

TOWN OF WALPOLE, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
Year Ended June 30, 2014

TOWN OF WALPOLE, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the Board of Selectmen
Town of Walpole, Massachusetts

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 Walpole, Massachusetts, (the Town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity 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 the management's discussion and analysis, the funding and contribution progress for pension benefits and other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014, 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, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
December 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town, we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$142.4 million (*total net position*).
- The government's total net position decreased by approximately \$1.3 million (0.9%). The governmental activities decreased net position by approximately \$1.3 million (1.4%), while the business - type activities flat year over year.
- The Town's unassigned fund balance reported in the General Fund was approximately \$9.5 million (11.5% of General Fund expenditures). Total fund balance in the General Fund was approximately \$13.2 million (15.9% of General Fund expenditures). The Town reported restricted fund balances of approximately \$1.1 million in the Library Construction Project Fund and approximately \$5.7 million in the combined Nonmajor Governmental Funds.
- The Town's total debt decreased by approximately \$0.3 million during the fiscal year. This was due to regular scheduled maturities of principal of \$3.2 million offset by new issuances of debt totaling \$2.8 million; \$0.7 million in the governmental activities and \$2.1 million in business-type activities.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town'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 a private-sector business. The *statement of net position* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town 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 of the Town that are principally supported by taxes and intergovernmental revenue (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 of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include water and sewer 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.

Accounting guidelines distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed – amounts constrained by a government using its highest level of decision-making authority
- Assigned – amounts a government intends to use for a particular purpose
- Unassigned – amounts that are not constrained at all will be reported in the general fund

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.

Reconciliations are provided in the financial statements to facilitate this comparison.

The Town maintains many individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Library Construction Project Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation under the heading of Nonmajor governmental funds.

The Town adopts an annual appropriated budget for its general fund and its enterprise fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes after the footnotes to the financial statements.

Proprietary Funds – Proprietary funds are used to account for a government's ongoing organizational activities which are similar to those often found in the private sector. The Town utilizes the proprietary funds to report activities of its enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The proprietary fund financial statements provide separate information for enterprise funds of the sewer and water activities.

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 statement 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 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.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town’s progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Government-wide Financial Analysis

The condensed statement of net position is as follows:

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|----------------------------------|--------------------------------|------------------------------|---------------------------------|----------------------|-----------------------|------------------------------|
| | June 30, 2014 | June 30, 2013 Restated | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 Restated |
| <u>Assets</u> | | | | | | |
| Current and other assets | \$ 29,090,971 | \$ 26,114,169 | \$ 10,003,107 | \$ 11,197,795 | \$ 39,094,078 | \$ 37,311,964 |
| Capital assets, net | 103,909,435 | 105,505,809 | 54,033,373 | 54,747,274 | 157,942,808 | 160,253,083 |
| Total assets | 133,000,406 | 131,619,978 | 64,036,480 | 65,945,069 | 197,036,886 | 197,565,047 |
| <u>Liabilities</u> | | | | | | |
| Long-term liabilities | 5,117,128 | 5,230,781 | 155,297 | 2,782,838 | 5,272,425 | 8,013,619 |
| Other liabilities | 38,042,424 | 35,294,326 | 11,366,650 | 10,634,452 | 49,409,074 | 45,928,778 |
| Total liabilities | 43,159,552 | 40,525,107 | 11,521,947 | 13,417,290 | 54,681,499 | 53,942,397 |
| <u>Net Position</u> | | | | | | |
| Net investment in capital assets | 90,149,883 | 90,698,930 | 45,133,385 | 44,584,843 | 135,283,268 | 135,283,773 |
| Restricted | 5,942,950 | 5,829,283 | - | - | 5,942,950 | 5,829,283 |
| Unrestricted | (6,251,979) | (5,433,342) | 7,381,148 | 7,942,936 | 1,129,169 | 2,509,594 |
| Net position | \$ 89,840,854 | \$ 91,094,871 | \$ 52,514,533 | \$ 52,527,779 | \$ 142,355,387 | \$ 143,622,650 |

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets exceeded liabilities at the close of the most recent fiscal year by approximately \$142.4 million (*total net position*).

A decrease of \$1.3 million in the governmental activities was primarily the net result of:

1. Recognition of expenses associated with other postemployment benefits \$3.9 million;
2. Use of prior year surplus to subsidize capital articles and snow removal costs \$3.2 million; offset by
3. Positive actual revenue verse forecast \$3.6 million; and
4. Positive actual expenditures verse budget \$1.8 million.

By far, the largest portion (approximately \$135.2 million) of the Town’s net position reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less related debt used to acquire those assets that is still outstanding, net of unexpended portions. The Town uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s 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 (approximately \$5.9 million) of the Town's net position represents resources that are subject to external restriction on how they may be used. The remaining net position balance consists of *unrestricted net position*, (approximately \$1.1 million). These may be used to meet the government's ongoing obligations to citizens and creditors.

The Town was able to report positive balances in all categories of net position at year end with exception of the unrestricted net position of the governmental activities. This deficit was a result of recognition of other postemployment benefit obligations totaling nearly \$20.7 million, since the implementation of GASB 45 in fiscal year 2009.

The condensed statement of changes in net position is as follows:

| | <u>Governmental activities</u> | | <u>Business activities</u> | | <u>Total</u> | |
|--|--------------------------------|------------------------------|----------------------------|----------------------|-----------------------|------------------------------|
| | June 30, 2014 | June 30, 2013 Restated | June 30, 2014 | June 30, 2013 | June 30, 2014 | June 30, 2013 Restated |
| <u>Revenues</u> | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 6,683,614 | \$ 6,331,862 | \$ 8,928,864 | \$ 8,909,094 | \$ 15,612,478 | \$ 15,240,956 |
| Operating grants and | 19,459,964 | 18,409,716 | 185,756 | 255,405 | 19,645,720 | 18,665,121 |
| Capital grants and | 1,275,053 | 2,117,902 | 21,541 | 493,277 | 1,296,594 | 2,611,179 |
| General revenues: | | | | | | |
| Property taxes | 59,505,681 | 57,352,885 | - | - | 59,505,681 | 57,352,885 |
| Intergovernmental | 3,888,019 | 2,333,232 | - | - | 3,888,019 | 2,333,232 |
| Other | 4,697,138 | 4,244,900 | - | 4,163 | 4,697,138 | 4,249,063 |
| Total revenues | 95,509,469 | 90,790,497 | 9,136,161 | 9,661,939 | 104,645,630 | 100,452,436 |
| <u>Expenses</u> | | | | | | |
| General government | 5,345,807 | 4,929,062 | - | - | 5,345,807 | 4,929,062 |
| Public safety | 12,871,259 | 12,333,591 | - | - | 12,871,259 | 12,333,591 |
| Education | 66,079,070 | 62,728,910 | - | - | 66,079,070 | 62,728,910 |
| Public works | 9,030,665 | 8,998,101 | - | - | 9,030,665 | 8,998,101 |
| Health and human services | 1,040,983 | 1,092,019 | - | - | 1,040,983 | 1,092,019 |
| Culture and recreation | 2,865,457 | 2,629,376 | - | - | 2,865,457 | 2,629,376 |
| Debt service | 574,849 | 660,055 | - | - | 574,849 | 660,055 |
| Water | - | - | 3,699,842 | 3,716,109 | 3,699,842 | 3,716,109 |
| Sewer | - | - | 4,404,961 | 4,192,647 | 4,404,961 | 4,192,647 |
| Total expenses | 97,808,090 | 93,371,114 | 8,104,803 | 7,908,756 | 105,912,893 | 101,279,870 |
| Increase (decrease) in net before transfers | (2,298,621) | (2,580,617) | 1,031,358 | 1,753,183 | (1,267,263) | (827,434) |
| Transfers | 1,044,604 | 1,022,773 | (1,044,604) | (1,022,773) | - | - |
| Increase (decrease) in net | (1,254,017) | (1,557,844) | (13,246) | 730,410 | (1,267,263) | (827,434) |
| Net position, beginning of year | 91,094,871 | 92,652,715 | 52,527,779 | 51,797,369 | 143,622,650 | 144,450,084 |
| Net position, end of year | <u>\$ 89,840,854</u> | <u>\$ 91,094,871</u> | <u>\$ 52,514,533</u> | <u>\$ 52,527,779</u> | <u>\$ 142,355,387</u> | <u>\$ 143,622,650</u> |

Governmental Activities – The governmental activities decreased in net position by approximately \$1.3 million from factors as previously discussed.

The Town relies significantly on property taxes, which during 2014, made up approximately 62.3% of total revenues which is fairly consistent with 63.2% in the prior year. Additionally, operating grants and

contributions comprised about 20.4% of total revenues which remained consistent with 20.3% in the prior year. No other revenues were greater than 10% of the total revenues in fiscal year 2014 or 2013.

The majority of expenses were directed to benefit the School Department operations, which continues to be an area the Town commits a majority of its financial resources. Approximately 67.6% percent of total disbursements related to educational services, up slightly from 67.1% in the prior year. Public Safety expenses represented nearly 13.2% of total expenses, same as 13.2% in the prior year period. No other expenses represented greater than 10% of total expenses in the current or prior periods.

Business-type Activities Business-type activities of water and sewer enterprise funds reflected flat results as compared with the prior year as results approximated expectations.

Financial Analysis of the Government's Funds

As noted earlier, the Town 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, *unrestricted 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 close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$19.4 million, an increase of approximately \$3.7 million versus the prior year. This was primarily due to operating results exceeding forecast; offset by uses of surplus to subsidize capital articles. Favorable revenue results were experienced in intergovernmental revenues as the Town received \$1.6 million in prison mitigation funds and exceeded motor vehicle excise collections by \$0.7.

The General Fund is the chief operating fund of the Town; the unassigned fund balance reported was approximately \$9.5 million, or 11.5% of General Fund expenditures. Total fund balance in the General Fund was nearly \$13.2 million or 15.9% of General Fund expenditures which is an increase of 3.7% over the prior year.

The Library Construction Project Fund has a restricted fund balance of approximately \$1.1 million due to bond proceeds not yet exhausted. It is expected that this fund balance will be liquidated as necessary during the final phase of construction during fiscal year 2015.

The Town reported total fund balances of approximately \$5.0 million in the Combined Nonmajor Governmental Funds; about \$5.7 million is restricted due to constraints placed externally by third-parties, and nearly \$0.2 million is nonspendable due to being the corpus of an endowment. The remaining amount; a deficit of \$0.9 million in unassigned fund balance has arisen due to deficit grant and capital project balances, which are anticipated to be eliminated in a subsequent year through either available Town or grant funds or proceeds from the issuance of debt.

Proprietary Funds – The Town's proprietary funds consist of the Water and Sewer Enterprise Funds which provide the same type of information found in the government-wide financial statements under Business-type activities. At year end, the net position of the Water and Sewer Funds were about \$31.6 million and \$20.9 million respectively.

Fiduciary Funds – The Town's fiduciary funds are comprised primarily of private purpose trust funds totaling \$5.3 million and are earmarked for use as educational scholarships or personal assistance to Town

residents. Additionally the fiduciary funds include a fund established to offset the costs of other postemployment benefit expenses. The net position in this fund approximates \$1.1 million. Neither fund may be used for Town operating purposes. Remaining holdings within the fiduciary funds relate to agency amounts held by the Town on-behalf of other specific groups.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget included revisions to the following:

- Approximately \$0.1 million of increased allocations to general government
- Approximately \$0.7 million of increased allocations to public safety
- Approximately \$0.7 million of increased allocations to education
- Approximately \$1.7 million of increased allocations to public works
- Approximately \$0.1 million of increased allocations to culture and recreation
- Approximately \$0.1 million of decreased allocations debt service

The majority of this net increase was subsidized with appropriations from surplus (free cash).

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2014, is approximately \$158.0 million (net of accumulated depreciation) a decrease of approximately \$2.3 million from the prior year. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery, and equipment. The total decrease is due to depreciation of approximately \$11.2 million exceeding capital investments of \$8.9 million.

During the year, the Town’s governmental capital asset related activities were primarily focused on various buildings’ improvement projects and street and sidewalk projects. The business-type activities were mostly focused on a water tank replacement project.

Additional information on capital assets can be found in Note II., subsection D. of this report.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of approximately \$25.6 million. The entire amount comprises debt backed by the full faith and credit of the government. Total debt decreased by nearly \$0.3 million from the previous year due to regular scheduled maturities of principal of \$3.1 million offset by new debt issuances of \$2.8 million.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0 % of its total assessed valuation of approximately \$3.59 billion. The current debt limitation for the Town is approximately \$179.5 million, which is significantly in excess of the Town’s outstanding general obligation debt classified as inside the debt limit.

The Town maintains an “Aa2” rating from Moody’s Investment Services for general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. The debt service from such arrangements is assessed annually to the Town.

The Town currently has bond anticipation note payables outstanding of \$0.8 million which are scheduled to mature within the next year and will likely be paid off with some combination of Town funds, proceeds from the issuance of long-term debt, or rollover funds from new short-term debt issuances.

Additional information on the Town's short-term and long-term debt can be found in Note II., subsections E. and F. of this report.

Economic Factors and Next Year's Budgets and Rates

- Unemployment rates continue to improve, both nationally and at the local level. Rates are currently trending towards pre-recession levels.
- The Town's fiscal year 2015 property taxes is made up predominantly of residential taxes, which comprise nearly 82.6% of the Town's property tax base. The Town also relies heavily on its commercial and industrial real estate tax base, which in aggregate comprise 13.3 % of the Town's property tax base. In addition Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase property taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- The Town's housing market has stabilized and prices are approaching their early 2000 peaks. This has been fueled by an attractive mortgage market as rates are at historic lows. The Town is participating in this rebound as real estate sales are exceeding their assessed values and in certain situations their asking prices, however the extent and breadth of this rebound cannot be easily predicted.
- The Town anticipates state aid for 2015 of approximately \$10.1 million and has factored this amount into its tax rate process.
- The Town's fiscal year 2015 tax rate was set on December 3, 2014, at a rate of \$15.70 per thousand of residential real estate property values and \$20.93 per thousand for commercial and industrial real estate property and personal property values. Accordingly, commercial and industrial real estate property is assessed at about 1.3 times that of residential properties.

All of the above items were considered when the Town developed its budget for fiscal year 2015. The budget was adopted in May 2014.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 135 School Street, Walpole, Massachusetts, 02081.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2014**

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 22,238,783 | \$ 4,818,686 | \$ 27,057,469 |
| Investments | 2,437,411 | - | 2,437,411 |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 530,041 | - | 530,041 |
| User fees | - | 3,299,045 | 3,299,045 |
| Departmental and other | 3,083,744 | 117,430 | 3,201,174 |
| Intergovernmental | 607,619 | 1,767,946 | 2,375,565 |
| Tax foreclosures | 193,373 | - | 193,373 |
| Capital assets, not being depreciated | 27,067,866 | 2,703,108 | 29,770,974 |
| Capital assets, net of depreciation | 76,841,569 | 51,330,265 | 128,171,834 |
| Total Assets | 133,000,406 | 64,036,480 | 197,036,886 |
| Deferred Outflows of Resources | | | |
| | - | - | - |
| Liabilities | | | |
| Current liabilities: | | | |
| Warrants and accounts payable | 4,931,718 | 155,297 | 5,087,015 |
| Retainage payable | 157,983 | - | 157,983 |
| Unearned revenue | - | - | - |
| Other liabilities | 27,427 | - | 27,427 |
| Temporary notes payable | 802,000 | - | 802,000 |
| Noncurrent liabilities: | | | |
| Due in one year or less | 2,202,234 | 1,561,299 | 3,763,533 |
| Due in more than one year | 35,038,190 | 9,805,351 | 44,843,541 |
| Total Liabilities | 43,159,552 | 11,521,947 | 54,681,499 |
| Deferred Inflows of Resources | | | |
| | - | - | - |
| Net Position | | | |
| Net investment in capital assets | 90,149,883 | 45,133,385 | 135,283,268 |
| Restricted for: | | | |
| Nonexpendable permanent funds | 241,706 | - | 241,706 |
| Expendable permanent funds | 1,554,528 | - | 1,554,528 |
| Federal and state grants | 171,325 | - | 171,325 |
| Other purposes | 3,975,391 | - | 3,975,391 |
| Unrestricted | (6,251,979) | 7,381,148 | 1,129,169 |
| Total Net Position | \$ 89,840,854 | \$ 52,514,533 | \$ 142,355,387 |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities | | | | | | | |
| General government | \$ 5,345,807 | \$ 568,936 | \$ 549,248 | \$ - | \$ (4,227,623) | | \$ (4,227,623) |
| Public safety | 12,871,259 | 1,807,098 | 116,597 | 76,712 | (10,870,852) | | (10,870,852) |
| Education | 66,079,070 | 3,588,116 | 18,229,088 | 74,288 | (44,187,578) | | (44,187,578) |
| Public works | 9,030,665 | 67,844 | 235,875 | 924,053 | (7,802,893) | | (7,802,893) |
| Health and human services | 1,040,983 | 79,193 | 221,124 | - | (740,666) | | (740,666) |
| Culture and recreation | 2,865,457 | 572,427 | 108,032 | 200,000 | (1,984,998) | | (1,984,998) |
| Debt service | 574,849 | - | - | - | (574,849) | | (574,849) |
| Total Governmental Activities | 97,808,090 | 6,683,614 | 19,459,964 | 1,275,053 | (70,389,459) | | (70,389,459) |
| Business-Type Activities | | | | | | | |
| Water | 3,699,842 | 4,384,149 | 157,174 | - | | \$ 841,481 | 841,481 |
| Sewer | 4,180,010 | 4,544,715 | 28,582 | 21,541 | | 414,828 | 414,828 |
| Total Primary Government | <u>\$ 105,687,942</u> | <u>\$ 15,612,478</u> | <u>\$ 19,645,720</u> | <u>\$ 1,296,594</u> | <u>(70,389,459)</u> | <u>1,256,309</u> | <u>(69,133,150)</u> |
| General Revenues | | | | | | | |
| Real and personal property taxes | | | | | 59,505,681 | - | 59,505,681 |
| Grants and contributions not restricted to specific programs | | | | | 3,888,019 | - | 3,888,019 |
| Motor vehicle and other excise | | | | | 4,157,851 | - | 4,157,851 |
| Penalties and interest on taxes | | | | | 369,543 | - | 369,543 |
| Unrestricted investment income | | | | | 218,828 | - | 218,828 |
| Loss on disposal of fixed assets | | | | | (49,084) | (224,951) | (274,035) |
| Transfers (net) | | | | | <u>1,044,604</u> | <u>(1,044,604)</u> | <u>-</u> |
| Total general revenues and transfers | | | | | <u>69,135,442</u> | <u>(1,269,555)</u> | <u>67,865,887</u> |
| Change in Net Position | | | | | (1,254,017) | (13,246) | (1,267,263) |
| Net Position | | | | | | | |
| Beginning of year (as restated) | | | | | <u>91,094,871</u> | <u>52,527,779</u> | <u>143,622,650</u> |
| End of year | | | | | <u>\$ 89,840,854</u> | <u>\$ 52,514,533</u> | <u>\$ 142,355,387</u> |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

| | General Fund | Library Construction Project | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------------------------|------------------------------------|-----------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 16,852,640 | \$ 1,263,013 | \$ 4,123,130 | \$ 22,238,783 |
| Investments | 923,061 | - | 1,514,350 | 2,437,411 |
| Receivables, net of allowance: | | | | |
| Property taxes | 530,041 | - | - | 530,041 |
| Tax titles | 2,300,949 | - | - | 2,300,949 |
| Other | 519,623 | - | 263,172 | 782,795 |
| Due from Commonwealth | - | - | 607,619 | 607,619 |
| Tax foreclosures | 193,373 | - | - | 193,373 |
| Total Assets | <u>21,319,687</u> | <u>1,263,013</u> | <u>6,508,271</u> | <u>29,090,971</u> |
| Deferred Outflows of Resources | | | | |
| | - | - | - | - |
| Total Assets and Deferred Outflows of Resources | <u>\$ 21,319,687</u> | <u>\$ 1,263,013</u> | <u>\$ 6,508,271</u> | <u>\$ 29,090,971</u> |
| Liabilities | | | | |
| Warrants and accounts payable | \$ 4,538,343 | \$ - | \$ 393,375 | \$ 4,931,718 |
| Retainage payable | - | 157,983 | - | 157,983 |
| Other liabilities | 27,427 | - | - | 27,427 |
| Temporary notes payable | - | - | 802,000 | 802,000 |
| Total Liabilities | <u>4,565,770</u> | <u>157,983</u> | <u>1,195,375</u> | <u>5,919,128</u> |
| Deferred Inflows of Resources | | | | |
| Unearned revenue - property taxes | 2,830,990 | - | - | 2,830,990 |
| Unearned revenue - excise taxes | 516,813 | - | - | 516,813 |
| Unearned revenue - other | 196,183 | - | 263,172 | 459,355 |
| Total Deferred Inflows of Resources | <u>3,543,986</u> | <u>-</u> | <u>263,172</u> | <u>3,807,158</u> |
| Fund Balances | | | | |
| Non-Spendable | - | - | 241,706 | 241,706 |
| Restricted | - | 1,105,030 | 5,701,244 | 6,806,274 |
| Committed | 3,118,627 | - | - | 3,118,627 |
| Assigned | 549,696 | - | - | 549,696 |
| Unassigned | 9,541,608 | - | (893,226) | 8,648,382 |
| Total Fund Balances | <u>13,209,931</u> | <u>1,105,030</u> | <u>5,049,724</u> | <u>19,364,685</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | <u>\$ 21,319,687</u> | <u>\$ 1,263,013</u> | <u>\$ 6,508,271</u> | <u>\$ 29,090,971</u> |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

| | |
|---|-----------------------------|
| Total Governmental Fund Balances | \$ 19,364,685 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 103,909,435 |
| Other long-term assets are unavailable to pay current-period expenditures. | 3,807,158 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds: | |
| Bonds and notes payable | (14,864,582) |
| Compensated absences | (1,664,443) |
| Other postemployment benefits | <u>(20,711,399)</u> |
| Net Position of Governmental Activities | <u>\$ 89,840,854</u> |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

| | General Fund | Library Construction Project | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|------------------------------------|-----------------------------------|--------------------------------|
| Revenues | | | | |
| Real estate and personal property taxes, net | \$ 59,574,880 | \$ - | \$ - | \$ 59,574,880 |
| Intergovernmental | 18,817,817 | - | 4,804,566 | 23,622,383 |
| Motor vehicle and other excises | 4,292,909 | - | - | 4,292,909 |
| License and permits | 989,200 | - | - | 989,200 |
| Departmental and other revenue | 545,996 | 78,919 | 5,018,916 | 5,643,831 |
| Penalties and interest on taxes | 369,543 | - | - | 369,543 |
| Fines and forfeitures | 65,070 | - | - | 65,070 |
| Investment income | 61,244 | - | 157,584 | 218,828 |
| Contributions and donations | - | - | 1,142,191 | 1,142,191 |
| Total Revenues | 84,716,659 | 78,919 | 11,123,257 | 95,918,835 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 3,098,372 | - | 222,494 | 3,320,866 |
| Public safety | 8,249,552 | - | 523,153 | 8,772,705 |
| Education | 39,484,550 | - | 8,420,857 | 47,905,407 |
| Public works | 7,110,539 | - | 1,173,835 | 8,284,374 |
| Health and human services | 536,328 | - | 84,992 | 621,320 |
| Culture and recreation | 1,671,104 | 7,715 | 584,178 | 2,262,997 |
| Pensions and other fringes | 19,491,713 | - | - | 19,491,713 |
| State and county tax assessments | 1,064,348 | - | - | 1,064,348 |
| Debt service: | | | | |
| Principal maturities | 1,706,123 | - | - | 1,706,123 |
| Interest | 574,849 | - | - | 574,849 |
| Total Expenditures | 82,987,478 | 7,715 | 11,009,509 | 94,004,702 |
| Excess (Deficiency) of Revenues | | | | |
| Over Expenditures | 1,729,181 | 71,204 | 113,748 | 1,914,133 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from long-term debt issuance | - | - | 730,000 | 730,000 |
| Transfers in | 2,035,366 | - | 314,600 | 2,349,966 |
| Transfers out | (314,600) | - | (990,762) | (1,305,362) |
| Total Other Financing Sources (Uses) | 1,720,766 | - | 53,838 | 1,774,604 |
| Net Change in Fund Balances | 3,449,947 | 71,204 | 167,586 | 3,688,737 |
| FUND BALANCES - Beginning of year | 9,759,984 | 1,033,826 | 4,882,138 | 15,675,948 |
| FUND BALANCES - Ending of year | \$ 13,209,931 | \$ 1,105,030 | \$ 5,049,724 | \$ 19,364,685 |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

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

JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 3,688,737**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items.

| | | |
|--|--------------------|-------------|
| Loss on disposal of capital assets | \$ (49,084) | |
| Capital outlays | 1,858,438 | |
| Depreciation expense | <u>(3,405,728)</u> | |
| Net effect of reporting capital assets | | (1,596,374) |

The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. During the year, the following activity was recorded:

| | | |
|--|------------------|---------|
| Issuance of debt | (730,000) | |
| Repayments of debt | <u>1,706,123</u> | |
| Net effect of reporting long-term debt | | 976,123 |

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue. (360,282)

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:

| | | |
|---|--------------------|--------------------|
| Compensated absences | (96,944) | |
| Other postemployment benefits | <u>(3,865,277)</u> | |
| Net effect of reporting long-term liabilities | | <u>(3,962,221)</u> |

Change in Net Position of Governmental Activities **\$ (1,254,017)**

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2014

| Assets | Business-type Activities - Enterprise Funds | | |
|--|---|----------------------|----------------------|
| | Water | Sewer | Totals |
| Current assets: | | | |
| Cash and cash equivalents | \$ 2,411,405 | \$ 2,407,281 | \$ 4,818,686 |
| Receivables: | | | |
| User charges and fees | 1,590,178 | 1,708,867 | 3,299,045 |
| Betterments | - | 23,890 | 23,890 |
| Intergovernmental | 150,083 | 42,893 | 192,976 |
| Total current assets | 4,151,666 | 4,182,931 | 8,334,597 |
| Noncurrent assets: | | | |
| Receivables: | | | |
| Betterments | - | 93,540 | 93,540 |
| Intergovernmental | 1,451,806 | 123,164 | 1,574,970 |
| Capital assets, not being depreciated | 2,604,452 | 98,656 | 2,703,108 |
| Capital assets, net of depreciation | 34,012,875 | 17,317,390 | 51,330,265 |
| Total noncurrent assets | 38,069,133 | 17,632,750 | 55,701,883 |
| Total Assets | 42,220,799 | 21,815,681 | 64,036,480 |
| Deferred Outflows of Resources | - | - | - |
| | | | |
| Liabilities | | | |
| Current liabilities: | | | |
| Warrants payable and other liabilities | 140,079 | 15,218 | 155,297 |
| Bond and note indebtedness | 1,317,600 | 220,771 | 1,538,371 |
| Compensated absences | 19,765 | 3,163 | 22,928 |
| Total current liabilities | 1,477,444 | 239,152 | 1,716,596 |
| Noncurrent liabilities: | | | |
| Bond and note indebtedness | 8,713,267 | 533,726 | 9,246,993 |
| Compensated absences | 59,294 | 9,490 | 68,784 |
| Other postemployment benefits | 402,239 | 87,335 | 489,574 |
| Total noncurrent liabilities | 9,174,800 | 630,551 | 9,805,351 |
| Total Liabilities | 10,652,244 | 869,703 | 11,521,947 |
| Deferred Inflows of Resources | - | - | - |
| | | | |
| Net Position | | | |
| Net investment in capital assets | 28,188,349 | 16,945,036 | 45,133,385 |
| Unrestricted | 3,380,206 | 4,000,942 | 7,381,148 |
| Total Net Position | \$ 31,568,555 | \$ 20,945,978 | \$ 52,514,533 |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

| | Business-type Activities - Enterprise Funds | | |
|--|---|-----------------------------|-----------------------------|
| | Water | Sewer | Totals |
| Operating Revenues | | | |
| Charges for services | \$ 4,078,091 | \$ 4,220,908 | \$ 8,298,999 |
| Other operating income | 306,058 | 323,807 | 629,865 |
| Total Operating Revenues | <u>4,384,149</u> | <u>4,544,715</u> | <u>8,928,864</u> |
| Operating Expenses | | | |
| Operating costs | 2,188,843 | 3,674,782 | 5,863,625 |
| Depreciation | 1,091,932 | 474,832 | 1,566,764 |
| Total Operating Expenses | <u>3,280,775</u> | <u>4,149,614</u> | <u>7,430,389</u> |
| Total Operating Income | <u>1,103,374</u> | <u>395,101</u> | <u>1,498,475</u> |
| Nonoperating Income (Expenses) | | | |
| Intergovernmental | 157,174 | 28,582 | 185,756 |
| Loss on disposal of capital assets | (224,951) | - | (224,951) |
| Interest expense | (419,067) | (30,396) | (449,463) |
| Total Nonoperating Revenues (Expenses), net | <u>(486,844)</u> | <u>(1,814)</u> | <u>(488,658)</u> |
| Income (Loss) Before Capital Contributions and Transfers | <u>616,530</u> | <u>393,287</u> | <u>1,009,817</u> |
| Capital Contributions | | | |
| Betterment income | - | 21,541 | 21,541 |
| Transfers Out | <u>(721,136)</u> | <u>(323,468)</u> | <u>(1,044,604)</u> |
| Change in Net Position | (104,606) | 91,360 | (13,246) |
| Total Net Position - Beginning of the year | <u>31,673,161</u> | <u>20,854,618</u> | <u>52,527,779</u> |
| Total Net Position - Ending of the year | <u><u>\$ 31,568,555</u></u> | <u><u>\$ 20,945,978</u></u> | <u><u>\$ 52,514,533</u></u> |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

| | Business-type Activities - Enterprise Funds | | |
|---|---|----------------------------|----------------------------|
| | Water | Sewer | Totals |
| Cash Flows from Operating Activities | | | |
| Receipts from users | \$ 4,103,706 | \$ 4,242,448 | \$ 8,346,154 |
| Payments to vendors | (1,782,613) | (3,461,832) | (5,244,445) |
| Payments to employees | (877,463) | (188,379) | (1,065,842) |
| Net Cash Provided by Operating Activities | <u>1,443,630</u> | <u>592,237</u> | <u>2,035,867</u> |
| Cash Flows from Noncapital Related Financing Activities | | | |
| Intergovernmental subsidies | 296,954 | 70,390 | 367,344 |
| Transfers out | (721,136) | (323,468) | (1,044,604) |
| Net Cash Used for Noncapital Related Financing Activities | <u>(424,182)</u> | <u>(253,078)</u> | <u>(677,260)</u> |
| Cash Flows from Capital and Related Financing Activities | | | |
| Proceeds from the issuance of bonds and notes | 2,085,000 | - | 2,085,000 |
| Acquisition and construction of capital assets | (904,784) | (173,030) | (1,077,814) |
| Proceeds from betterment assessment | - | 26,191 | 26,191 |
| Interest expense | (419,067) | (30,396) | (449,463) |
| Principal payments on bonds and notes | (3,307,623) | (226,058) | (3,533,681) |
| Net Cash Used for Capital and Related Financing Activities | <u>(2,546,474)</u> | <u>(403,293)</u> | <u>(2,949,767)</u> |
| Net Change in Cash and Cash Equivalents | (1,527,026) | (64,134) | (1,591,160) |
| Cash and Cash Equivalents | | | |
| Beginning of year | <u>3,938,431</u> | <u>2,471,415</u> | <u>6,409,846</u> |
| End of year | <u>\$ 2,411,405</u> | <u>\$ 2,407,281</u> | <u>\$ 4,818,686</u> |
| Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities | | | |
| Operating income (loss) | \$ 1,103,374 | \$ 395,101 | \$ 1,498,475 |
| Depreciation | 1,091,932 | 474,832 | 1,566,764 |
| Changes in assets and liabilities: | | | |
| Receivables (net) | (280,443) | (302,267) | (582,710) |
| Liabilities (net) | (471,233) | 24,571 | (446,662) |
| Net Cash Provided From Operating Activities | <u>\$ 1,443,630</u> | <u>\$ 592,237</u> | <u>\$ 2,035,867</u> |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

| | Private Purpose Trust Funds | Other Postemployment Benefits Trust Fund | Agency Fund |
|-----------------------------------|-----------------------------------|---|----------------|
| Assets | | | |
| Cash and cash equivalents | \$ 50,710 | \$ - | \$ 320,919 |
| Investments (at fair value) | 5,222,041 | 1,072,538 | - |
| Receivables | - | - | 107,278 |
| Total Assets | 5,272,751 | 1,072,538 | 428,197 |
| Liabilities | | | |
| Warrant and accounts payable | - | - | 88,363 |
| Planning board deposits | - | - | 144,014 |
| Other liabilities | - | - | 195,820 |
| Total Liabilities | - | - | 428,197 |
| Net Position | | | |
| Held in trust for private benefit | 5,272,751 | - | - |
| Held in trust for fringe benefits | - | 1,072,538 | - |
| Total Net Position | \$ 5,272,751 | \$ 1,072,538 | \$ - |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

| | Private Purpose Trust Funds | Other Postemployment Benefits Trust Fund |
|-------------------------------------|-----------------------------------|---|
| Additions | | |
| Contribution and donations: | | |
| Public sources | \$ 573 | \$ - |
| Employer | - | 1,649,931 |
| Employee | - | 919,599 |
| Investment income | 610,711 | 108,997 |
| Total Additions | <u>611,284</u> | <u>2,678,527</u> |
| Deductions | | |
| Educational scholarships | 79,000 | - |
| Health and human service assistance | 14,529 | - |
| Other fringe benefits | - | 2,094,530 |
| Total Deductions | <u>93,529</u> | <u>2,094,530</u> |
| Change in Net Position | 517,755 | 583,997 |
| Total Net Position - Beginning | <u>4,754,996</u> | <u>488,541</u> |
| Total Net Position - Ending | <u><u>\$ 5,272,751</u></u> | <u><u>\$ 1,072,538</u></u> |

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

I. Summary of Significant Accounting Policies

The accompanying basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

The Town of Walpole is located in Norfolk County and was incorporated as a town in 1724. The governing structure utilizes an open town meeting form, with an elected five-member Board of Selectmen, and an appointed Town Administrator who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, disposal of rubbish and recycling, public education in grades K-12, water and sewer services, street maintenance, parks and recreational facilities, library and elderly services and inspectional services. The water and sewer services, funded almost entirely with user charges, are provided via connections installed and maintained by the Town directly.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

B. Government-Wide and Fund 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 non-fiduciary 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.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows, liabilities and

deferred inflows, etc.) for all funds of that category or type and (total governmental or total enterprise funds), and

- 2) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. 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. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major Governmental Funds:

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.

Library Construction Project Fund – is used to account for all financial resources relating to the construction of a new public library.

Nonmajor Governmental Funds - consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the Nonmajor Governmental Funds column on the Governmental Funds financial statements. The following describes the general use of these fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Funds - are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Permanent Funds - are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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 the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary fund:

Water Enterprise Fund – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Sewer Enterprise Fund – is used to account for the operation of the sewer department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs.

The government reports the following fiduciary funds:

Private-Purpose Trust Funds – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used for educational scholarships and needy citizen benefit funds.

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of other post-employment benefits for retirees such as health and life insurance.

Agency Fund – is used to account for assets held in a purely custodial capacity. The Town’s agency funds consist primarily of student activities and escrow and other deposits. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Motor vehicle excise are billed annually for each vehicle registered in the Town based on vehicles reported to the Town by the Commonwealth of Massachusetts. Water and sewer user fees are billed periodically multiple times annually based on individual meter readings and are subject to interest and penalties of not paid by the respective due dates. Property taxes, motor vehicle excise taxes and water and sewer user fees are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and sewer user fees may be secured through a lien process within 14 days after the due date and are considered 100% collectible. Accordingly, a provision for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental and other receivables are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

Inventories – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. 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.

Capital assets (excluding land and construction-in-process) are depreciated by the Town on a straight-line-basis. The estimated useful lives of capital assets being depreciated are as follows:

| | |
|----------------------------|----------|
| Buildings and improvements | 40 years |
| Machinery and equipment | 5 years |
| Vehicles | 5 years |
| Infrastructure | 40 years |

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds and permanent funds is retained in the respective funds.

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-Term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any items that qualify for reporting as a deferred outflow.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from three sources: property taxes, excise taxes, and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position – In the government-wide financial statements, net position reported as “Net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt is not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

Nonexpendable permanent funds represents the endowment portion of donor restricted trusts that support governmental programs.

Expendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Capital projects represents remaining balances from bond proceeds that are restricted by state law to specific capital purposes and borrowing terms.

Federal and State grants represent assets that have restrictions placed on them from federal and state granting agencies.

Other purposes represent assets that are restricted by donors and state laws for specific governmental programs and uses.

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily to the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – non-spendable, restricted, committed, assigned, and unassigned as described below:

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact as the corpus of then endowment.

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Town Accountant to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Fund – The Town maintains a stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$1,827,245 at June 30, 2014, and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Administrator as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$499,696 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations:

| | General | Library Construction | Nonmajor Governmental Funds | Total |
|---------------------------|----------------------|-------------------------|-----------------------------------|----------------------|
| Non-Spendable: | | | | |
| Perpetual permanent funds | \$ - | \$ - | \$ 241,706 | \$ 241,706 |
| Restricted: | | | | |
| General government | - | - | 1,537,936 | 1,537,936 |
| Public safety | - | - | 1,222,531 | 1,222,531 |
| Education | - | - | 669,727 | 669,727 |
| Public works | - | - | 676,666 | 676,666 |
| Health and human services | - | - | 138,305 | 138,305 |
| Culture and recreation | - | 1,105,030 | 1,151,896 | 2,256,926 |
| Pension and other fringes | - | - | 304,183 | 304,183 |
| Committed: | | | | |
| General government | 295,049 | - | - | 295,049 |
| Public safety | 628,769 | - | - | 628,769 |
| Education | 154,503 | - | - | 154,503 |
| Public works | 1,849,898 | - | - | 1,849,898 |
| Health and human services | 6,000 | - | - | 6,000 |
| Culture and recreation | 184,408 | - | - | 184,408 |
| Assigned: | | | | |
| General government | 102,536 | - | - | 102,536 |
| Public safety | 50,458 | - | - | 50,458 |
| Education | 38,897 | - | - | 38,897 |
| Public works | 310,368 | - | - | 310,368 |
| Health and human services | 1,378 | - | - | 1,378 |
| Culture and recreation | 16,259 | - | - | 16,259 |
| Pension and other fringes | 29,800 | - | - | 29,800 |
| Unassigned | 9,541,608 | - | (893,226) | 8,648,382 |
| Totals | <u>\$ 13,209,931</u> | <u>\$ 1,105,030</u> | <u>\$ 5,049,724</u> | <u>\$ 19,364,685</u> |

E. Excess of Expenditures Over Appropriations and Deficits

The Town incurred deficits in the Special Revenue Funds totaling \$143,342 and Capital Project Funds totaling \$749,884, as of June 30, 2014, which are reported as Nonmajor governmental funds. These deficits will be funded through available Town or grant funds or bond proceeds in a subsequent fiscal year.

F. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

II. Detailed Notes to All Funds

A. **Deposits and Investments**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool ("the Pool"). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (the MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$16,552,421 and the bank balance was \$22,854,862. Of the Town's bank balance, \$2,868,861 was covered by federal depository insurance; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. All securities not held directly by the Town will be held in the Town's name and tax identification number by a third party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The investments in MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town does not have a formal investment policy related to custodial credit risk.

Interest Rate Risk - The Town does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The Town does not place a limit on the amount that may be invested in any one issuer. The Town does maintain 14% of its monetary funds with MMDT, which represents the only singularly invested entity that exceeds 10% of the monetary holdings.

Credit Risk - The Town has not adopted a formal policy related to credit risk. The Town's investment in MMDT is unrated; other securities with maturities have their credit ratings disclosed below.

At June 30, 2014 the Town had the following investments and maturities:

| Investment Type | Fair Value | Time Until Maturity (Years) | | | |
|-------------------------------------|---------------|-----------------------------|--------------|------|--------------|
| | | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| <u>Investments with Maturities:</u> | | | | | |
| U.S. Government obligations | \$ 990,624 | \$ - | \$ 990,624 | \$ - | \$ - |
| Corporate fixed income securities | 782,084 | 45,149 | 323,241 | - | 413,694 |
| Certificates of deposit | 5,904,184 | 5,000,000 | 904,184 | - | - |
| Total Investments with Maturities | 7,676,892 | \$ 5,045,149 | \$ 2,218,049 | \$ - | \$ 413,694 |
| <u>Other Investments:</u> | | | | | |
| Preferred Securities | 145,845 | | | | |
| Equity Securities | 5,240,588 | | | | |
| Mutual Funds | 1,217,843 | | | | |
| External Investment Pool | 4,980,714 | | | | |
| Money Market Mutual Funds | 346,785 | | | | |
| Total Investments - All | \$ 19,608,667 | | | | |

At June 30, 2014 the credit quality ratings of investments were as follows:

| Quality Ratings (Moody's) | Investments with Maturities | | | Total |
|---------------------------|-----------------------------|-----------------|-------------------------|--------------|
| | U.S. Government Obligations | Corporate Bonds | Certificates of Deposit | |
| Aaa | \$ 990,624 | \$ - | \$ - | \$ 990,624 |
| Aa1 | - | 74,892 | - | 74,892 |
| A | - | 20,787 | - | 20,787 |
| A1 | - | 102,180 | - | 102,180 |
| A2 | - | 53,955 | - | 53,955 |
| Baa | - | 19,817 | - | 19,817 |
| Baa2 | - | 331,522 | - | 331,522 |
| Baa3 | - | 139,802 | - | 139,802 |
| Not Rated | - | 39,129 | 5,904,184 | 5,943,313 |
| Totals | \$ 990,624 | \$ 782,084 | \$ 5,904,184 | \$ 7,676,892 |

B. Receivables

Receivables as of year-end for the Town’s major governmental funds and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---|---------------------|---------------------------------|---------------------|
| Real estate and personal property taxes | \$ 575,963 | \$ (45,922) | \$ 530,041 |
| Tax liens | 2,300,949 | - | 2,300,949 |
| Tax foreclosures | 290,060 | (96,687) | 193,373 |
| Excise | 667,623 | (150,810) | 516,813 |
| Departmental and other | 265,982 | - | 265,982 |
| Intergovernmental | 607,619 | - | 607,619 |
| Total Governmental Receivables | <u>\$ 4,708,196</u> | <u>\$ (293,419)</u> | <u>\$ 4,414,777</u> |

Receivables as of year-end for the Town’s water and sewer enterprise funds are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---------------------------------|---------------------|---------------------------------|---------------------|
| Water user charges | \$ 1,565,452 | \$ - | \$ 1,565,452 |
| Water liens | 21,424 | - | 21,424 |
| Water other fees | 3,302 | - | 3,302 |
| Water intergovernmental | 1,601,889 | - | 1,601,889 |
| Sub-total Water Fund | <u>3,192,067</u> | <u>-</u> | <u>3,192,067</u> |
| | | | |
| Sewer user charges | 1,691,953 | - | 1,691,953 |
| Sewer liens | 16,914 | - | 16,914 |
| Sewer betterments | 117,430 | - | 117,430 |
| Sewer intergovernmental | 166,057 | - | 166,057 |
| Sub-total Sewer Fund | <u>1,992,354</u> | <u>-</u> | <u>1,992,354</u> |
| | | | |
| Total Business-Type Receivables | <u>\$ 5,184,421</u> | <u>\$ -</u> | <u>\$ 5,184,421</u> |

MWPAT Loan Subsidies – The Town has entered into a number of loan agreements since February 1997 with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$1,767,946, which is allocated to Water and Sewer Funds in the amounts of \$1,601,889 and \$166,057, respectively. In addition, interest costs totaling \$747,832 are anticipated to be reimbursed to the General Fund for \$8,097 and to the Water and Sewer Funds in the amounts of \$688,223 and \$59,609, respectively, until the maturity of these agreements. In the Business-Type Funds, the intergovernmental receivables include a receivable for the principal portion of the subsidy.

C. Interfund Payables, Receivables and Transfers

Interfund transfers for the fiscal year ended June 30, 2014, are summarized as follows:

| Transfers Out | Transfers In | | |
|-----------------------------|---------------------|-----------------------------|---------------------|
| | General Fund | Nonmajor Governmental Funds | Total |
| General Fund | \$ - | \$ 314,600 | \$ 314,600 (1) |
| Nonmajor Governmental Funds | 990,762 | | 990,762 (2) |
| Water Enterprise Fund | 721,136 | - | 721,136 (3) |
| Sewer Enterprise Fund | 323,468 | - | 323,468 (3) |
| Total | \$ 2,035,366 | \$ 314,600 | \$ 2,349,966 |

- (1) Transfer to nonmajor funds for debt obligation retirement funding.
- (2) Transfers to general fund to supplement operating budgets and transfers within major governmental funds to supplement revolving fund programs.
- (3) Transfers to general fund for indirect costs and to reimburse for project funding costs.

D. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|-------------------|--------------|----------------|----------------|
| <i>Governmental Activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 26,909,883 | \$ - | \$ - | \$ 26,909,883 |
| Construction in progress | 9,712,784 | - | (9,554,801) | 157,983 |
| Total capital assets not being depreciated | 36,622,667 | - | (9,554,801) | 27,067,866 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 74,153,599 | 9,624,514 | (38,088) | 83,740,025 |
| Infrastructure | 55,923,178 | 1,008,467 | - | 56,931,645 |
| Machinery and equipment | 5,328,750 | 180,772 | (85,065) | 5,424,457 |
| Vehicles | 6,185,606 | 599,486 | (274,890) | 6,510,202 |
| Total capital assets being depreciated | 141,591,133 | 11,413,239 | (398,043) | 152,606,329 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (26,958,043) | (1,497,124) | 10,404 | (28,444,763) |
| Infrastructure | (38,024,736) | (1,214,208) | 12,158 | (39,226,786) |
| Machinery and equipment | (3,871,407) | (239,400) | 83,965 | (4,026,842) |
| Vehicles | (3,853,805) | (454,996) | 242,432 | (4,066,369) |
| Total accumulated depreciation | (72,707,991) | (3,405,728) | 348,959 | (75,764,760) |
| Total capital assets being depreciated, net | 68,883,142 | 8,007,511 | (49,084) | 76,841,569 |
| Governmental activities capital assets, net | \$ 105,505,809 | \$ 8,007,511 | \$ (9,603,885) | \$ 103,909,435 |

Business-Type Activities - All:

Capital assets not being depreciated:

| | | | | |
|--|------------------|----------|--------------------|------------------|
| Land | \$ 2,703,108 | \$ - | \$ - | \$ 2,703,108 |
| Construction in progress | 1,357,194 | - | (1,357,194) | - |
| Total capital assets not being depreciated | <u>4,060,302</u> | <u>-</u> | <u>(1,357,194)</u> | <u>2,703,108</u> |

Capital assets being depreciated:

| | | | | |
|--|-------------------|------------------|------------------|-------------------|
| Buildings and improvements | 19,880,461 | - | (645,968) | 19,234,493 |
| Infrastructure | 52,883,751 | 2,213,914 | - | 55,097,665 |
| Machinery and equipment | 8,696,203 | 198,814 | - | 8,895,017 |
| Vehicles | 1,098,280 | 22,280 | - | 1,120,560 |
| Total capital assets being depreciated | <u>82,558,695</u> | <u>2,435,008</u> | <u>(645,968)</u> | <u>84,347,735</u> |

Less accumulated depreciation for:

| | | | | |
|--------------------------------|---------------------|--------------------|----------------|---------------------|
| Buildings and improvements | (7,216,276) | (389,571) | 415,503 | (7,190,344) |
| Infrastructure | (20,484,776) | (802,918) | - | (21,287,694) |
| Machinery and equipment | (3,556,687) | (276,054) | 5,514 | (3,827,227) |
| Vehicles | (613,984) | (98,221) | - | (712,205) |
| Total accumulated depreciation | <u>(31,871,723)</u> | <u>(1,566,764)</u> | <u>421,017</u> | <u>(33,017,470)</u> |

| | | | | |
|---|-------------------|----------------|------------------|-------------------|
| Total capital assets being depreciated, net | <u>50,686,972</u> | <u>868,244</u> | <u>(224,951)</u> | <u>51,330,265</u> |
|---|-------------------|----------------|------------------|-------------------|

| | | | | |
|--|----------------------|-------------------|-----------------------|----------------------|
| Business-type activities capital assets, net | <u>\$ 54,747,274</u> | <u>\$ 868,244</u> | <u>\$ (1,582,145)</u> | <u>\$ 54,033,373</u> |
|--|----------------------|-------------------|-----------------------|----------------------|

Capital asset activity for the Business-type activities by program, for the year ended June 30, 2014, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|-----------------------|---------------------------|
| <u>Business-Type Activities - Water:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,604,452 | \$ - | \$ - | \$ 2,604,452 |
| Construction in progress | 1,357,194 | - | (1,357,194) | - |
| Total capital assets not being depreciated | <u>3,961,646</u> | <u>-</u> | <u>(1,357,194)</u> | <u>2,604,452</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 17,870,083 | - | (645,968) | 17,224,115 |
| Infrastructure | 28,150,161 | 2,213,914 | - | 30,364,075 |
| Machinery and equipment | 8,047,986 | 48,064 | - | 8,096,050 |
| Vehicles | 547,780 | - | - | 547,780 |
| Total capital assets being depreciated | <u>54,616,010</u> | <u>2,261,978</u> | <u>(645,968)</u> | <u>56,232,020</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (6,416,336) | (347,296) | 415,503 | (6,348,129) |
| Infrastructure | (11,707,380) | (430,909) | - | (12,138,289) |
| Machinery and equipment | (3,150,352) | (255,192) | 5,514 | (3,400,030) |
| Vehicles | (274,162) | (58,535) | - | (332,697) |
| Total accumulated depreciation | <u>(21,548,230)</u> | <u>(1,091,932)</u> | <u>421,017</u> | <u>(22,219,145)</u> |
| Total capital assets being depreciated, net | <u>33,067,780</u> | <u>1,170,046</u> | <u>(224,951)</u> | <u>34,012,875</u> |
| Water capital assets, net | <u>\$ 37,029,426</u> | <u>\$ 1,170,046</u> | <u>\$ (1,582,145)</u> | <u>\$ 36,617,327</u> |

Business-Type Activities - Sewer:

Capital assets not being depreciated:

| | | | | |
|--|---------------|----------|----------|---------------|
| Land | \$ 98,656 | \$ - | \$ - | \$ 98,656 |
| Total capital assets not being depreciated | <u>98,656</u> | <u>-</u> | <u>-</u> | <u>98,656</u> |

Capital assets being depreciated:

| | | | | |
|--|-------------------|----------------|----------|-------------------|
| Buildings and improvements | 2,010,378 | - | - | 2,010,378 |
| Infrastructure | 24,733,590 | - | - | 24,733,590 |
| Machinery and equipment | 648,217 | 150,750 | - | 798,967 |
| Vehicles | 550,500 | 22,280 | - | 572,780 |
| Total capital assets being depreciated | <u>27,942,685</u> | <u>173,030</u> | <u>-</u> | <u>28,115,715</u> |

Less accumulated depreciation for:

| | | | | |
|--------------------------------|---------------------|------------------|----------|---------------------|
| Buildings and improvements | (799,940) | (42,275) | - | (842,215) |
| Infrastructure | (8,777,396) | (372,009) | - | (9,149,405) |
| Machinery and equipment | (406,335) | (20,862) | - | (427,197) |
| Vehicles | (339,822) | (39,686) | - | (379,508) |
| Total accumulated depreciation | <u>(10,323,493)</u> | <u>(474,832)</u> | <u>-</u> | <u>(10,798,325)</u> |

| | | | | |
|---|-------------------|------------------|----------|-------------------|
| Total capital assets being depreciated, net | <u>17,619,192</u> | <u>(301,802)</u> | <u>-</u> | <u>17,317,390</u> |
|---|-------------------|------------------|----------|-------------------|

| | | | | |
|---------------------------|----------------------|---------------------|-------------|----------------------|
| Sewer capital assets, net | <u>\$ 17,717,848</u> | <u>\$ (301,802)</u> | <u>\$ -</u> | <u>\$ 17,416,046</u> |
|---------------------------|----------------------|---------------------|-------------|----------------------|

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|-------------------------------|---------------------|
| General government | \$ 197,526 |
| Public safety | 379,953 |
| Education | 1,392,834 |
| Public works | 1,377,354 |
| Health and human services | 9,586 |
| Culture and recreation | 48,475 |
| Total Governmental Activities | <u>\$ 3,405,728</u> |

Business-Type Activities:

| | |
|--------------------------------|---------------------|
| Water | \$ 1,091,932 |
| Sewer | 474,832 |
| Total Business-Type Activities | <u>\$ 1,566,764</u> |

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to collection of revenues, expenditures may be financed through the issuance of revenue (RANS) or tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary borrowings are accounted for in the general fund and enterprise funds, respectively. Temporary notes outstanding at June 30, 2014, are payable as follows:

| <u>Type</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
|-------------------------------|----------------------|----------------------|--------------------------|-------------------|-----------------------|-----------------------|
| BAN | 1.25% | Matured | \$ 1,040,000 | | \$ (1,040,000) | \$ - |
| BAN | 1.00% | 11/13/14 | - | 802,000 | - | 802,000 |
| Total Governmental Notes | | | <u>1,040,000</u> | <u>802,000</u> | <u>(1,040,000)</u> | <u>802,000</u> |
| BAN | 1.25% | Matured | 2,085,000 | - | (2,085,000) | - |
| Total Business-Type Notes | | | <u>2,085,000</u> | <u>-</u> | <u>(2,085,000)</u> | <u>-</u> |
| Total Temporary Notes Payable | | | <u>\$ 3,125,000</u> | <u>\$ 802,000</u> | <u>\$ (3,125,000)</u> | <u>\$ 802,000</u> |

Temporary notes outstanding at June 30, 2014, were issued for governmental capital projects related to computer hardware (\$120,000), roadway repairs (\$470,000), Blackburn elevator (\$62,000), and Town Hall upgrades (\$150,000).

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

State law permits a town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

The following reflects the current year activity in the long-term liability accounts:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due within one year |
|--|----------------------|----------------------|-----------------------|----------------------|------------------------|
| Governmental Activities: | | | | | |
| Bond and note indebtedness | \$ 15,840,705 | \$ 730,000 | \$ (1,706,124) | \$ 14,864,581 | \$ 1,786,123 |
| Compensated absences | 1,567,499 | 492,832 | (395,888) | 1,664,443 | 416,111 |
| Other postemployment benefits | 16,846,122 | 6,890,648 | (3,025,372) | 20,711,398 | - |
| Total Governmental Activities | <u>\$ 34,254,326</u> | <u>\$ 8,113,480</u> | <u>\$ (5,127,384)</u> | <u>\$ 37,240,422</u> | <u>\$ 2,202,234</u> |
| Business-type Activities: Water | | | | | |
| Bond and note indebtedness | \$ 9,168,490 | \$ 2,085,000 | \$ (1,222,623) | \$ 10,030,867 | \$ 1,317,600 |
| Compensated absences | 75,466 | 3,592 | - | 79,058 | 19,765 |
| Other postemployment benefits | 326,994 | 134,141 | (58,895) | 402,240 | - |
| Total Business-type Activities: Water | <u>9,570,950</u> | <u>2,222,733</u> | <u>(1,281,518)</u> | <u>10,512,165</u> | <u>1,337,365</u> |
| Business-type Activities: Sewer | | | | | |
| Bond and note indebtedness | 980,555 | - | (226,058) | 754,497 | 220,771 |
| Compensated absences | 12,454 | 199 | - | 12,653 | 3,163 |
| Other postemployment benefits | 70,493 | 30,024 | (13,182) | 87,335 | - |
| Total Business-type Activities: Sewer | <u>1,063,502</u> | <u>30,223</u> | <u>(239,240)</u> | <u>854,485</u> | <u>223,934</u> |
| Total Business-type Activities | <u>\$ 10,634,452</u> | <u>\$ 2,252,956</u> | <u>\$ (1,520,758)</u> | <u>\$ 11,366,650</u> | <u>\$ 1,561,299</u> |
| Total Long-term Obligations | <u>\$ 44,888,778</u> | <u>\$ 10,366,436</u> | <u>\$ (6,648,142)</u> | <u>\$ 48,607,072</u> | <u>\$ 3,763,533</u> |

The governmental activities liability will be liquidated from the general fund. The business-type liabilities will be liquidated by the water and sewer enterprise funds.

The following is a summary of outstanding long-term debt obligations as of June 30, 2014:

| Description of Issue | Maturity Year | Interest Rate | Beginning Balance | Additions | Maturities | Ending Balance |
|--|------------------|------------------|----------------------|---------------------|-----------------------|----------------------|
| <u>Governmental Activities</u> | | | | | | |
| General Obligation Bonds | 2030 | 2.00 - 5.75% | \$ 14,279,000 | \$ 730,000 | \$ (1,182,000) | \$ 13,827,000 |
| General Obligation Refunding Bonds | 2016 | 2.00 - 3.00% | 1,525,000 | - | (520,000) | 1,005,000 |
| MA Water Pollution Abatement Trust Notes | 2024 | 2.50 - 5.25% | 36,705 | - | (4,124) | 32,581 |
| Total Governmental Activities | | | <u>\$ 15,840,705</u> | <u>\$ 730,000</u> | <u>\$ (1,706,124)</u> | <u>\$ 14,864,581</u> |
| <u>Business-Type Activities - Water</u> | | | | | | |
| General Obligation Bonds | 2030 | 2.00 - 5.00% | \$ 1,831,000 | \$ 2,085,000 | \$ (408,000) | \$ 3,508,000 |
| General Obligation Refunding Bonds | 2018 | 2.00 - 3.00% | 1,425,000 | - | (295,000) | 1,130,000 |
| MA Water Pollution Abatement Trust Notes | 2022 | 2.50 - 5.25% | 5,912,490 | - | (519,623) | 5,392,867 |
| Total Water Debt | | | <u>9,168,490</u> | <u>2,085,000</u> | <u>(1,222,623)</u> | <u>10,030,867</u> |
| <u>Business-Type Activities - Sewer</u> | | | | | | |
| General Obligation Bonds | 2016 | 2.50 - 5.00% | 145,000 | - | (55,000) | 90,000 |
| MA Water Resources Authority Notes | 2017 | 0.00% | 74,492 | - | (18,623) | 55,869 |
| MA Water Pollution Abatement Trust Notes | 2020 | 0.00 - 5.45% | 761,063 | - | (152,435) | 608,628 |
| Total Sewer Debt | | | <u>980,555</u> | <u>-</u> | <u>(226,058)</u> | <u>754,497</u> |
| Total Business-Type Activities | | | <u>\$ 10,149,045</u> | <u>\$ 2,085,000</u> | <u>\$ (1,448,681)</u> | <u>\$ 10,785,364</u> |
| Total Bond and Note Debt | | | <u>\$ 25,989,750</u> | <u>\$ 2,815,000</u> | <u>\$ (3,154,805)</u> | <u>\$ 25,649,945</u> |

Payments on outstanding bond balances due in future years consist of the following:

| <i>Governmental Activities - Total Bond and Note Indebtedness</i> | | | | | | | |
|---|----------------------|-------------|----------------------|---------------------|-------------------|---------------------|----------------------|
| Year Ending June 30 | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| 2015 | \$ 1,786,123 | \$ - | \$ 1,786,123 | \$ 521,480 | \$ (1,676) | \$ 519,805 | \$ 2,305,927 |
| 2016 | 1,729,245 | - | 1,729,245 | 462,290 | (1,460) | 460,831 | 2,190,075 |
| 2017 | 1,189,245 | - | 1,189,245 | 404,552 | (1,240) | 403,312 | 1,592,556 |
| 2018 | 1,164,245 | - | 1,164,245 | 363,313 | (1,020) | 362,293 | 1,526,538 |
| 2019 | 1,154,244 | - | 1,154,244 | 322,024 | (804) | 321,219 | 1,475,463 |
| 2020-2024 | 5,093,815 | - | 5,093,815 | 1,032,887 | (1,830) | 1,031,057 | 6,124,872 |
| 2025-2029 | 2,437,665 | - | 2,437,665 | 264,855 | (67) | 264,789 | 2,702,454 |
| 2030-2034 | 310,000 | - | 310,000 | 12,400 | - | 12,400 | 322,400 |
| Total | <u>\$ 14,864,582</u> | <u>\$ -</u> | <u>\$ 14,864,582</u> | <u>\$ 3,383,801</u> | <u>\$ (8,097)</u> | <u>\$ 3,375,704</u> | <u>\$ 18,240,286</u> |

| <i>Business-type Activities: Water - Bond and Note Indebtedness</i> | | | | | | | |
|---|----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Year Ending June 30 | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| 2015 | \$ 1,317,600 | \$ (150,083) | \$ 1,167,517 | \$ 357,774 | \$ (136,703) | \$ 221,072 | \$ 1,388,588 |
| 2016 | 1,279,600 | (158,763) | 1,120,837 | 308,151 | (119,614) | 188,538 | 1,309,374 |
| 2017 | 1,204,776 | (168,873) | 1,035,903 | 256,403 | (99,358) | 157,045 | 1,192,949 |
| 2018 | 1,144,622 | (172,681) | 971,941 | 219,976 | (91,453) | 128,522 | 1,100,463 |
| 2019 | 835,711 | (168,666) | 667,045 | 195,206 | (92,459) | 102,747 | 769,792 |
| 2020-2024 | 3,213,558 | (782,823) | 2,430,735 | 441,124 | (148,636) | 292,488 | 2,723,223 |
| 2025-2029 | 525,000 | - | 525,000 | 146,100 | - | 146,100 | 671,100 |
| 2030-2034 | 510,000 | - | 510,000 | 50,400 | - | 50,400 | 560,400 |
| Total | <u>\$ 10,030,867</u> | <u>\$ (1,601,889)</u> | <u>\$ 8,428,978</u> | <u>\$ 1,975,135</u> | <u>\$ (688,223)</u> | <u>\$ 1,286,912</u> | <u>\$ 9,715,890</u> |

| <i>Business-type Activities: Sewer - Bond and Note Indebtedness</i> | | | | | | | |
|---|-------------------|---------------------|-------------------|------------------|--------------------|------------------|-------------------|
| Year Ending June 30 | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| 2015 | \$ 220,771 | \$ (42,893) | \$ 177,878 | \$ 35,048 | \$ (24,085) | \$ 10,963 | \$ 188,841 |
| 2016 | 225,600 | (44,553) | 181,047 | 24,151 | (18,345) | 5,806 | 186,853 |
| 2017 | 185,526 | (46,400) | 139,126 | 13,244 | (12,442) | 802 | 139,928 |
| 2018 | 60,400 | (16,055) | 44,345 | 3,182 | (3,182) | - | 44,345 |
| 2019 | 62,200 | (16,156) | 46,044 | 1,555 | (1,555) | - | 46,044 |
| Total | <u>\$ 754,497</u> | <u>\$ (166,057)</u> | <u>\$ 588,440</u> | <u>\$ 77,180</u> | <u>\$ (59,609)</u> | <u>\$ 17,571</u> | <u>\$ 606,011</u> |

| <i>Business-type Activities - Total Bond and Note Indebtedness</i> | | | | | | | |
|--|----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Year Ending June 30 | Principal | | | Interest | | | Total |
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| 2015 | \$ 1,538,371 | \$ (192,976) | \$ 1,345,395 | \$ 392,822 | \$ (160,788) | \$ 232,035 | \$ 1,577,429 |
| 2016 | 1,505,200 | (203,316) | 1,301,884 | 332,302 | (137,959) | 194,344 | 1,496,227 |
| 2017 | 1,390,302 | (215,273) | 1,175,029 | 269,647 | (111,800) | 157,847 | 1,332,877 |
| 2018 | 1,205,022 | (188,736) | 1,016,286 | 223,158 | (94,635) | 128,522 | 1,144,808 |
| 2019 | 897,911 | (184,822) | 713,089 | 196,761 | (94,014) | 102,747 | 815,836 |
| 2020-2024 | 3,213,558 | (782,823) | 2,430,735 | 441,124 | (148,636) | 310,059 | 2,723,223 |
| 2025-2029 | 525,000 | - | 525,000 | 146,100 | - | 146,100 | 671,100 |
| 2030-2034 | 510,000 | - | 510,000 | 50,400 | - | 50,400 | 560,400 |
| Total | <u>\$ 10,785,364</u> | <u>\$ (1,767,946)</u> | <u>\$ 9,017,418</u> | <u>\$ 2,052,315</u> | <u>\$ (747,832)</u> | <u>\$ 1,322,054</u> | <u>\$ 10,321,901</u> |

Authorized and Unissued Debt - At June 30, 2014, the Town had authorized and unissued debt as follows:

| <u>Project</u> | <u>Amount</u> | <u>Project</u> | <u>Amount</u> |
|--|--------------------------------|----------------------------------|-------------------|
| <i>Governmental Activities:</i> | | <i>Business-Type Activities:</i> | |
| School building renovations | \$ 2,875,000 | Water various | \$ 50,000 |
| Road improvements | 670,000 | Sewer I/I - phase IV | 85,085 |
| School computers | 120,000 | Sewer planning | 10,000 |
| Various Town Projects | <u>1,172,099</u> | Sewer various | <u>80,000</u> |
| Total Governmental Activities | <u>\$ 4,837,099</u> | Total Business-Type Activities | <u>\$ 225,085</u> |
| Total Authorized and Unissued Debt | <u><u>\$ 5,062,184</u></u> | | |

III. Other Information

A. Retirement System

System Description – The Town contributes to the Norfolk County Retirement System (the “System”), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (“MGL”) and is administered by Norfolk County Retirement Board (the “Board”).

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The system issues an unaudited publicly available financial report, which is available at the Norfolk County Retirement System, 480 Neponset Street, Building 15, Canton, MA 02021.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town’s contributions to the System for the fiscal years ended June 30, 2014, 2013, and 2012 were \$3,106,054; \$2,981,339; and \$2,840,894, respectively. These contributions were equal to the required contribution for each year as set by the Board. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$6,710,745 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s self-funded insurance program described previously. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 702 active employees and 504 retired employees and their spouses for a total of 1,206.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute either 20% or 30% of the cost of non-Medicare health plans depending on whether their date of hire was prior to, or after January 2, 2003. All retirees contribute 50% of the cost of post-65 years of age Medicare supplemental health plans. The remainder of the cost is funded by the Town.

The Retirees also contribute 50% towards life insurance premiums (face value is \$5,000), while the Town contributes the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost is calculated based on the annual required contribution "ARC" of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town's OPEB obligation:

| | |
|--|----------------------------|
| Annual required contribution (ARC) | \$ 6,986,813 |
| Interest on net OPEB obligation | 603,526 |
| Adjustment to ARC | <u>(535,526)</u> |
| Annual OPEB cost | 7,054,813 |
| Contributions made | <u>(3,097,449)</u> |
| Increase in net OPEB obligation | 3,957,364 |
| Net OPEB obligation at beginning of year | <u>17,243,608</u> |
| Net OPEB obligation at end of year | <u><u>\$21,200,972</u></u> |

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

| Fiscal Year Ending | Annual OPEB Cost (AOPEBC) | Percentage of AOPEBC Contributed | Net OPEB Obligation |
|-----------------------|---------------------------------|--|------------------------|
| June 30, 2012 | \$ 5,632,929 | 34.4% | \$ 12,565,955 |
| June 30, 2013 | \$ 6,686,795 | 30.0% | \$ 17,243,608 |
| June 30, 2014 | \$ 7,054,813* | 43.9% | \$ 21,200,972 |

* Reflected in the Statement of Activities as follows:

The AOPEBC at June 30, 2014 was charged to the following functional programs: General Government \$378,582; Public Safety \$1,192,587; Education \$4,815,436; Public Works \$244,256; Health and Human Services \$105,504; Culture and Recreation \$154,283; Water \$134,141; and Sewer \$30,024.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2014, the most recent actuarial valuation performed as of July 1, 2014, was as follows:

| | |
|--|--------------|
| Actuarial value of plan assets | \$ 995,233 |
| Actuarial accrued liability (AAL) | \$43,863,384 |
| Unfunded actuarial accrued liability (UAAL) | \$42,868,151 |
| Funded ratio (actuarial value of plan assets/AAL) | 2.27% |
| Covered payroll (annually payroll of active employees covered by the plan) | \$54,494,100 |
| UAAL as a percentage of covered payroll | 78.67% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation are as follows:

| | |
|-------------------------------------|--|
| Valuation date: | July 1, 2014 |
| Actuarial cost method: | Projected Unit Credit |
| Amortization method: | 30-year level percent of pay assuming 4.0% increasing closed basis for the full prefunding method forecast. |
| Remaining amortization period: | 28 years as of July 1, 2014 |
| Interest discount rate: | 3.5 percent |
| Healthcare/Medical cost trend rate: | Non-Medicare Eligible Trend - 8.5 percent grading down to 4.5 percent in year 2021 and thereafter Medicare Eligible Trend – 6.5 percent grading down to 4.5 percent in year 2021 and thereafter |

D. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town provides health insurance to its employees and retirees through participation in a pooled health insurance group called West Suburban Health Group (WSH). Sixteen total entities belong to WSH whose membership includes Towns in Norfolk, Middlesex and Worcester Counties; two educational collaborative organizations and a regional school district. WSH pools funds through monthly assessments to its member entities and uses these funds to pay medical claims of its members' employees and their dependents. The Town bears the risk of loss for its portion of any deficit that remains should WSH cease to exist.

The Town is a part of a premium-based self-insurance group which insures for worker's compensation, and general and personal liability, through the Massachusetts Inter-Local Insurance Association (MIIA). The Town essentially transfers its risk through payment of its annual assessment which is adjusted according to the Town's experience history.

E. Commitments and Contingencies

The Town is party to other certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2014, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2014. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, 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.

In addition, the Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

F. Economic Dependence

During the year ended June 30, 2014, approximately 22% of revenues of the General Fund were recognized from the Commonwealth of Massachusetts, as well as the federal government.

G. Implementation of New GASB Pronouncements

Current Year Implementation -

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of GASB 65 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange financial Guarantees*. The objective of GSB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

Future Year Implementations -

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 are effective for the Retirement System as of December 31, 2014 and the correlative impact will be reflected by the Town in fiscal year 2015. The Town believes the adoption of this statement will have a material impact on the financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town believes the adoption of this statement will have a material impact on the financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Prior Period Restatement

The prior period ending Net Position of the Governmental Activities has been decreased by \$330,000, from \$91,424,871 to \$91,094,871, to properly account for capital asset additions.

TOWN OF WALPOLE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

SCHEDULES OF FUNDING PROGRESS

Pension System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a/c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 1/1/2014 | \$ 696,682,779 | \$ 1,247,596,772 | \$ 550,913,993 | 55.8% | \$ 246,722,941 | 223.3% |
| 1/1/2012 | 608,235,096 | 1,128,960,288 | 520,725,192 | 53.9% | 229,095,409 | 227.3% |
| 1/1/2010 | 600,790,835 | 1,001,881,055 | 401,090,220 | 60.0% | 223,332,595 | 179.6% |
| 1/1/2008 | 596,157,147 | 907,719,124 | 311,561,977 | 65.7% | 233,814,977 | 133.3% |
| 1/1/2007 | 533,077,948 | 855,677,413 | 322,599,465 | 62.3% | 219,620,865 | 146.9% |
| 1/1/2005 | 467,186,566 | 762,900,650 | 295,714,084 | 61.2% | 196,639,163 | 150.4% |
| 1/1/2003 | 415,150,776 | 675,275,257 | 260,124,481 | 61.5% | 185,281,985 | 140.4% |

Other Postemployment Benefits

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a/c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 7/1/2014 | \$ 995,233 | \$ 43,863,384 | \$ 42,868,151 | 2.3% | \$ 54,494,100 | 78.7% |
| 7/1/2012 | 75,000 | 84,624,681 | 84,549,681 | 0.1% | 45,917,010 | 184.1% |
| 7/1/2010 | - | 66,672,750 | 66,672,750 | 0.0% | 43,109,910 | 154.7% |
| 7/1/2008 | - | 49,374,785 | 49,374,785 | 0.0% | 40,394,469 | 122.2% |

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

| Year Ended June 30, | Norfolk County Retirement System | | | Town | |
|---------------------|----------------------------------|--------------------------|------------------------|-------------------------|---|
| | Annual Required Contributions | (A) Actual Contributions | Percentage Contributed | (B) Actual Contribution | (B / A) Town's Percentage of System Wide Actual Contributions |
| 2014 | \$ 44,800,000 | \$ 44,800,000 | 100% | \$ 3,106,054 | 6.9% |
| 2013 | 42,714,639 | 42,714,639 | 100% | 2,981,339 | 7.0% |
| 2012 | 41,286,587 | 41,286,587 | 100% | 2,840,894 | 6.9% |
| 2011 | 39,749,857 | 39,749,857 | 100% | 2,916,020 | 7.3% |

Other Postemployment Benefits

| Year Ended June 30, | Annual OPEB Cost | (A) Actual Contributions | Percentage Contributed |
|---------------------|------------------|--------------------------|------------------------|
| 2014 | \$ 7,054,813 | \$ 3,097,449 | 43.9% |
| 2013 | 6,686,795 | 2,009,142 | 30.0% |
| 2012 | 5,632,929 | 1,935,474 | 34.4% |
| 2011 | 5,308,280 | 1,773,956 | 33.4% |

See accompanying independent auditors' report.

TOWN OF WALPOLE, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2014

| | Budgeted Amounts | | Actual Budgetary Amounts | Encumbrances | Actual Budgetary Adjusted | Variance Positive (Negative) |
|---|--------------------|--------------------|--------------------------------|---------------------|---------------------------------|------------------------------------|
| | Original Budget | Final Budget | | | | |
| REVENUES | | | | | | |
| Real estate and personal property taxes | \$ 58,876,517 | \$ 59,194,461 | \$ 59,574,880 | \$ - | \$ 59,574,880 | \$ 380,419 |
| Intergovernmental | 10,150,407 | 10,150,407 | 12,107,072 | - | 12,107,072 | 1,956,665 |
| Motor vehicle and other excises | 3,564,425 | 3,680,000 | 4,292,909 | - | 4,292,909 | 612,909 |
| License and permits | 650,000 | 650,000 | 989,200 | - | 989,200 | 339,200 |
| Departmental and other revenue | 376,500 | 398,000 | 545,996 | - | 545,996 | 147,996 |
| Penalties and interest on taxes | 175,000 | 175,000 | 369,543 | - | 369,543 | 194,543 |
| Fines and forfeitures | 60,000 | 65,000 | 65,070 | - | 65,070 | 70 |
| Investment income | 25,000 | 25,000 | 45,039 | - | 45,039 | 20,039 |
| Total Revenues | <u>73,877,849</u> | <u>74,337,868</u> | <u>77,989,709</u> | <u>-</u> | <u>77,989,709</u> | <u>3,651,841</u> |
| EXPENDITURES | | | | | | |
| General government | 3,622,634 | 3,732,980 | 3,134,200 | 347,585 | 3,481,785 | 251,195 |
| Public safety | 8,304,049 | 9,022,662 | 8,249,552 | 679,227 | 8,928,779 | 93,883 |
| Education | 39,020,403 | 39,719,545 | 39,484,550 | 193,400 | 39,677,950 | 41,595 |
| Public works | 7,700,602 | 9,444,422 | 7,110,539 | 2,160,266 | 9,270,805 | 173,617 |
| Health and human services | 572,512 | 578,512 | 536,328 | 7,378 | 543,706 | 34,806 |
| Culture and recreation | 1,715,908 | 1,902,856 | 1,671,104 | 200,667 | 1,871,771 | 31,085 |
| Pension and other fringe benefits | 12,695,212 | 12,695,212 | 12,305,968 | 29,800 | 12,335,768 | 359,444 |
| State and county tax assessments | 1,219,630 | 1,219,630 | 1,064,348 | - | 1,064,348 | 155,282 |
| Debt service | 3,107,503 | 3,207,503 | 2,566,142 | - | 2,566,142 | 641,361 |
| Total Expenditures | <u>77,958,453</u> | <u>81,523,322</u> | <u>76,122,731</u> | <u>\$ 3,618,323</u> | <u>79,741,054</u> | <u>1,782,268</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 1,759,536 | 2,045,536 | 2,045,536 | | 2,045,536 | - |
| Transfers out | (225,000) | (764,600) | (764,600) | | (764,600) | - |
| Total Other Financing Sources (Uses) | <u>1,534,536</u> | <u>1,280,936</u> | <u>1,280,936</u> | | <u>1,280,936</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE | | | | | | |
| | <u>(2,546,068)</u> | <u>(5,904,518)</u> | <u>\$ 3,147,914</u> | | <u>\$ (470,409)</u> | <u>\$ 5,434,109</u> |
| Other budgetary items: | | | | | | |
| Undesignated surplus (free cash) | - | 3,206,950 | | | | |
| Overlay | 50,000 | 201,500 | | | | |
| Prior year encumbrances | <u>2,496,068</u> | <u>2,496,068</u> | | | | |
| Variance | <u>\$ -</u> | <u>\$ -</u> | | | | |

See accompanying independent auditors' report.
 See accompanying notes to required supplementary information.

TOWN OF WALPOLE, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and the Enterprise Fund. Financial orders are initiated by the Board of Selectmen, recommended by the Town Finance Committee and approved by the Town Meeting at the Town’s annual meeting in May. Expenditures may not legally exceed appropriations at the department level, or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2014, Town Meeting approved approximately \$3.6 million in supplemental budgetary appropriations, for nearly all general government operation classifications.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2014, is as follows:

| | Basis of Accounting Differences | Fund Perspective Differences | Total |
|---|---------------------------------------|------------------------------------|----------------------|
| Revenues on a budgetary basis | \$ - | \$ - | \$ 77,989,709 |
| Stabilization investment income | - | 16,205 | 16,205 |
| On-behalf payments by other government | 6,710,745 | - | 6,710,745 |
| Revenues on a GAAP basis | <u>\$ 6,710,745</u> | <u>\$ 16,205</u> | <u>\$ 84,716,659</u> |
| Expenditures on a budgetary basis | \$ - | \$ - | \$ 76,122,731 |
| On-behalf payments by other government | 6,710,745 | - | 6,710,745 |
| OPEB trust funding reported in fiduciary funds | - | 475,000 | 475,000 |
| Stabilization expenditures | - | 3,772 | 3,772 |
| Debt payoff reported in the capital projects fund | - | (275,000) | (275,000) |
| Sewer debt service reported in the sewer fund | - | (10,170) | (10,170) |
| Miscellaneous reconciling items | - | (39,600) | (39,600) |
| Expenditures on a GAAP basis | <u>\$ 6,710,745</u> | <u>\$ 154,002</u> | <u>\$ 82,987,478</u> |
| Other financing sources (uses) on a budgetary basis | \$ - | \$ - | \$ 1,280,936 |
| Transfers related to OPEB activity | - | 475,000 | 475,000 |
| Transfers related to capital projects debt activity | - | (275,000) | (275,000) |
| Transfers related to sewer debt activity | - | (10,170) | (10,170) |
| Stabilization transfers in | - | 250,000 | 250,000 |
| Other financing sources (uses) on a GAAP basis | <u>\$ -</u> | <u>\$ 439,830</u> | <u>\$ 1,720,766</u> |