	<u>\$ (1,223,000)</u>	<u>\$ 3,032,215</u>

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

B. Departmental

Departmental receivables primarily comprise ambulance receivables. Departmental receivables in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts of \$232,000.

C. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019 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 2019:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,214,458	\$ 19,319,938
Community Preservation Fund	-	941,494
Sunita L. Williams School	2,865,000	-
Nonmajor Funds:		
Special Revenue Funds:		
Town grants	4	30,266
School grants	-	1,267
Trust funds	-	14,208
Other special revenue funds	26,686	5
Capital Project Funds:		
Mitchell School Modular	1,980,000	-
Memorial Park Building	3,332,000	-
Public Works Storage Facility	4,112,000	-
Public Works Infrastructure Program	1,523,500	-
Other capital project funds	<u>7,076,789</u>	<u>364,839</u>
Subtotal Nonmajor Funds	18,050,979	410,585
<u>Business-Type Funds:</u>		
Sewer Fund	724,750	1,635,071
Water Fund	68,000	2,945,743
Solid Waste Fund	<u>1,772,602</u>	<u>442,958</u>
Subtotal Business-Type Funds:	<u>2,565,352</u>	<u>5,023,772</u>
Grand Total	\$ <u>25,695,789</u>	\$ <u>25,695,789</u>

Of the transfers out from the sewer, water, and solid waste funds, \$1,608,064 was transferred to the general fund to reimburse indirect costs. The balance represent the sewer and water funds' contribution to the Public Works Infrastructure and Storage Facility capital projects.

The majority of the transfers from the general fund into the enterprise funds represents a subsidy to the solid waste of \$1,772,603 and funds to cover sewer fund storm water expenses funded by general revenues. Most of the transfers out of the general fund represent the Town's practice of using free cash and overlay surplus to the various major and non-major capital project funds.

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, 2019 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 240,637	\$ 34,195	\$	\$ 274,832
Machinery, equipment, and furnishings	13,117	3,242	(345)	16,014
Vehicles	7,701	497	(488)	7,710
Infrastructure	<u>39,379</u>	<u>7,586</u>	<u></u>	<u>46,965</u>
Total capital assets, being depreciated	300,834	45,520	(833)	345,521
Less accumulated depreciation for:				
Buildings and improvements	(67,314)	(7,277)		(74,591)
Machinery, equipment, and furnishings	(11,172)	(1,200)	345	(12,027)
Vehicles	(5,801)	(805)	488	(6,118)
Infrastructure	<u>(22,084)</u>	<u>(1,599)</u>	<u></u>	<u>(23,683)</u>
Total accumulated depreciation	<u>(106,371)</u>	<u>(10,881)</u>	<u>833</u>	<u>(116,419)</u>
Total capital assets, being depreciated, net	194,463	34,639	-	229,102
Capital assets, not being depreciated:				
Land	32,348	-	-	32,348
Works of art	120	-	-	120
Construction in progress	<u>45,861</u>	<u>45,540</u>	<u>(27,497)</u>	<u>63,904</u>
Total capital assets, not being depreciated	<u>78,329</u>	<u>45,540</u>	<u>(27,497)</u>	<u>96,372</u>
Governmental activities capital assets, net	<u>\$ 272,792</u>	<u>\$ 80,179</u>	<u>\$ (27,497)</u>	<u>\$ 325,474</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,948	\$ 614	\$ (44)	\$ 22,518
Plant	6,600	-	-	6,600
Machinery, equipment, and furnishings	5,336	537	(137)	5,736
Vehicles	1,690	266	(193)	1,763
Infrastructure	<u>76,519</u>	<u>2,794</u>	<u>-</u>	<u>79,313</u>
Total capital assets, being depreciated	112,093	4,211	(374)	115,930
Less accumulated depreciation for:				
Buildings and improvements	(5,728)	(517)	44	(6,201)
Plant	(3,815)	(214)	-	(4,029)
Machinery, equipment, and furnishings	(3,876)	(433)	137	(4,172)
Vehicles	(1,626)	(52)	193	(1,485)
Infrastructure	<u>(42,415)</u>	<u>(1,396)</u>	<u>-</u>	<u>(43,811)</u>
Total accumulated depreciation	<u>(57,460)</u>	<u>(2,612)</u>	<u>374</u>	<u>(59,698)</u>
Total capital assets, being depreciated, net	54,633	1,599	-	56,232
Capital assets, not being depreciated:				
Land	5,275	-	-	5,275
Construction in progress	<u>3,946</u>	<u>2,763</u>	<u>(2,368)</u>	<u>4,341</u>
Total capital assets, not being depreciated	<u>9,221</u>	<u>2,763</u>	<u>(2,368)</u>	<u>9,616</u>
Business-type activities capital assets, net	<u>\$ 63,854</u>	<u>\$ 4,362</u>	<u>\$ (2,368)</u>	<u>\$ 65,848</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 1,494,497
Public safety	524,107
Education	5,486,450
Public works	2,549,691
Building design and construction	41,609
Health and human services	216,630
Culture and recreation	<u>567,982</u>
Total depreciation expense - governmental activities	<u>\$ 10,880,966</u>
Business-Type Activities:	
Sewer	\$ 895,147
Water	1,323,127
Solid waste	<u>393,835</u>
Total depreciation expense - business-type activities	<u>\$ 2,612,109</u>

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

9. Warrants and Accounts Payable

Warrants and accounts payable represent 2019 expenditures paid after June 30, 2019.

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. Notes Payable

The Town had the following notes outstanding at June 30, 2019:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/19</u>
Bond anticipation	2.00%	06/27/19	10/01/19	\$ 34,820,000 *
Bond anticipation	1.70%	08/01/18	07/15/19	<u>1,500,000</u>
Total				<u>\$ 36,320,000</u>

*See Note 23.

The following summarizes activity in notes payable during fiscal year 2019:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Sunita L. Williams (Hillside) School	\$ 16,150,000	\$ 11,100,000	\$ (16,150,000)	\$ 11,100,000
Central Ave/Elliot Street Bridge Construction	320,000	-	(320,000)	-
Rosemary Recreation Complex	7,000,000	3,885,000	(7,000,000)	3,885,000
Needham High Expansion	7,010,000	3,625,000	(7,010,000)	3,625,000
Public Safety Building	1,500,000	15,500,000	(1,500,000)	15,500,000
RTS Fleet Replacement	5,000	-	(5,000)	-
Memorial Park Building	-	1,850,000	-	1,850,000
Water System Rehabilitation	-	295,000	-	295,000
Water Distribution System	-	65,000	-	65,000
Total	<u>\$ 31,985,000</u>	<u>\$ 36,320,000</u>	<u>\$ (31,985,000)</u>	<u>\$ 36,320,000</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:

	Original	Interest	Date of	Date of	Amount
	Amount	Rate(s) %	Issue	Maturity	Outstanding as of 6/30/19
MA Water Pollution Abatement Trust	\$ 85,894	Various	05/01/01	01/01/20	\$ 4,724
MA Water Pollution Abatement Trust	496,276	Various	11/01/04	01/01/20	27,802
High School	6,842,000	2.94	06/01/09	06/01/28	1,705,000
Municipal Purpose FY 2009	15,815,000	2.00 - 4.00	12/15/09	08/01/28	7,850,000
Municipal Purpose FY 2010	4,000,000	2.00 - 3.00	06/15/10	12/01/24	700,000
Town Hall and Newman School	11,750,000	2.00 - 5.00	05/19/11	10/01/28	4,700,000
Town Hall, Parking and Bridge	2,460,000	2.00 - 3.125	10/05/11	08/01/26	1,065,000
GOB - Refunding FY2012	10,995,000	2.00 - 4.00	06/06/12	11/01/23	4,020,000
Municipal Purpose FY 2013	12,244,000	2.00 - 4.00	10/03/12	07/15/32	7,280,000
Municipal Purpose FY 2013	5,945,000	2.00 - 4.00	06/18/13	11/01/32	3,990,000
Municipal Purpose FY 2014	6,085,000	3.00 - 4.00	12/02/13	07/15/33	3,985,000
Municipal Purpose FY 2014	5,032,000	2.00 - 2.50	06/02/14	05/15/34	2,670,000
Municipal Purpose FY 2015	13,425,000	2.00 - 4.00	04/01/15	11/15/33	8,080,000
High School, High Rock and Pollard Schools	6,645,000	2.00 - 4.00	06/16/16	08/01/27	6,505,000
Municipal Purpose FY 2017	10,945,000	3.00 - 4.00	01/05/17	01/15/42	8,820,000
Municipal Purpose FY 2018	31,000,000	3.00 - 4.00	07/17/18	07/15/38	31,000,000
MA Water Pollution Abatement Trust	765,335	2.00	06/01/12	07/15/30	516,393
MA Water Pollution Abatement Trust	9,055,822	2.00	05/22/13	01/15/33	4,487,812
Water System Rehab	2,310,813	3.00 - 4.00	05/11/17	01/15/28	2,061,777
Total Business-Type Activities					\$ <u>99,468,508</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 9,502,526	\$ 3,706,123	\$ 13,208,649
2021	8,185,000	2,769,313	10,954,313
2022	7,855,000	2,448,647	10,303,647
2023	7,140,000	2,155,813	9,295,813
2024	7,030,000	1,877,806	8,907,806
2025 - 2029	24,765,000	6,042,672	30,807,672
2030 - 2034	12,610,000	2,778,794	15,388,794
2035 - 2039	6,400,000	1,293,844	7,693,844
2040 - 2044	4,350,000	371,950	4,721,950
Total	\$ <u>87,837,526</u>	\$ <u>23,444,962</u>	\$ <u>111,282,488</u>

<u>Business-Type</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 580,000	\$ 145,888	\$ 725,888
2021	490,000	125,888	615,888
2022	490,000	108,900	598,900
2023	485,000	91,894	576,894
2024	300,000	78,600	378,600
2025 - 2029	1,285,000	258,875	1,543,875
2030 - 2034	<u>935,000</u>	<u>84,175</u>	<u>1,019,175</u>
Total	\$ <u>4,565,000</u>	\$ <u>894,220</u>	\$ <u>5,459,220</u>

<u>Business-Type</u>	<u>MCWT Direct Borrowings</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 565,220	\$ 99,699	\$ 664,919
2021	572,028	93,368	665,396
2022	578,985	86,900	665,885
2023	586,091	80,293	666,384
2024	557,439	73,544	630,983
2025 - 2029	2,688,547	261,282	2,949,829
2030 - 2034	<u>1,517,672</u>	<u>73,812</u>	<u>1,591,484</u>
Total	\$ <u>7,065,982</u>	\$ <u>768,898</u>	\$ <u>7,834,880</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2019 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 2015	Water System Rehabilitation	\$ 307,000
October 2017	Sunita L. Williams School	24,723,956
October 2017	NHS Expansion Construction	4,175,000
October 2017	Public Safety Buildings Design	3,750,000
May 2017	NHS Expansion Design	50,000
May 2017	Rosemary Recreation Complex	4,000,000
May 2017	Wastewater Pump Station Rehabilitation	53,550
May 2017	Water Distribution Improvements	100,735
May 2018	RTS Property Repairs	645,000
May 2018	Memorial Park Building	2,918,000
May 2018	Public Works Infrastructure Program	250,000
May 2018	Public Works Storage Facility	3,503,000
May 2018	Public Safety Buildings Construction	<u>66,245,000</u>
	Total	<u>\$ 110,721,241</u>

E. Changes in General Long-term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/18</u>	Additions	Reductions	Total Balance <u>6/30/19</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/19</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 64,560	\$ 31,000	\$ (7,722)	\$ 87,838	\$ (9,503)	\$ 78,335
Unamortized bond premium	<u>3,152</u>	<u>1,745</u>	<u>(333)</u>	<u>4,564</u>	<u>(340)</u>	<u>4,224</u>
Subtotal bonds payable	67,712	32,745	(8,055)	92,402	(9,843)	82,559
Other:						
Net pension liability	60,681	13,930	-	74,611	-	74,611
Net OPEB liability	55,114	9,993	-	65,107	-	65,107
Accrued employee benefits	5,825	-	(320)	5,505	(1,376)	4,129
Landfill closure	<u>621</u>	<u>-</u>	<u>(57)</u>	<u>564</u>	<u>(56)</u>	<u>508</u>
Totals	<u>\$ 189,953</u>	<u>\$ 56,668</u>	<u>\$ (8,432)</u>	<u>\$ 238,189</u>	<u>\$ (11,275)</u>	<u>\$ 226,914</u>

	Total Balance <u>7/1/18</u>	Additions	Reductions	Total Balance <u>6/30/19</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/19</u>
<u>Business-Type Activities</u>						
Bonds and loans payable	\$ 13,683	\$ -	\$ (2,052)	\$ 11,631	\$ (1,145)	\$ 10,486
Other:						
Net pension liability	3,600	558	-	4,158	-	4,158
Net OPEB liability	1,604	-	(63)	1,541	-	1,541
Accrued employee benefits	<u>334</u>	<u>6</u>	<u>-</u>	<u>340</u>	<u>(340)</u>	<u>-</u>
Totals	<u>\$ 19,221</u>	<u>\$ 564</u>	<u>\$ (2,115)</u>	<u>\$ 17,670</u>	<u>\$ (1,485)</u>	<u>\$ 16,185</u>

F. Prior Year Refundings

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2019, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$18,535,000.

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 \$564,153 reported as postclosure care liability at June 30, 2019 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 2019. 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 Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other one which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes.

The balance of the General Fund *unavailable revenues* account is equal to the total of all June 30, 2019 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

16. 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, 2019:

Nonspendable - This fund balance classification represents nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - This fund balance classification includes general fund encumbrances funded by bond issuances, community preservation funds, various special revenue funds, and the income portion of permanent trust funds.

Committed - This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, and capital project funds funded by cash capital.

Assigned - 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, 2019:

	General Fund	Community Preservation Fund	Sunita L. Williams School	Public Safety Building	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Permanent funds	\$ -	\$ -	\$ -	\$ -	\$ 160,152	\$ 160,152
Total Nonspendable	-	-	-	-	160,152	160,152
Restricted						
Debt service	897,985	-	-	-	674,390	\$ 1,572,375
Community preservation	-	7,578,602	-	-	-	7,578,602
Bonded projects	-	-	-	-	763,704	763,704
Special revenue funds:						
Expendable trust funds	-	-	-	-	2,550,626	2,550,626
School lunch	-	-	-	-	555,356	555,356
RRFA - parking meter fund	-	-	-	-	379,224	379,224
Insurance loss replacement	-	-	-	-	203,605	203,605
Facility activity use	-	-	-	-	309,372	309,372
Parks and recreation revolving	-	-	-	-	317,770	317,770
Other special revenue funds	-	-	-	-	2,240,695	2,240,695
Total Restricted	897,985	7,578,602	-	-	7,994,742	16,471,329
Committed						
Continuing appropriations articles	1,610,524	-	-	-	-	1,610,524
Compensated absences	204,995	-	-	-	-	204,995
General stabilization	4,187,516	-	-	-	-	4,187,516
Capital improvement stabilization	910,577	-	-	-	-	910,577
Capital facility stabilization	1,886,376	-	-	-	-	1,886,376
Athletic facility stabilization	2,686,229	-	-	-	-	2,686,229
Debt service stabilization	2,114,506	-	-	-	-	2,114,506
Capital projects	-	-	-	-	7,401,706	7,401,706
Total Committed	13,600,723	-	-	-	7,401,706	21,002,429
Assigned						
Encumbrances	2,418,631	-	-	-	-	2,418,631
For next year's expenditures	10,720,371	-	-	-	-	10,720,371
Total Assigned	13,139,002	-	-	-	-	13,139,002
Unassigned						
	19,403,198	-	(8,183,546)	(5,879,752)	(13,477,959)	(8,138,059)
Total Fund Balance	\$ 47,040,908	\$ 7,578,602	\$ (8,183,546)	\$ (5,879,752)	\$ 2,078,641	\$ 42,634,853

Stabilization Fund Arrangements:

In accordance with Massachusetts General Law, Section 5B of Chapter 40, as amended by Section 22 of Chapter 218 of the Acts of 2016, the Town maintains five stabilization funds. Per Chapter 218, balances in the stabilization funds can be expended only upon appropriation at Town Meeting. Additionally, transfers to the stabilization funds are required to be approved at Town Meeting. The Town maintains the following stabilization funds:

- General stabilization – established around 1970, for general purposes.

- Capital improvement stabilization – established in May 2004, to reserve funds for the acquisition of new equipment, and/or the replacement of existing equipment (in both cases relating to equipment for which the Town may borrow for 5 years, or more), and/or for building/facility improvements with a cost of less than \$250,000.
- Capital facility stabilization – established in May 2007, to reserve funds for design, maintenance, renovation or reconstruction relating to the structural integrity of the capital facilities.
- Athletic facility stabilization – established in May 2012, to reserve funds for the renovation and reconstruction of the Town’s athletic facilities.
- Debt service stabilization – established in November 2015, to reserve funds to pay certain debt obligations, when necessary. The fund is intended to be part of the Town’s overall planning strategy for addressing capital facility needs.

17. 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.

18. 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 publicly available from the System located at 1471 Highland Avenue, Needham, Massachusetts 02492.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, 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. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily

withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants 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 on or 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

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, 2019 was \$7,809,911, which was equal to its annual required contribution.

B. 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.

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

At June 30, 2019, the Town reported a liability of \$78,768,106 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the Town's proportion was 98.43% percent.

For the year ended June 30, 2019, the Town recognized pension expense of \$12,461,811. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 506,127	\$ (359,058)
Changes of assumptions	6,786,209	-
Changes in proportion	72,003	(32,196)
Net difference between projected and actual earnings on pension plan investments	<u>6,406,156</u>	<u>-</u>
Total	<u>\$ 13,770,495</u>	<u>\$ (391,254)</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:	Deferred Outflows (Inflows) of Resources
	<u> </u>
2020	\$ 4,990,055
2021	3,099,586
2022	2,230,328
2023	<u>3,059,272</u>
Total	<u>\$ 13,379,241</u>

D. Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation date	1/1/2018
Actuarial cost methods	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary decreases	Ranging from 6.00% decreasing to 4.25% for Group 1 Ranging from 6.00% decreasing to 4.50% for Group 2 Ranging from 7.00% decreasing to 4.75% for Group 3
Inflation rate	3.50%
Post-retirement cost-of-living adjustment	3% of the first \$14,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on:

- Pre-Retirement: RP-2014 Blue Collar Employee Mortality Table projected generationally using Scale MP-2016 (previously, set forward one year for females)
- Healthy: RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2016 (previously, set forward one year for females)
- Disabled: RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D

Changes of Assumptions

Effective January 1, 2018:

- Investment rate of return, previously, 7.50% decreased to 7.25%.

- The administrative expense assumption was increased from \$285,000 for calendar 2017 to \$325,000 for calendar 2018.

E. Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's targeted asset allocation as of June 30, 2019, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	21.00%	6.16%
International developed markets equity	13.00%	6.69%
International emerging markets equity	5.00%	9.47%
Core fixed income	15.00%	1.89%
High-yield fixed income	8.00%	4.00%
Real estate	10.00%	4.58%
Commodities	4.00%	4.77%
Hedge fund, GTAA, risk parity	11.00%	3.68%
Private equity	<u>13.00%</u>	10.00%
Total	<u>100.00%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. 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.

G. *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 7.25%, 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 (6.25%) or 1 percentage-point higher (8.25%) than the current rate:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 105,391,647	\$ 78,768,106	\$ 56,314,285

H. *Pension Plan Fiduciary Net Position*

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

19. 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>Membership 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, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

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, 2018 is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.00%	5.00%
Portfolio completion strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private equity	12.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.80%
Timber/natural resources	4.00%	3.40%
Total	<u>100.00%</u>	

E. *Discount Rate*

The discount rate used to measure the total pension liability was 7.35%. 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>1% Decrease to 6.35%</u>	<u>Current Discount Rate 7.35%</u>	<u>1% Increase to 8.35%</u>
\$ 29,482,300	\$ 23,711,289	\$ 18,771,300

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 2018 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was \$163,330,397 based on a proportionate share of 0.688830%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution as of \$9,056,616 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of \$16,551,171 as both a revenue and expense in the governmental activities.

20. Other Post-Employment Benefits (GASB 75)

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town’s plan. The Town provides health insurance coverage through a variety of health plans through the West Suburban Health Group, a municipal joint purchase group organized under Massachusetts General Laws Chapter 32B §12. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The Town provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Retirees/Disabled	865
Active employees	<u>1,271</u>
Total	<u><u>2,136</u></u>

B. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	4%
Investment rate of return	7.04%
Discount rate	7.00%, previously 7.50%
Healthcare cost trend rates	9% for 2019, decreasing by 0.5% per year, to an ultimate rate of 4.5%
Participation rate	80% of eligible employees
Retirees' share of benefit-related costs	23.5%-50%, depending on the retiree's plan

Mortality rates were based on:

- RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
- RP-2000 Mortality Table projected generationally with scale BB and a base year 2009 for males and females
- RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year 2012 for males and females

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity - Large Cap	14.50%	4.00%
Domestic equity - Small/Mid Cap	3.50%	6.00%
International developed markets equity	16.00%	4.50%
International emerging markets equity	6.00%	7.00%
Domestic Fixed Income	20.00%	2.00%
International Fixed Income	3.00%	3.00%
Alternatives	23.00%	6.50%
Real Estate	14.00%	6.25%
Cash and Cash Equivalents	0.00%	0.00%
Total	<u>100.00%</u>	

C. Discount Rate

The discount rate used to measure the net OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

D. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 99,527,289
Plan fiduciary net position	<u>32,878,807</u>
Net OPEB liability	<u>\$ 66,648,482</u>

E. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 83,552,257	\$ 26,835,171	\$ 56,717,086
Changes for the year:			
Service cost	2,614,866	-	2,614,866
Interest	5,894,910	-	5,894,910
Contributions - employer	-	6,115,455	(6,115,455)
Net investment income	-	3,208,181	(3,208,181)
Plan amendment	-	-	-
Differences between expected and actual experience	(9,997,742)	-	(9,997,742)
Changes in assumptions or other inputs	21,438,486	-	21,438,486
Benefit payments	<u>(3,975,488)</u>	<u>(3,280,000)</u>	<u>(695,488)</u>
Net Changes	<u>15,975,032</u>	<u>6,043,636</u>	<u>9,931,396</u>
Balances, end of year	<u>\$ 99,527,289</u>	<u>\$ 32,878,807</u>	<u>\$ 66,648,482</u>

F. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
\$ 78,470,490	\$ 66,648,482	\$ 54,826,474

G. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Healthcare</u> <u>Cost Trend</u> <u>Rates</u>	<u>1%</u> <u>Increase</u>
\$ 55,372,907	\$ 66,648,482	\$ 80,235,747

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized an OPEB expense of \$6,953,225. At June 30, 2019, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Contributions subsequent to the measurement date	\$ 6,906,705	\$ -
Difference between expected and actual experience	880,961	(8,328,670)
Change in assumptions	17,859,440	(3,536,146)
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(1,701,826)</u>
Total	<u>\$ 25,647,106</u>	<u>\$ (13,566,642)</u>

The \$6,906,705 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2019	\$ 532,262
2020	532,262
2021	532,262
2022	1,686,100
2023	<u>1,890,873</u>
Total	\$ <u>5,173,759</u>

21. Other Post-Employment Benefits (GASB 74)

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In prior years, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

All the following OPEB disclosures are based on a measurement date of June 30, 2019.

A. Investments

The OPEB trust fund assets are invested with the Commonwealth’s State Retirees Benefit Trust Fund.

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 4.93 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3%
Investment rate of return	7.04%, net of expenses
Discount rate	7.00%, previously 7.25%
Healthcare cost trend rates	9% for 2019, decreasing by 0.5% per year, to an ultimate rate of 4.5%
Participation rate	80% of eligible employees
Retirees' share of benefit-related costs	23.5%-50%, depending on the retiree's plan

Mortality rates are the same as described in Note 20.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity - Large Cap	14.50%	4.00%
Domestic equity - Small/Mid Cap	3.50%	6.00%
International developed markets equity	16.00%	4.50%
International emerging markets equity	6.00%	7.00%
Domestic Fixed Income	20.00%	2.00%
International Fixed Income	3.00%	3.00%
Alternatives	23.00%	6.50%
Real Estate	14.00%	6.25%
Cash and Cash Equivalents	<u>0.00%</u>	0.00%
Total	<u><u>100.00%</u></u>	

C. Discount Rate

The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

D. Net OPEB Liability

The components of the net OPEB liability, as of June 30, 2019, were as follows:

Total OPEB liability	\$ 104,767,867
Plan fiduciary net position	<u>38,337,121</u>
Net OPEB liability	<u>\$ 66,430,746</u>
Plan fiduciary net position as a percentage of the total OPEB liability	36.59%

E. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$ 78,875,238	\$ 66,430,746	\$ 53,986,254

F. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 54,560,390	\$ 66,430,746	\$ 80,734,733

22. Self-Insurance

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

As of June 30, 2019, the Town’s workers compensation fund had a deficit balance of \$560,297 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, less accrual for outstanding claims. The Town appropriated \$656,283 for workers compensation line item in fiscal year 2019. These funds are used to pay workers compensation related expenses throughout the year, with the unexpended balance rolling into the trust fund noted above. The Town also purchases stop-loss reinsurance as part of its workers compensation program from Midwest Employers Casualty Company. Under the terms of its excess workers compensation coverage, the Town is liable for up to \$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, 2019 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, 2019 are as follows:

	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 1,010,765
Claims incurred/recognized in fiscal year 2019	1,577,181
Claims paid in fiscal year 2019	<u>(1,091,453)</u>
Claims liability, end of year	<u>\$ 1,496,493</u>

23. Subsequent Events

Debt:

Subsequent to June 30, 2019, the Town issued a \$27,500,000 general obligation municipal purpose bond to permanently finance projects fund with anticipation notes outstanding at June 30, 2019. Additionally, the Town issued a \$440,000 sewer bond through the Massachusetts Water Resources Authority.

Water/Sewer-related:

Subsequent to year-end, Coca-Cola Bottling of Northern New England, one of the Town’s largest users of the water and sewer systems, ceased beverage manufacturing

operations at its Needham facility and is converting the site to a warehouse. The Town is in the process of evaluating the impact this may have on future water and sewer rates.

24. 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.

25. Beginning Fund Balance Restatement

The beginning, July 1, 2018, fund balance of the Town has been restated as follows:

	Rosemary Recreation Complex	Needham High School Expansion	Nonmajor Governmental Funds
As previously reported, June 30, 2018	(6,775,804)	\$ (1,811,253)	\$ 9,594,239
To reclassify	<u>6,775,804</u>	<u>1,811,253</u>	<u>(8,587,057)</u>
As restated, July 1, 2018	<u><u>-</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,007,182</u></u>

TOWN OF NEEDHAM, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
JUNE 30, 2019
(Unaudited)

Needham Contributory Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2019	December 31, 2018	98.43%	\$78,768,106	\$ 43,859,715	179.59%	66.48%
June 30, 2018	December 31, 2017	98.48%	\$64,280,887	\$ 44,684,936	143.85%	71.58%
June 30, 2017	December 31, 2016	98.41%	\$68,675,930	\$ 38,860,207	176.73%	67.10%
June 30, 2016	December 31, 2015	98.20%	\$63,877,775	\$ 39,406,655	162.10%	67.43%
June 30, 2015	December 31, 2014	98.27%	\$54,445,695	\$ 35,772,213	152.20%	71.09%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town	Total Net Pension Liability Associated with the Town	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2019	June 30, 2018	0.69%	\$ -	\$ 163,330,397	\$ 163,330,397	\$ 50,620,405	0.00%	54.84%
June 30, 2018	June 30, 2017	0.68%	\$ -	\$ 156,266,130	\$ 156,266,130	\$ 44,888,988	0.00%	54.25%
June 30, 2017	June 30, 2016	0.67%	\$ -	\$ 148,771,539	\$ 148,771,539	\$ 46,022,868	0.00%	52.73%
June 30, 2016	June 30, 2015	0.66%	\$ -	\$ 135,373,423	\$ 135,373,423	\$ 44,621,329	0.00%	55.38%
June 30, 2015	June 30, 2014	0.63%	\$ -	\$ 100,708,775	\$ 100,708,775	\$ 39,867,330	0.00%	61.64%

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

See Independent See Independent Auditors' Report.

TOWN OF NEEDHAM, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2019
(Unaudited)

Needham Contributory Retirement System

Fiscal Year	Measurement Date	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2019	December 31, 2018	\$ 7,809,911	\$ 7,809,911	\$ -	\$ 43,859,715	17.81%
June 30, 2018	December 31, 2017	\$ 7,203,059	\$ 7,203,059	\$ -	\$ 44,684,936	16.12%
June 30, 2017	December 31, 2016	\$ 6,600,162	\$ 6,600,162	\$ -	\$ 38,860,207	16.98%
June 30, 2016	December 31, 2015	\$ 6,039,115	\$ 6,039,115	\$ -	\$ 39,406,655	15.33%
June 30, 2015	December 31, 2014	\$ 5,524,150	\$ 5,524,150	\$ -	\$ 35,772,213	15.44%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Contractually Required Contribution Provided by Commonwealth	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2019	June 30, 2018	\$ 9,056,616	\$ 9,056,616	\$ -	\$ 50,620,405	17.89%
June 30, 2018	June 30, 2017	\$ 8,436,349	\$ 8,436,349	\$ -	\$ 44,888,988	18.79%
June 30, 2017	June 30, 2016	\$ 7,483,070	\$ 7,483,070	\$ -	\$ 46,022,868	16.26%
June 30, 2016	June 30, 2015	\$ 6,751,809	\$ 6,751,809	\$ -	\$ 44,621,329	15.13%
June 30, 2015	June 30, 2014	\$ 5,938,614	\$ 5,938,614	\$ -	\$ 39,867,330	14.90%

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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74 and 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 2,797,907	\$ 2,573,887	\$ 2,486,847
Interest	6,347,733	6,913,177	6,544,745
Plan amendments	-	(4,090,587)	-
Differences between expected and actual experience	(21,193,711)	1,798,808	-
Changes of assumptions	31,054,380	(4,589,355)	-
Benefit payments	<u>(4,174,262)</u>	<u>(4,463,145)</u>	<u>(3,958,395)</u>
Net change in total OPEB liability	14,832,047	(1,857,215)	5,073,197
Total OPEB liability - beginning	<u>89,935,820</u>	<u>91,793,035</u>	<u>86,719,838</u>
Total OPEB liability - ending (a)	104,767,867	89,935,820 *	91,793,035
Plan fiduciary net position			
Contributions - employer	7,800,967	7,389,578	6,317,042
Net investment income	1,831,609	3,117,203	3,020,230
Benefit payments, including refunds of member contributions	(4,174,262)	(4,463,145)	(3,958,395)
Other	<u>-</u>	<u>-</u>	<u>257,093</u>
Net change in plan fiduciary net position	5,458,314	6,043,636	5,635,970
Plan fiduciary net position - beginning	<u>32,878,807</u>	<u>26,835,171</u>	<u>21,199,201</u>
Plan fiduciary net position - ending (b)	<u>38,337,121</u>	<u>32,878,807</u>	<u>26,835,171</u>
Net OPEB liability - ending (a-b)	<u>\$ 66,430,746</u>	<u>\$ 57,057,013</u>	<u>\$ 64,957,864</u>

* Based on actuarial valuation dated June 30, 2017. See Note 20 for updated valuation amounts.

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

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF NEEDHAM, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 104,767,867	\$ 89,935,820	\$ 91,793,035
Plan fiduciary net position	<u>38,337,121</u>	<u>32,878,807</u>	<u>26,835,171</u>
Net OPEB liability	<u>\$ 66,430,746</u> *	<u>\$ 57,057,013</u>	<u>\$ 64,957,864</u>
Plan fiduciary net position as a percentage of the total OPEB liability	36.59%	36.56%	29.23%
Covered employee payroll	93,645,807	94,042,382	94,042,382
Participating employer net OPEB liability as a percentage of covered employee payroll	70.94%	60.67%	69.07%

Schedule of Contributions

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 7,800,967	\$ 6,072,283	\$ 5,568,923
Contributions in relation to the actuarially determined contribution	<u>6,906,705</u>	<u>6,115,455</u>	<u>5,568,923</u>
Contribution deficiency (excess)	<u>\$ 894,262</u>	<u>\$ (43,172)</u>	<u>\$ -</u>
Covered employee payroll	93,645,807	94,042,382	89,329,181
Contributions as a percentage of covered employee payroll	7.38%	6.50%	6.23%

Schedule of Investment Returns

	<u>2019</u>	<u>2018</u>	<u>2018</u>
Annual money weighted rate of return, net of investment expense	4.93%	11.62%	14.25%

* Based on actuarial valuation dated June 30, 2018. See Note 20 for updated valuation amounts.

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

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

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, 2019

	<u>Budget</u>	Adjusted <u>Actual</u>	Variance Positive <u>(Negative)</u>
Revenues:			
Current service charges	\$ 8,877,436	\$ 8,853,516	\$ (23,920)
Interest income	<u>15,000</u>	<u>27,735</u>	<u>12,735</u>
Total Revenues	8,892,436	8,881,251	(11,185)
Expenditures:			
Sewer expenditures	1,502,896	1,492,215	10,681
Intergovernmental	6,173,219	6,173,219	-
Debt service	<u>1,500,000</u>	<u>1,167,381</u>	<u>332,619</u>
Total Expenditures	<u>9,176,115</u>	<u>8,832,815</u>	<u>343,300</u>
Excess of revenues over expenditures	(283,679)	48,436	332,115
Other Financing Sources and Uses:			
Transfers in	504,750	504,750	-
Use of retained earnings	2,551,111	-	(2,551,111)
Transfers out	<u>(2,772,182)</u>	<u>(2,772,182)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>283,679</u>	<u>(2,267,432)</u>	<u>(2,551,111)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>(2,218,996)</u>	\$ <u>(2,218,996)</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, 2019

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 5,765,234	\$ 6,705,903	\$ 940,669
Interest income	18,000	30,329	12,329
Other revenue	<u>-</u>	<u>5,520</u>	<u>5,520</u>
Total Revenues	5,783,234	6,741,752	958,518
Expenditures:			
Water expenditures	2,505,442	2,556,244	(50,802)
Intergovernmental	856,049	856,049	-
Debt service	<u>1,550,000</u>	<u>1,384,917</u>	<u>165,083</u>
Total Expenditures	<u>4,911,491</u>	<u>4,797,210</u>	<u>114,281</u>
Excess of revenues over expenditures	871,743	1,944,542	1,072,799
Other Financing Sources and Uses:			
Transfers in	-	-	-
Use of retained earnings	3,531,048	-	(3,531,048)
Transfers out	<u>(4,402,791)</u>	<u>(4,402,791)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(871,743)</u>	<u>(4,402,791)</u>	<u>(3,531,048)</u>
Excess of revenues over expenditures and other uses	\$ <u><u>-</u></u>	\$ <u><u>(2,458,249)</u></u>	\$ <u><u>(2,458,249)</u></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, 2019

	<u>Budget</u>	<u>Adjusted Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Current service charges	\$ 1,139,402	\$ 1,241,619	\$ 102,217
Interest income	<u>3,500</u>	<u>4,674</u>	<u>1,174</u>
Total Revenues	1,142,902	1,246,293	103,391
Expenditures:			
Transfers station expenditures	2,427,940	2,446,456	(18,516)
Debt service	<u>150,000</u>	<u>63,812</u>	<u>86,188</u>
Total Expenditures	<u>2,577,940</u>	<u>2,510,268</u>	<u>67,672</u>
Excess of revenues over expenditures	(1,435,038)	(1,263,975)	171,063
Other Financing Sources and Uses:			
Transfers in	1,594,895	1,594,895	-
Use of retained earnings	450,753	-	(450,753)
Transfers out	<u>(610,610)</u>	<u>(610,610)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>1,435,038</u>	<u>984,285</u>	<u>(450,753)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>(279,690)</u>	\$ <u>(279,690)</u>

See Independent Auditors' Report.