

Management's Discussion and Analysis

This analysis, prepared by the Finance Director and the Town Accountant, offers readers of the Town's financial statements a narrative overview and analysis of the financial activities of the Town of Hingham for the fiscal year ended June 30, 2011. This is the ninth year our financial statements have been prepared under the Government Accounting Standards Board Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the Town's financial statements have significant departures from GAAP the independent auditors may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the Town's bond rating and our ability to borrow money at favorable interest rates. The Town has enjoyed an unqualified opinion on its financial statements for many years.

Financial Highlights

- The government-wide assets of the Town of Hingham exceeded its liabilities at the close of the most recent fiscal year by \$93.6 million and \$37.6 million (net assets) for governmental activities and business-type activities, respectively.
- Of these amounts, 14% or \$17.9 million (unrestricted net assets) may be used to meet the government's on-going obligations to citizens and creditors.
- At the close of the current fiscal year, the Town of Hingham's general fund reported an ending fund balance of \$14.2 million, an increase of \$1.8 million over the prior year. Total fund balance represents 16.7% of total general fund expenditures. Approximately \$11.8 million of this total amount is available for appropriation at the Town's discretion.
- The Town of Hingham's total governmental debt decreased by approximately \$5.4 million during the current fiscal year. The amounts include the refunding of \$19.1 million of primarily school related debt that was refinanced at lower interest rates.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Hingham's basic financial statements. The Town's basic financial statements comprise 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 Town's finances, in a manner similar to private-sector businesses.

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

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or the 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, public education, public works, human services, culture and recreation, community preservation, claims and judgments, and interest. The business-type activities include the activities of the South Shore Country Club and the Hingham Municipal Lighting Plant enterprise funds.

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 Town, 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 Town 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 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.

Fiscal year 2011 was the Town's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the Town's stabilization fund is reported within the general fund as unassigned.

Because the focus of governmental funds is narrower than that of 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.

The Town's general fund is shown separately and the remaining governmental funds are aggregated and shown as nonmajor governmental funds.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains one proprietary fund type.

Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements, only in more detail. The Town uses enterprise funds to account for its country club and electric lighting operations, both of which are considered major funds of the Town.

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.

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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Hingham, assets exceeded liabilities by \$131.2 million at the close of the fiscal year 2011.

Government-wide net assets of \$110.0 million (84%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets 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 the Town of Hingham's net assets, \$3.3 million (3%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$17.9 million (14%), may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Hingham is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Details related to the Town's governmental and business-type activities follow.

Governmental activities. The governmental activities net assets increased by \$5.7 million during the current fiscal year as compared to a decrease in net assets of \$2.7 during the prior fiscal year. The positive change of approximately \$8.4 million relates mainly to the sale of the Hersey House for \$1.25 million and from approximately \$2.1 million of state grants for the South Shore Regional Emergency Communications Center (SSRECC). Increases in charges for services of \$923,000, operating grants and contributions of \$1.7 million, and \$2.6 million of real estate and other taxes also contributed to the positive change as expenses remained roughly the same as the prior year.

Governmental Activities Condensed Statement of Net Assets

	2011	2010
Assets:		
Current assets.....	\$ 34,810,949	\$ 29,206,745
Noncurrent assets (excluding capital).....	16,821,752	18,305,172
Capital assets, non depreciable.....	11,003,642	9,586,070
Capital assets, net of accumulated depreciation.....	114,463,152	118,887,845
Total assets.....	177,099,495	175,985,832
Liabilities:		
Current liabilities (excluding debt).....	6,334,867	6,130,232
Noncurrent liabilities (excluding debt).....	9,983,912	9,447,058
Current debt.....	5,631,493	5,490,885
Noncurrent debt.....	61,539,628	67,041,240
Total liabilities.....	83,489,900	88,109,415
Net Assets:		
Invested in capital assets, net of related debt.....	76,535,196	76,103,445
Restricted.....	3,319,289	3,265,064
Unrestricted.....	13,755,110	8,507,908
Total net assets.....	\$ 93,609,595	\$ 87,876,417

Governmental capital assets decreased during the year by approximately \$3 million. This was the result of \$2.7 million of additions primarily for the SSRECC as discussed above, and from recording depreciation expenses of approximately \$5.7 million.

Governmental Activities Condensed Statement of Activities

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services.....	\$ 9,729,126	\$ 8,806,465
Operating grants and contributions.....	20,934,750	19,246,742
Capital grants and contributions.....	2,764,000	1,049,982
General Revenues:		
Real estate, personal property taxes, and motor vehicle and other excise taxes.....	66,335,378	63,715,553
Penalties & interest	335,810	286,495
Nonrestricted grants, contributions, and other.....	1,683,802	1,534,498
Unrestricted investment income.....	92,048	128,168
Gain on sale of capital assets.....	1,250,000	-
Total revenues.....	<u>103,124,914</u>	<u>94,767,903</u>
Expenses:		
General government.....	4,890,174	4,970,623
Public safety.....	15,056,274	15,901,991
Education.....	59,143,074	58,665,520
Public works.....	11,560,586	10,035,307
Human services.....	1,068,951	1,196,017
Culture and recreation.....	3,228,299	4,616,526
Community preservation.....	81,220	6,304
Claims and judgments.....	547,000	-
Interest.....	2,352,715	2,545,526
Total expenses.....	<u>97,928,293</u>	<u>97,937,814</u>
Excess (Deficiency) before transfers.....	5,196,621	(3,169,911)
Transfers.....	<u>536,557</u>	<u>482,567</u>
Change in net assets.....	\$ <u>5,733,178</u>	\$ <u>(2,687,344)</u>

Other financial notes related to governmental activities:

- Charges for services represented 9% of governmental activities resources. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the Town are included in this category.
- Operating grants and contributions accounted for 20% percent of the governmental activities resources. Most of these resources apply to educational operations. These resources offset costs within the school department and supplement their General Fund operating budget.
- Capital grants and contributions accounted for 3% of the governmental activities resources. These mainly consist of state grants for the SSRECC and a new harbor patrol boat.
- Property taxes are by far the most significant revenue source for the Town's governmental activities. They comprised 64% of current resources.
- Other taxes and other revenues comprised a total of 4% percent of the governmental activities resources. These primarily include unrestricted contributions and investment earnings.

- Education is by far the largest governmental activity of the Town. After subtracting \$19.2 million of program revenues (charges for services and operating grants) as shown on the Statement of Activities, approximately \$39.9 million in taxes and other revenue were needed to cover its fiscal 2011 net operating expenses. A pension contribution of approximately \$8.2 million made by the state on-behalf of Hingham teachers was recorded as an expense and grant revenue.
- Public safety and public works are the second and third largest activities of the Town. Approximately \$10.1 million and \$6.9 million, respectively, of taxes and other revenue were needed to cover their fiscal 2011 operating expenses.
- Culture and recreational expenses decreased by approximately \$1.4 million from Harbor dredging projects completed during the prior year.

Business-type activities. Business-type activities increased the Town's net assets by \$421,000. These results continue to reflect management's goal of maintaining the systems while only charging users for the cost of operations.

As shown below, business-type activities assets exceeded liabilities by \$37.6 million at the close of fiscal year 2011. Invested in capital assets, net of related debt was \$33.5 million (89%) while unrestricted net assets were \$4.1 million (11%).

Business-Type Activities Condensed Statement of Net Assets

	2011	2010
Assets:		
Current assets.....	\$ 12,326,221	\$ 11,086,078
Noncurrent assets (excluding capital).....	1,510,105	1,534,079
Capital assets, non depreciable.....	7,314,844	7,314,844
Capital assets, net of accumulated depreciation.....	27,749,311	28,557,899
Total assets.....	48,900,481	48,492,900
Liabilities:		
Current liabilities (excluding debt).....	7,045,729	6,806,564
Non-current liabilities (excluding debt).....	3,066,297	2,836,970
Current debt.....	130,000	316,755
Noncurrent debt.....	1,085,000	1,380,620
Total liabilities.....	11,327,026	11,340,909
Net Assets:		
Invested in capital assets, net of related debt.....	33,475,349	34,175,368
Unrestricted.....	4,098,106	2,976,623
Total net assets.....	\$ 37,573,455	\$ 37,151,991

Noncurrent assets include \$1.3 million of pre-funded other postemployment benefits of the Municipal Lighting Plant.

Business-Type Activities Condensed Statement of Activities

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services.....	\$ 31,326,049	\$ 29,580,608
Capital grants and contributions.....	-	233,863
General Revenues:		
Unrestricted investment income.....	<u>61,910</u>	<u>151,905</u>
Total revenues.....	<u>31,387,959</u>	<u>29,966,376</u>
Expenses:		
South Shore Country Club.....	1,629,085	1,654,620
Electric Lighting.....	<u>28,800,853</u>	<u>27,195,703</u>
Total expenses.....	<u>30,429,938</u>	<u>28,850,323</u>
Excess before transfers.....	958,021	1,116,053
Transfers.....	<u>(536,557)</u>	<u>(482,567)</u>
Change in net assets.....	<u>\$ 421,464</u>	<u>\$ 633,486</u>

Financial Analysis of the Government's Major Funds

As noted earlier, The Town of Hingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, the 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 \$23.7 million, an increase of \$2.9 million for the year. The general fund revenues and other financing sources included approximately \$430,000 from a new local meals tax and \$1.3 million from the sale of the Hersey House.

General Fund

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$11.8 million, while the total fund balance was \$14.2 million. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. The unassigned fund balance represents 13.8% of total general fund expenditures, while the total fund balance represents 16.7% of that same amount.

The fund balance of the General Fund increased by \$1.8 million during fiscal year 2011.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Total general fund revenues were slightly greater than budgeted amounts mainly due to charges for services (permitting), new local meals tax revenue (not budgeted in current year), and department and other revenues that exceeded budgeted amounts by \$660,000, \$430,000, and 835,000, respectively. Real estate and personal property tax revenues were approximately \$1.6 million below budgeted amounts.

Total expenditures and carryovers were also less than budgeted amounts by approximately \$1.3 million. The largest savings were from school department expenses, employee benefits and debt service payments; however virtually every Town department contributed to the savings.

Capital Assets and Debt Management

In conjunction with the operating budget, the Town annually prepares a capital budget which includes detailed information concerning those capital requests for the upcoming fiscal year as well as summary information for the following four fiscal years to identify current projections of what level of capital outlay will be required in future years.

The Town of Hingham has maintained its bond rating of "Aaa" from Moody's Investor Services, "AAA" from Fitch Ratings, and "AAA" from Standard & Poor's. This is a significant achievement as only about 6% of Massachusetts communities receive these highest ratings.

Major capital assets are funded primarily by the issuance of long-term debt and at times from the receipt of capital grants. For capital assets acquired through debt, the effect on net assets during the construction phase of the project is neutral since the Town increases its assets and associated liabilities by the same amount. For capital assets acquired through capital grants, the effect on net assets is positive since the Town does not use its own resources to acquire the assets. In subsequent years the net assets will be reduced through depreciation and will be increased by the revenues raised to support the debt principal payments. Outstanding long-term debt of the general government, as of June 30, 2011, totaled \$67.1 million, a decrease of \$5.4 million from the prior year. Funding for the majority of this debt service is from real estate taxes that have been exempt from the tax levy limitation of Massachusetts' Proposition 2 ½.

The enterprise funds have \$1.2 million in Country Club debt used to install an irrigation system for the golf course that is fully supported by the rates and does not rely on a general fund subsidy.

The Town's major capital projects have been related to school construction, DPW building construction, land acquisition, and the purchase of the Lincoln School Apartments. During fiscal year 2011, the Town has spent approximately \$2.1 million on the SSRECC project which was funded by state grants, plus an additional \$2.6 million on other various initiatives.

Please refer to notes 5, 7, 8, and 9 to the financial statements for further discussion of the major capital and debt activity.

Pension Trust Fund

The Pension Trust Fund (System) realized a positive change in net assets of \$7.5 million which was primarily due to \$8.5 million of net investment income. Total net assets of the System amounted to \$73.2 million at December 31, 2010.

Other Postemployment Benefits

The Town and the Electric Lighting Plant implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, as of June 30, 2009 and December 31, 2008, respectively. The governmental-activities have accumulated a liability for other postemployment benefits in the amount of \$8.1 million at June 30, 2011 and have pre-funded future obligations in the amount of approximately \$1.5 million. The business-type activities (Municipal Lighting Plant) have pre-funded benefits in the amount of \$1.5 million which has created an OPEB asset in the amount of \$1.3 million at December 31, 2010. The total assets set aside in trust for future benefits amounted to approximately \$3 million at fiscal year end.

Discretely Presented Component Units

The net assets of the Component Units represent the Hingham Public Library, a separate legal entity established in 1872, and the Lincoln Apartments, LLC a Massachusetts Limited Liability Company established in 2009 to operate affordable housing at the Lincoln School Apartment building owned by the Town.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Susan M. Nickerson, Town Accountant, 210 Central Street, Hingham, MA 02403.