

FINANCIAL AUDIT ADVISORY COMMITTEE

REPORT

Tuesday, April 14, 2015

Present: Ald. Fuller (Chairman), Ald. Danberg, Margaret Albright (School Committee Member), Gail Deegan, Tony Logalbo, and Howard Merkwowitz

Also present: Matthew Hunt, CPA (Clifton, Larson, Allen, LLC, David Wilkinson (Comptroller), and Sue Dzikowski (Director of Finance; School Department)

The Committee met with Matt Hunt of Clifton, Larson, Allen, LLC, the City's external auditing firm, to review the goals for the upcoming audit and for the Committee to set some guidelines for the audit. The preliminary audit fieldwork is scheduled to start during the week of April 20, 2015. The auditors will look at the Retirement System budget the following week, which will include a review of the actuarial evaluation of the pension-funding schedule.

The Federal grant audit will begin shortly starting with the Community Development Block Grants in May. The primary audit fieldwork will likely start in mid-September by reviewing the City's Comprehensive Annual Financial Report (CAFR). The draft audit reports should be completed in November and the final audit report should be issued in mid-December. All of the draft reports will be available by December 14, 2015 for the Committee's exit conference with Matt Hunt. There was a request that Mr. Hunt provide the presentation that he intends to use at the meeting to the Committee ahead of the meeting.

Mr. Hunt reviewed staffing for the next audit. Two people heavily involved in the City's audit over the past few years have left Clifton, Larson, Allen, LLC. Mr. Hunt will continue to be involved with the City's audit and Sara Wood, who worked on the City's audit in previous years, will manage the audit. Mr. Hunt will make a decision on the senior auditor for the audit in the next week but there will be continuity in staffing on the upcoming audit with Sara Wood.

The auditors usually make a visit to a school and another department within the City each audit cycle. Mr. Hunt would like the committee's input on which school and department they should visit this year. The School Department's Director of Finance Sue Dzikowski suggested that the auditors visit Oak Hill Middle School and the Committee suggested that the auditors visit the Department of Public Works to look at how indirect cost allocations are handled, particularly in the Utilities Division of the Public Works Department.

It is important to determine how supervisors track employee time and how it is reported to ensure that indirect cost allocations are reasonable. The salary allocations are muddled in the department and it would be helpful to have the auditor look at to determine what controls can be added or strengthened. The Committee may want to look at how indirect cost allocations are handled in all departments to determine if the City could use an overall model to handle those allocations.

If possible, it would be helpful if the auditors could make a brief return visit to the Inspectional Services Department to make sure they have implemented appropriate policies and procedures related to cash receipts.

The auditor spoke about the Governmental Accounting Standards Board (GASB) Pronouncement #68. The Financial Audit Advisory Committee and Mr. Hunt met with representatives of the PRIT Board, the auditors, and the actuaries in July 2014 to discuss the City's implementation of GASB 68. Due to that meeting, Mr. Hunt is confident that the Retirement System actuaries and PRIT will provide all the necessary information to ensure that there are no issues with the implementation of GASB #68.

It was suggested that the implementation of GASB #68 be used as an opportunity for education on pension liability including what other communities are doing to fund their pension liability. In addition, it would be helpful to walk through pension and Other Post-Employment Benefits (OPEB) liabilities at the Committee's October meeting. The discussion would include an open discussion on management's plans and thoughts for funding OPEB and pension liabilities. The Committee should know what the funding plans are for each liability. It was pointed out that the City has a pension-funding plan and the pension liabilities should be fully funded in 2029.

The CAFR contains a Management's Discussion and Analysis section that provides the average person with a clearer picture of the City's financial statements. Comptroller David Wilkinson suggested that the Committee review the Management's Discussion and Analysis from the 2014 CAFR (attached) and if they are unclear or there is something that should be added let him know. The CAFR and financial statement reporting is defined by the Governmental Accounting Standards Board; therefore, the City cannot modify them; there is leeway in what goes into the Management Discussion and Analysis.

The Committee reviewed the work of the Accounting and Audit Sub-committee of the Financial Audit Advisory Committee. The Accounting and Audit Sub-committee met with the appropriate department heads to review the auditors' comments and the administration's responses to the comments contained in the auditors' management letter dated June 30, 2015. The sub-committee still needs to meet with the Information Technology Department and that meeting is scheduled for April 23, 2015.

The Comptroller circulated a grants administration policy internally and asked Matt Hunt to review it. The policy is now posted on the City's website and available to all departments. The policy is specific to City grants and excludes the School Department's grants.

Respectfully submitted

Ruthanne Fuller, Chair

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Newton (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City (primary government) for the fiscal year ended June 30, 2014.

Financial Highlights:

- Total assets and deferred outflows of resources of the City exceeded total liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$229.9 million (*net position*). The City has a negative unrestricted net position totaling (\$138.7 million) in the City's governmental activities and \$23.1 million positive unrestricted net position in its business type activities (water & sewer utilities).
- The City's total net position increased by \$3.5 million or 1.6% in fiscal year 2014. Net position of governmental activities decreased by \$4.1 million, a 2.8% decline from fiscal year 2013, while net position of business-type activities increased by \$7.6 million, or 9.3%, from the prior fiscal year.
- Unrestricted governmental net position decreased by \$16.3 million to (\$138.7) million at June 30, 2014. The decline in unrestricted governmental activities net position continues to be the result of the recognition of new liabilities associated with the City's post-retirement health benefit (OPEB) obligations. During the fiscal year just ended, \$24.5 million in new OPEB liabilities were recognized, bringing the total governmental OPEB liability that has been recognized since the implementation of Governmental Accounting Standards Board Statement 45 to \$197.8 million (35.7% of the total unfunded actuarial accrued liability as of June 30, 2014).
- The total cost of all City services for fiscal year 2014 was \$462.1 million, \$419.9 million (90.9%) of which was for governmental services, and \$42.2 million (9.1%) of which was for business type services. The total cost of City services increased by \$12.6 million or 2.8% from the total cost of services in the previous fiscal year, principally as a result of growth in education (\$7.8 million) and public safety (\$4.3 million) spending.
- A total of \$107.7 million or 25.6% of governmental services were financed from program revenue, leaving 74.4% to be financed from general revenues and inter-fund transfers. Real estate and personal property tax revenue continues to represent the single largest source of general revenue.
- At June 30, 2014, the City's governmental funds reported a combined fund balance of \$69.1 million. The combined governmental funds fund balance increased by \$7.3 million (11.9%) from the prior year's ending fund balance.
- The City's general fund reported total fund balance of \$36.7 million at the end of fiscal year 2014, a \$4 million (12.1%) increase from the total fund balance at June 30 of the prior fiscal year. The unassigned portion of the fund balance increased by \$5.2 million to \$26.3 million or 7.1% of total general fund revenues and other financing sources. The unassigned fund balance includes \$14 million that the City has set aside over the course of the four most recent fiscal years as a "Rainy Day" Stabilization fund and \$6.7 million in "Free Cash" that has been certified as being available for appropriation by the Massachusetts Department of Revenue.
- The City's total bonded debt (bonds and notes) increased by \$7.2 million or 3.3% to \$229.9 million during the year. Newton North High School project debt accounted for \$125.7 million or 54.7% of the City's total bonded debt.

Overview of the Financial Statements:

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

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. The *statement of net position* (pages 18 and 19) presents information on all of the City's non-fiduciary assets, liabilities and deferred inflows/outflows 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 of the City is improving or deteriorating.

The *statement of activities* (pages 20 and 21) 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 the cash flows*. Thus, revenue and expenses reported in this statement for some items 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 summarize functions and programs of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions and programs that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include the broad functions of general government; public safety; education; public works; health & human services; culture and recreation; debt service – interest, and the major services provided within each functional category. The business-type activities of the City include two enterprise activities: the water system and the sanitary sewer system. Trend information for all years since the City's adoption of the current reporting model can be found on pages 122-129 of this report.

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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City 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 and programs reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations may be found on pages 23 and 25.

The City maintains 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the *general fund*, the *community preservation fund* and the *high school improvements fund*, all of which are considered to be major funds. Data from the other 15 funds are combined into a single, aggregated presentation under the caption *non-major governmental funds*. A brief description and individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* beginning on page 75 of this report. The governmental funds financial statements can be found on pages 22-27 of this report. Trend information may be found on pages 130 through 133 of this report.

Proprietary funds: The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water and sanitary sewer activities. *Internal service funds* are an accounting device used to accumulate and allocate the costs internally among the City's various functions, including employee health benefits; workers' compensation; public building insurance; and general liability self-insurance activities. The services provided by these funds predominately benefit the governmental rather than the business-type functions. Accordingly, the internal service funds have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitary sewer activities, which are considered major funds of the City. Conversely, all internal service funds are combined into a single, aggregate presentation in the proprietary fund financial statements. A brief description of each fund and individual fund data for the internal service funds is provided in the form of *combining statements* beginning on page 86 of this report. The basic proprietary fund financial statements can be found on 28-30 of this report.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* included in the government-wide financial statements because the resources of the funds are *not* available to support the City’s own functions and activities. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary funds financial statements provide separate information for the pension and other post-employment trust funds of the City. All other fiduciary funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions “private purpose trust funds” and “agency funds”, respectively. A brief description of each fund and individual fund data for the private purpose trust funds and agency funds are provided in the form of *combining statements* beginning on page 90 of this report. The fiduciary funds financial statements can be found on pages 31 and 32 of this report.

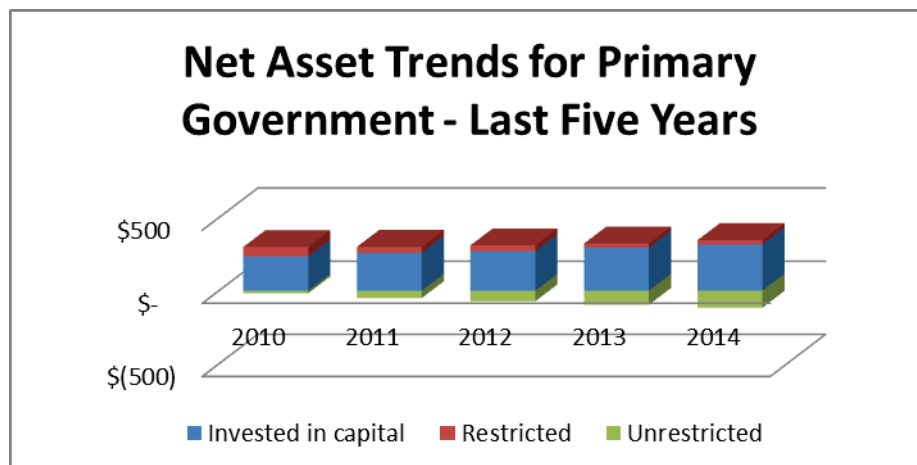
Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-72 of this report. A brief description of fund balance terminology required by Governmental Accounting Standards Board Statement 54 for governmental funds is presented on pages 41 and 42 along with a detailed analysis of the major components of each fund balance account on page 66.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the City’s progress in funding its obligation to provide pension and post-employment benefits to its employees. Such information is located on pages 73 and 74 of this report.

The combining statements previously referred to are presented immediately following the notes to the basic financial statements.

Government-wide Financial Analysis:

Net Position: The City’s total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$229.9 million at June 30, 2014. This represents an increase of \$3.5 million or 1.6% from total net position at June 30 of the prior year, and a decline of \$82.4 million or 26.4% since fiscal year 2008, after which the City began recognizing post-employment health benefit liabilities in its external financial statements. Trend information for total net position and its major components over the past five year period is summarized graphically below.



The following table presents current and prior year data regarding the City's net position:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets.....	\$ 151,940,115	\$ 138,337,209	\$ 42,853,659	\$ 41,468,864	\$ 194,793,774	\$ 179,806,073
Noncurrent assets (excluding capital assets).....	8,043,265	8,183,644	1,409,014	1,655,994	9,452,279	9,839,638
Capital assets (net).....	<u>439,458,990</u>	<u>419,836,768</u>	<u>84,431,153</u>	<u>78,727,945</u>	<u>523,890,143</u>	<u>498,564,713</u>
Total assets.....	<u>599,442,370</u>	<u>566,357,621</u>	<u>128,693,826</u>	<u>121,852,803</u>	<u>728,136,196</u>	<u>688,210,424</u>
Liabilities						
Current liabilities (excluding debt).....	49,315,307	44,977,938	3,599,704	1,668,664	52,915,011	46,646,602
Noncurrent liabilities (excluding debt).....	210,359,515	188,081,336	5,108,483	4,499,822	215,467,998	192,581,158
Current debt.....	9,824,367	9,664,867	4,303,032	4,682,975	14,127,399	14,347,842
Noncurrent debt.....	<u>190,042,032</u>	<u>179,632,957</u>	<u>25,688,798</u>	<u>28,631,629</u>	<u>215,730,830</u>	<u>208,264,586</u>
Total liabilities.....	<u>459,541,221</u>	<u>422,357,098</u>	<u>38,700,017</u>	<u>39,483,090</u>	<u>498,241,238</u>	<u>461,840,188</u>
Net Position						
Net investment in capital assets.....	248,739,230	238,374,247	66,943,719	56,271,350	315,682,949	294,645,597
Restricted.....	29,816,361	27,981,384	-	-	29,816,361	27,981,384
Unrestricted.....	<u>(138,654,442)</u>	<u>(122,355,108)</u>	<u>23,050,090</u>	<u>26,098,363</u>	<u>(115,604,352)</u>	<u>(96,256,745)</u>
Total net position.....	<u>\$ 139,901,149</u>	<u>\$ 144,000,523</u>	<u>\$ 89,993,809</u>	<u>\$ 82,369,713</u>	<u>\$ 229,894,958</u>	<u>\$ 226,370,236</u>

The largest portion of the City's total net position, \$315.7 million, represents the investment in capital assets (e.g., land and land improvements, intangible assets, buildings and improvements, machinery and equipment, road network, water system, sewer system and construction in progress) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens therefore the assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves, cannot be used to liquidate these liabilities. Please refer to note 6 (page 53) for a detailed calculation of the City's net investment in capital assets.

An additional portion of the City's net position, \$29.8 million, represents resources that are subject to restrictions placed on how they may be used by parties external to the City, of which \$12.1 million (40.6%) represents resources restricted to community preservation purposes. A summary of all major components of the restricted net position may be found on the face of the Statement of Net Position, which can be found on page 19 of this report.

During the fiscal year ended June 30, 2014, total unrestricted net position declined by \$19.3 million as a direct result of the recognition of \$25.1 million new post-retirement health benefit liabilities (\$24.5 million in governmental activities and \$0.6 million in business type activities). All governmental activities unrestricted net position has been consumed since 2008 with the recognition of liabilities required by Governmental Accounting Standards Board Statement 45. Pages 61 through 64 of this report provide more detailed information on the City's post retirement health liabilities that have given rise to the change in financial positions over the past five years.

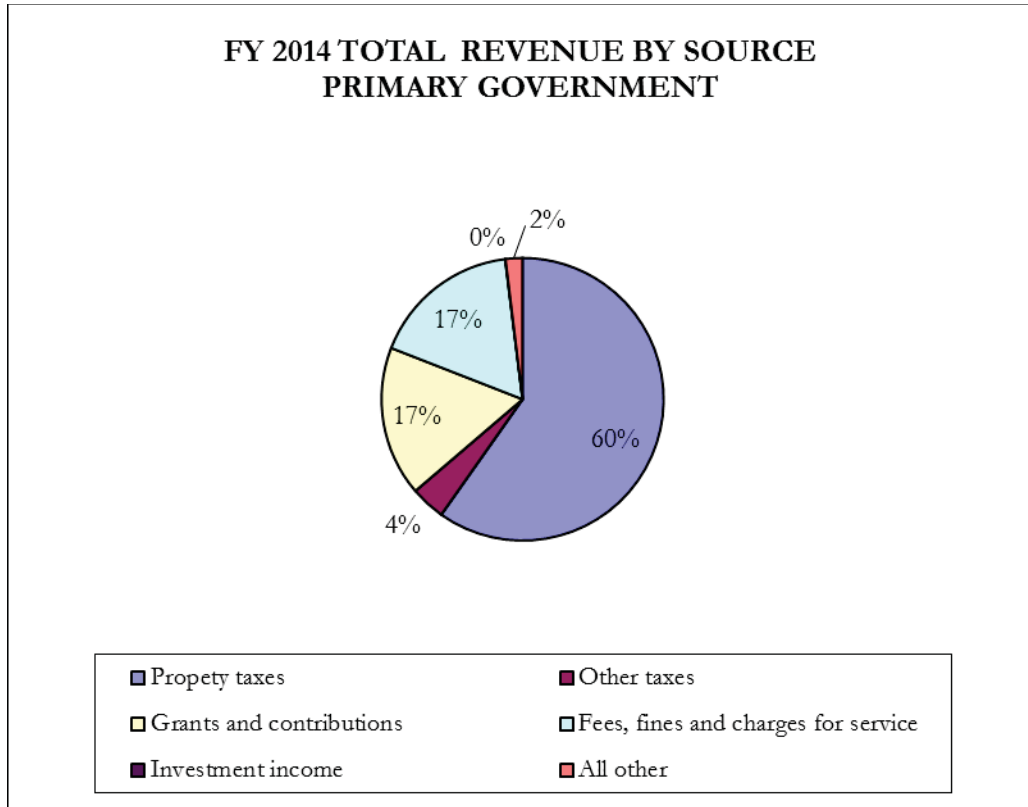
Changes in net position:

The following table presents current and prior year data regarding the City's changes in net position:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
Revenues						
<i>Program Revenues:</i>						
Fees, fines and charges for services.....	\$ 28,321,486	\$ 28,970,340	\$ 51,347,815	\$ 47,175,932	\$ 79,669,301	\$ 76,146,272
Operating grants and contributions.....	74,285,730	69,319,711	514,894	1,059,085	74,800,624	70,378,796
Capital grants and contributions.....	5,053,677	5,975,327	5,480	9,808	5,059,157	5,985,135
<i>General Revenues:</i>						
Real estate and personal property taxes.....	278,426,655	258,590,398	-	-	278,426,655	258,590,398
Motor vehicle and other excise taxes.....	11,953,727	11,404,708	-	-	11,953,727	11,404,708
Hotel room occupancy taxes.....	2,218,759	2,051,414	-	-	2,218,759	2,051,414
Meals taxes.....	1,557,737	1,407,803	-	-	1,557,737	1,407,803
Penalties and interest on taxes.....	1,160,092	1,011,590	-	-	1,160,092	1,011,590
Payments in lieu of taxes.....	557,065	524,906	-	-	557,065	524,906
Community preservation surcharges.....	2,697,187	2,501,875	-	-	2,697,187	2,501,875
Grants and contributions not restricted to specific programs.....	5,716,482	6,276,114	-	-	5,716,482	6,276,114
Unrestricted investment income.....	230,699	202,473	-	-	230,699	202,473
Other.....	1,622,541	1,492,956	-	-	1,622,541	1,492,956
Total revenues.....	413,801,837	389,729,615	51,868,189	48,244,825	465,670,026	437,974,440
Expenses						
General government.....	22,716,559	22,997,802	-	-	22,716,559	22,997,802
Public safety.....	61,290,201	56,962,698	-	-	61,290,201	56,962,698
Education.....	272,447,586	264,655,220	-	-	272,447,586	264,655,220
Public works.....	29,223,056	28,194,390	-	-	29,223,056	28,194,390
Health and human services.....	11,328,446	11,323,484	-	-	11,328,446	11,323,484
Culture and recreation.....	15,164,811	16,177,118	-	-	15,164,811	16,177,118
Debt service - interest.....	7,714,546	7,989,634	-	-	7,714,546	7,989,634
Water.....	-	-	16,702,263	15,896,034	16,702,263	15,896,034
Sewer.....	-	-	25,557,836	25,359,689	25,557,836	25,359,689
Total expenses.....	419,885,205	408,300,346	42,260,099	41,255,723	462,145,304	449,556,069
Change in net position before transfers.....	(6,083,368)	(18,570,731)	9,608,090	6,989,102	3,524,722	(11,581,629)
Transfers, net.....	1,983,994	1,640,260	(1,983,994)	(1,640,260)	-	-
Change in net position.....	(4,099,374)	(16,930,471)	7,624,096	5,348,842	3,524,722	(11,581,629)
Net position - beginning of year.....	144,000,523	160,930,994	82,369,713	77,020,871	226,370,236	237,951,865
Net position - end of year.....	\$ 139,901,149	\$ 144,000,523	\$ 89,993,809	\$ 82,369,713	\$ 229,894,958	\$ 226,370,236

The City's total revenues for the year ended June 30, 2014 increased by \$27.7 million (6.3%) from the prior year. Property taxes, water and sewer user charges, and grants/contributions were responsible for the increase. The 7.7% increase in property taxes represents a combination of a 2 1/2% increase allowed in the tax levy; new growth; and an \$8.4 million operating override authorized by Newton voters in a March 2013 special election. The 6.3% increase in operating grants and contributions is primarily a function of increased federal HOME grant funding; Chapter 70 and special education circuit-breaker funding for the City's schools, additional state CH 90 road improvement funding; and additional state community preservation matching funding.

The following chart illustrates the distribution of total current year revenues for the primary government, by major source.

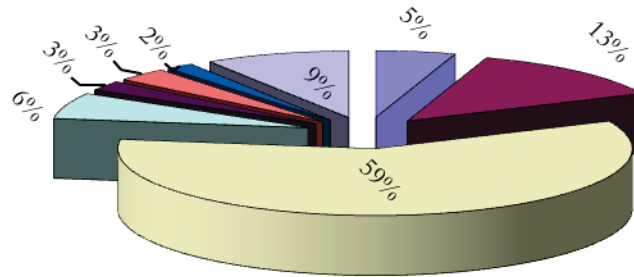


Total expenses increased by \$12.6 million or 2.8% during the year. Education and public safety spending accounted for \$12.1 million or 96% of the total year over year growth in total spending.

Public education continues to be the function receiving the largest commitment of City resources. For the year ended June 30, 2014, total spending for education purposes was \$272.4 million or 59% of total spending, and 64.9% of governmental activity spending.

The following chart illustrates the distribution of expenses by major function for the primary government for the year ended June 30, 2014.

**FY 2014 TOTAL EXPENSES BY FUNCTION
PRIMARY GOVERNMENT**



■ General government	■ Public safety	□ Education
□ Public works	■ Health and human services	■ Culture and recreation
■ Interest on debt	□ Water and sewer	

Governmental activities – Governmental activities decreased the City’s net position by \$4.1 million or 2.8% during fiscal 2014, principally due to the recognition of \$24.5 million in new OPEB liabilities during the year. A summary of revenues and major functional expenses is included in the tables presented previously. In order to assist the reader in understanding more completely the full cost of the major services provided by the City within each of the broad functional classifications identified above, the Statement of Activities, presented on pages 20 and 21 of this report, provides a detailed accounting of all major service expenses, related revenues, and each service’s consumption of general revenues (principally property taxes).

As has been the case in all years since the City has adopted this reporting model, all governmental activity services, except for inspectional services, relied on subsidies from general revenues to one degree or another during fiscal year 2014. Inspectional service department program revenues exceeded total program expenses by \$4.2 million for the year. In the fiscal year ending June 30, 2013, Inspectional services department program revenue exceeded program expenses by \$5.3 million.

Business-type activities – Business-type activities increased the City’s net position by \$7.6 million or 9.3% during fiscal year 2014. This resulted from increased user charge revenue from a rate increase that was put in place effective July 1, 2013 along with enhanced revenue collections from the City’s new water meters and a decline in the value of abatements for prior meter reading errors.

Financial Analysis of Governmental Funds:

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s 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 June 30, 2014, the City’s governmental funds reported a combined fund balance totaling \$69.1 million, a \$7.3 million or 11.9% increase from the prior year reported financial position.

The City's General Fund; Community Preservation Fund; and Non major governmental funds reported improved financial positions during the year. The North High School Improvement Fund was closed out during the year with the residual balance transferred to the Capital Stabilization Fund.

The general fund is the primary operating fund of the City and at June 30, 2014 reported a total fund balance of \$36.7 million, \$4 million or 12.1% greater than the total fund balance for the previous fiscal year. The unassigned portion of fund balance continued to improve, increasing from \$21.1 million or approximately 6% of total fund revenues and other financing sources at June 30, 2013 to \$26.3 million or 7.1% of fund revenues and other financing sources at June 30, 2014. During the past fiscal year, the City added a total of \$3 million to the Rainy Day Stabilization Fund, which at June 30, 2014 accounted for \$14 million of the \$26.3 million in unassigned fund balance. The City's funding target for the Rainy Day Stabilization Fund is 5% of the General Fund budget, or approximately \$17.3 million. Subsequent to fiscal year end, the City achieved this goal with two supplemental appropriations from General Fund resources. Note 14, on page 66 of this report provides a detailed analysis of the major components of each fund balance category.

City of Newton, Massachusetts
General Fund
Fund Trends – Fiscal year 2014 and (5) previous fiscal years

	2014	2013	2012	2011 (1)	2010	2009
Total fund balance	\$ 36,675,777	\$ 32,715,384	\$ 28,224,341	\$ 30,773,574	\$ 19,312,545	\$ 20,169,278
Less: Fund balance restrictions for:						
Debt service.....	2,835,755	2,896,430	617,572	683,320	749,640	881,707
Capital.....	13,752	268,186	7,729	108,107	-	-
Other postemployment benefits (2).....	-	-	312,973	137,295	-	-
Less: Fund balance committed for:						
Subsequent year's expenditures.....	1,595,130	300,000	2,565,748	2,066,320	2,675,133	5,051,017
Capital.....	714,835	2,149,216	5,049,725	9,714,755	-	-
Continued appropriations.....	2,579,251	2,899,584	2,201,193	3,096,013	3,192,017	2,335,964
Less: Fund balance assigned for:						
Encumbrances.....	2,556,214	2,977,415	2,435,508	727,814	1,804,606	1,377,372
Capital.....	121,776	133,106	147,553	116,627	-	-
Unassigned fund balance.....	26,259,064	21,091,447	14,886,340	14,123,323	10,891,149	10,523,218
Total revenues & other financing sources.....	\$ 370,804,386	\$ 349,844,773	\$ 329,962,477	\$ 321,055,179	\$ 318,872,777	\$ 310,562,043
Total fund balance as % total revenues and ofs.....	9.9%	9.4%	8.6%	9.6%	6.1%	6.5%
Unassigned fund balance as % total revenues and ofs.....	7.1%	6.0%	4.5%	4.4%	3.4%	3.4%

(1) Starting in fiscal year 2011 general fund balance is being reported in accordance with Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*

(2) Starting in fiscal year 2013 other postemployment benefits are being reported as an other postemployment benefits trust fund in the fiduciary funds financial statements

Total fiscal year 2014 general fund revenues and other financing sources increased by \$21 million or 6%, to \$370.8 million.

Source	Amount	% of Total	Increase/ (Decrease)	% Change
Real estate and personal property taxes.....	\$ 277,636,527	74.9%	\$ 20,410,671	7.9%
Motor vehicle excise taxes.....	12,057,191	3.3%	705,823	6.2%
Hotel room occupancy taxes.....	2,218,759	0.6%	167,345	8.2%
Meals taxes.....	1,557,737	0.4%	149,934	10.7%
Penalties and interest on taxes.....	1,135,819	0.3%	151,518	15.4%
Licenses and permits.....	6,899,536	1.9%	(1,300,636)	-15.9%
Intergovernmental.....	56,964,530	15.4%	(729,409)	-1.3%
Charges for services.....	1,734,699	0.5%	(88,195)	-4.8%
Fines and forfeitures.....	1,840,649	0.5%	(98,473)	-5.1%
Investment income.....	216,610	0.1%	27,718	14.7%
Payments in lieu of taxes.....	475,741	0.1%	(45,902)	-8.8%
Special assessments.....	51,512	0.0%	(15,240)	-22.8%
Miscellaneous.....	493,668	0.1%	118,297	31.5%
Total revenues.....	363,282,978	98.0%	19,453,451	5.7%
Premium from issuance of bonds/notes.....	749,963	0.2%	159,223	27.0%
Sale of capital assets.....	14,173	0.0%	(8,552)	-37.6%
Transfers from other funds.....	6,757,272	1.8%	1,355,491	25.1%
Total revenues and other financing sources.....	\$ 370,804,386	100.0%	\$ 20,959,613	6.0%

Property tax growth of \$20.4 million accounted for 97.1% of all revenue growth for the year. The 7.9% increase in property tax revenue resulted from a combination of the normal increase authorized by Proposition 2 1/2; \$8.4 million in new property taxes authorized by a March 2013 Proposition 2 1/2 override vote of the Newton electorate; \$2.6 million in prior year tax collections; and a 99.87% current year tax collection rate.

Over the course of the fiscal year, the City's Board of Assessors granted tax abatements, exemptions; and senior work credits totaling \$548,107 or 0.2% of the tax levy for the year. A tax refund payable liability of \$6.7 million has been recorded at fiscal year-end for abatement applications that, in the opinion of the Board of Assessors, are likely to result in tax refunds.

Intergovernmental revenue including \$32.6 million in Commonwealth of Massachusetts on-behalf payments for Newton participants in the Massachusetts Teachers Retirement System, declined by \$0.7 million or 1.3% during the year. The reported decline is entirely a function of the fact that 2013 intergovernmental revenue included a one-time \$2.3 final reimbursement on the new Newton North High School project.

The \$1.3 million decrease in license and permit revenue consists entirely of inspectional services permit revenue. Total fiscal year 2014 inspectional service permit revenue amounted to \$5.7 million. The median annual revenue realized from this source over the trailing five year period is \$4.5 million.

A detailed schedule of inter-fund transfer activity is presented in note 7, on page 54 of this report.

Total general fund expenditures and transfers to other funds totaled \$366.8 million, an increase of \$21.8 million or 6.3% over the previous fiscal year.

	Amount	%	Increase/ (Decrease)	%
		of Total		Change
General government.....	\$ 15,368,786	4.2%	1,368,587	9.8%
Public safety.....	37,525,186	10.2%	2,104,603	5.9%
Education.....	187,922,902	51.2%	10,972,710	6.2%
Public works.....	23,918,809	6.5%	2,704,312	12.7%
Health and human services.....	4,024,472	1.1%	148,472	3.8%
Culture and recreation.....	9,239,984	2.5%	(603,051)	-6.1%
Retirement benefits.....	60,134,090	16.5%	2,321,023	4.0%
Workers' compensation insurance.....	1,334,721	0.4%	34,078	2.6%
Property and liability insurance.....	443,898	0.1%	22,535	5.3%
Claims and judgements.....	171,221	0.0%	42,271	32.8%
State assessments and charges.....	5,783,939	1.6%	61,389	1.1%
Debt service				
Principal.....	9,612,425	2.6%	771,258	8.7%
Interest.....	7,364,974	2.0%	(127,227)	-1.7%
 Total expenditures.....	 362,845,407	 98.9%	 19,820,960	 5.8%
Transfers to other funds.....	3,998,586	1.1%	1,982,276	98.3%
 Total expenditures and transfers.....	 \$ 366,843,993	 100.0%	 \$ 21,803,236	 6.3%

The functions reporting the largest growth in spending (in dollar terms) were Education; Public Works; Retirement Benefits; and Public Safety.

The \$8.4 million Proposition 2 ½ override vote approved by the voters in March of 2013 provided for the following additional spending:

Description	Amount
Education.....	\$ 3,500,000
Public safety - Police.....	500,000
Public works - Streets & sidewalks.....	1,000,000
General government - public building maintenance.....	345,020
Debt service - school projects.....	654,980
Transfer to Capital Stabilization Fund.....	2,400,000
 Total.....	 \$ 8,400,000

The \$3.5 million in education funding was expended in full during the year, and the \$2.4 million Capital Stabilization Fund contribution was made in full. Of the \$2.4 million in capital funding, \$1 million was appropriated for a feasibility study for improvements to the Zervas Elementary School and \$691,000 was appropriated for fire station improvements.

A total of \$0.7 million of the \$1 million that was appropriated for street and sidewalk improvements was expended during fiscal year 2014 and the balance carried forward into fiscal year 2015 for expenditure during the summer 2014 construction season.

A total of \$0.2 million of the additional funding for police capital outlay was expended in full during the year. All but \$129,596 of the \$0.3 million that was appropriated for police salaries and benefits was expended during the year.

A total of \$623,342 of the \$654,980 that was appropriated for debt service was expended during fiscal year 2014.

Expenditures for retirement benefits (including pay-as-you-go retiree health and life benefits and the Commonwealth's on behalf contribution to the Massachusetts Teachers Retirement System for Newton educators) increased by \$2.3 million or 4% for the year. The \$2.3 million increase in retirement spending consisted of \$1.6 million in additional contributions to the Newton Contributory Retirement System; \$0.7 million in additional funding for the Massachusetts Teachers Retirement System, and a \$0.1 million increase in pay-as-you-go retiree health benefit costs.

The voters of the City elected to implement the Community Preservation Act (CPA), with a 1% surcharge on all real estate tax bills, in November 2001. During the fiscal year ended June 30, 2014, the City realized \$4 million in CPA fund revenue, \$2.7 million (67.5%) of which came from the local property tax surcharge. State matching funds amounted to \$1.3 million. Fund expenditures totaled \$1.9 million for the year, \$0.8 million of which was for community recreation purposes; \$0.5 million of which was for open space acquisition; \$0.3 million of which was for historic preservation purposes; and \$0.2 million for community housing.

The high school improvements fund was established to account for major renovations to the City's Newton South High School and the construction of a new Newton North High School. Both projects have been completed and the fund was closed during fiscal year 2014.

The overall financial position of all non-major governmental funds increased by \$1.3 million (6.6%) during the year, as a result of unexpended capital project fund balances in the street improvement and public building improvement funds.

Proprietary funds - The City's proprietary funds provide the same information found in the government-wide statements, but in slightly more detail. Proprietary fund net position's net investment in capital assets represents principally the City's water supply and distribution system and the sanitary sewer collection system.

The financial position of the City's sewer fund increased by \$4.4 million to \$48.3 million at June 30, 2014. This resulted from the fact that fund revenues continue to exceed fund expenses, which resulted from a combination of the more accurate and timely billings from the City's new installed water meter system and the accumulation of resources for future capital improvements. A total of \$32.4 million or 67.1% of the fund's net position represent its net investment in capital assets. Unrestricted fund net position amounted to \$15.9 million at June 30, 2014, the equivalent of 7.6 months of operating expenditures.

The financial position of the City's water fund also improved during the last fiscal year from \$38.5 million at June 30, 2013 to \$41.7 million at June 30, 2014. The \$3.2 million improvement in the financial position of this fund was also a function of the improved billings and collections resulting from the installation of new water meters and planned accumulation of resources for future capital improvements and maintenance.

A total of \$34.6 million or 83% of the total fund net position represents the City's net investment in capital assets. Unrestricted fund net position were \$7.1 million, also approximately 5.3 months of operating expenditures.

The financial position of the City's Internal Service Funds increased by \$3.6 million, or 27.2% during the year ended June 30, 2014. Internal service funds are used to account for the City's self-insured group health insurance; workers compensation; and general liability risk exposures and to fund property insurance premiums for City buildings and contents. Detailed information on the self-insurance funds is presented on pages 86-89.

The financial position of the City's workers compensation self-insurance fund increased by \$3.5 million during the year and accounted for all of the improvement in the financial position of the internal service funds. A \$2.3 million decrease in the City's estimate of incurred but unreported workers compensation benefit claims along with \$1.5 million in investment income contributed to the improved financial position. The reduction in the accrued liability resulted from a favorable lump sum settlement of a long term workers compensation claim and the death of long term recipients.

Although total paid claims increased by 6.1% to \$46.6 million during fiscal year 2014, the City's group health self-insurance fund's financial position improved by \$0.7 million to \$14.8 million. The \$14.8 million year-end net position represents 3.8 months of average paid claims. The City's target financial position for the fund is 1.5 – 2.0 months of average paid claims.

The City's Building Insurance Fund ended the fiscal year with a net position of \$36,026. All of this sum has been designated to fund fiscal year 2015 property insurance premiums.

Fiduciary funds – The net position of the City’s contributory retirement system increased by \$26.2 million (10.3%) to \$280.4 million during the system’s fiscal year that ended December 31, 2013, entirely as a result of positive investment performance. According to the Commonwealth of Massachusetts Public Employee Retirement Administration Commission’s 2013 Annual Report, the Newton Contributory Retirement System’s investment portfolio returned 14.62% for the year (compared to a long term return assumption of 7.65%). The plan’s ten year average annual return is 6.43%.

The funded status of the defined benefit retirement plan at January 1, 2014 was 50.8%. Based upon a new funding schedule that was formally adopted by the City during fiscal year 2014, the plan is expected to be fully funded in the fiscal year ending June 30, 2029. The new 15 year funding schedule assumes an 8.5% annual increase in City appropriations to the defined benefit trust; average annual investment returns of 7.65%; and projected annual salary increases of no greater than 3.5% per year. The City made its actuarially required contribution to the fund in full. More specific information about the local retirement system may be found on pages 67-70 of this report.

The net position of the City’s OPEB fund increased from \$0.5 million to \$1.1 million during fiscal year 2014 as a result of employer contributions.

General Fund Budgetary Highlights:

The difference between the original General Fund budget of \$337 million (including prior year encumbrances and continuing appropriations) and the final amended budget of \$343.6 million amounts to 2.0% and can be summarized as follows:

Description	Amount
Rainy Day Stabilization fund.....	\$ 2,500,000
Snow and ice control.....	2,000,000
Fiber network.....	1,100,000
Newton Public Schools.....	536,749
Police overtime.....	200,000
Capital outlay and improvements.....	188,876
Legal claim.....	75,000
Police gasoline.....	41,210
State assessments.....	<u>(13,239)</u>
 Total supplemental appropriations.....	 <u>\$ 6,628,596</u>

There were no deficits incurred in the appropriations of the various departments of the City. All but \$1.9 million (0.5%) of total appropriations were expended, encumbered, or continued into fiscal year 2015 for completion of the appropriated purposes at June 30, 2014. Please refer to pages 98–107 for a complete accounting of budget to actual experience for all City departments, at their legal level of control.

Capital Assets and Debt Administration

Capital assets – The City’s investment in capital assets for governmental and business-type activities, net of accumulated depreciation of \$248 million, as of June 30, 2014, amounts to \$523.9 million. The investment in capital assets includes land and land improvements, intangible assets, buildings and improvements, machinery and equipment, infrastructure and construction in progress.

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
Land and improvements.....	\$ 22,226,126	\$ 22,226,126	\$ 284,785	\$ 284,785	\$ 22,510,911	\$ 22,510,911
Intangible assets.....	2,238,261	2,238,261	-	-	2,238,261	2,238,261
Buildings and improvements.....	329,274,167	312,637,033	2,381,638	2,214,526	331,655,805	314,851,559
Machinery and equipment.....	24,931,294	21,911,216	9,568,984	10,066,842	34,500,278	31,978,058
Infrastructure.....	55,030,739	45,672,372	72,191,401	66,129,347	127,222,140	111,801,719
Construction in progress.....	5,758,403	15,151,760	4,345	32,445	5,762,748	15,184,205
Total capital assets.....	\$ 439,458,990	\$ 419,836,768	\$ 84,431,153	\$ 78,727,945	\$ 523,890,143	\$ 498,564,713

Total capital assets, net of accumulated depreciation, increased by \$25.3 million or 5.1%. Major capital asset events during 2014 included the following:

- Business-type activity net capital assets increased by \$5.7 million, due to water and sewer system improvements funded with Massachusetts Water Resources Authority grants and interest free loans, and the beginning of a locally funded sewer infiltration and inflow reduction program.
- Governmental activity capital assets (net) increased by \$19.6 million, principally as a result of a variety of school improvement projects and roadway improvements that are being funded with a combination of state capital construction grants and additional property taxes from the March 2013 Proposition 2 ½ override vote.

Additional information on the City's capital assets may be found on pages 50-52 of this report.

Debt outstanding – At June 30, 2014, the City had total long term debt outstanding of \$229.9 million, \$199.9 million for governmental activities and \$30 million for business-type activities. There were no bond anticipation notes outstanding at June 30, 2014. All debt is a general obligation of the City, although water and sewer debt service payments are made from the resources of the enterprise funds and community preservation fund project debt service payments are made from resources of the community preservation fund.

City of Newton, Massachusetts General Obligation Bonds and Notes Outstanding – by Purpose

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
Education buildings.....	\$ 180,183,999	\$ 168,213,224	\$ -	\$ -	\$ 180,183,999	\$ 168,213,224
Municipal buildings.....	11,145,000	10,945,000	-	-	11,145,000	10,945,000
Departmental equipment.....	6,782,000	7,412,000	-	-	6,782,000	7,412,000
Landfill closure.....	805,400	952,600	-	-	805,400	952,600
Street reconstruction.....	185,000	255,000	-	-	185,000	255,000
Land acquisition.....	765,000	1,520,000	-	-	765,000	1,520,000
Water system.....	-	-	17,444,849	19,207,903	17,444,849	19,207,903
Sanitary sewer system.....	-	-	12,546,980	14,106,701	12,546,980	14,106,701
Total bonds and notes.....	\$ 199,866,399	\$ 189,297,824	\$ 29,991,829	\$ 33,314,604	\$ 229,858,228	\$ 222,612,428

During the year just ended, the City added \$22.3 million in new bonds and retired \$15.1 million in existing bonds. General fund interest and principal payments amounted to \$16.9 million or 4.6% of fund revenues and other financing sources. Community Preservation Fund interest and principal payments amounted to \$0.8 million, or 19.9%, of fund revenues.

A total of \$118.8 million or 51.7% of existing bonded debt will be retired within ten years; \$189.9 million or 82.6% will be retired within twenty years; and all existing debt will be extinguished by June 30, 2044. Of the \$40.1 million in existing debt that matures in greater than 20 years, \$30.9 million represents new Newton North High School debt and the balance consists of debt issued in fiscal years 2013 and 2014 for Carr Elementary school improvements and construction of the new Angier Elementary school.

At June 30, 2014 the City's authorized and unissued long term debt amounted to \$53.3 million, an increase of \$23.4 million (78.3%) from June 30, 2013. Funding authorized for the construction of a new Angier Elementary school is responsible for the growth in authorized unissued debt. The debt service on the Angier project is to be funded with a Proposition 2 ½ debt exclusion that was approved by Newton voters in the spring of 2013.

The City's bonds are rated Aaa by Moody's Investor Services Inc.

Additional information on the City's long-term debt can be found on pages 55-60 of this report. In addition, debt trend information is available on pages 138-141 of this report.

Economic Factors and Next Year's Budget and Rates

- According to the U.S. Census Bureau, the median household income for the City was \$114,416. This compares favorably with the Massachusetts median household income of \$66,658, and the U.S. median household income of \$53,046. The City's per capita income was \$61,530 compared with \$35,485 for the Commonwealth of Massachusetts, and \$28,051 for the nation as a whole.
- According to Homefacts.com, the unemployment rate for the City for June of 2014 was 4.1%, which compared favorably with the statewide unemployment rate of 5.6% and the national unemployment rate of 6.1%.
- According to the City's Board of Assessors, the 2014 median value of a single family home in Newton was \$693,900; the median value of a commercial property was \$758,600; and the median value of industrial property was \$854,950.

The City of Newton's fiscal year 2015 general fund operating budget, as amended through the date of this report, amounts to \$354.4 million, \$5.1 million of which represents encumbrances and continuing appropriations from fiscal year 2014. This represents an increase of \$10.8 million, or 3.1%, from the final fiscal year 2014 budget total.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Comptroller, City of Newton, 1000 Commonwealth Avenue, Newton, Massachusetts 02459 or dwilkinson@newtonma.gov.