

**TOWN OF WINCHENDON, MASSACHUSETTS**

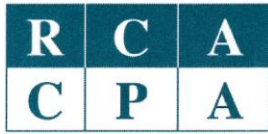
Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2013

# **TOWN OF WINCHENDON, MASSACHUSETTS**

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Winchendon, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Winchendon, Massachusetts, (the "Town") as of and for the year ended June 30, 2013, 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 the fair presentation of these financial statements in accordance with the 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 of 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 those 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 purposes 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, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of Town as of June 30, 2013, and the respective changes in financial position where applicable and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in Note B, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position*. Our opinion was not modified with respect to this matter.

## **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 a report dated July 21, 2014 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Roselli, Clark & Associates  
Certified Public Accountants  
July 21, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Winchendon, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013.

### **Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$36.2 million (*total net position*). The nearly \$4.3 million decrease in the Town's total net position was attributable to a decrease in *governmental activities* net position of approximately \$4.7 million offset by a nearly \$0.4 million increase in *business-type activities* net position.

The increase in business-type activities net position resulted from an increase in revenues due to a re-metering program for water and sewer that identified numerous meters previously not read. The decrease in government activities net position is primarily due to lower revenues and exceeding expenditures that are discussed in detail in a later portion of the Management Discussion and Analysis.

- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$6.4 million, which is approximately \$0.4 million lower than the prior year's balances. A general fund operating surplus of approximately \$0.4 million was offset by a reduction in the combined nonmajor funds of \$0.8 million.

The general fund operations were bolstered by a school reimbursement payment of \$0.6 million which offset otherwise negative operations of \$0.2 million.

Of the ending fund balances, approximately \$2.4 million in the general fund is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures. The Town's nonmajor governmental funds reported an unassigned deficit fund balance of nearly \$0.4 million primarily due to deficits in the Town's capital project funds and circuit breaker account that will be funded from future bond issuances and grants.

- The Town's total long-term debt decreased by approximately \$1.6 million during the current fiscal year due to scheduled debt repayments. No debt was issued during the current year.

### **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, similar to 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, community development, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include its water, sewer and transfer station operations.

**Fund Financial Statements** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds distinguish 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 are 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 several 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. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. 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** The Town maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water, sewer and transfer station enterprises. *Internal service funds* are used to report activities that service all other Town Departments. The Town uses internal service funds to account for self-insured health insurance claims. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer and transfer station enterprise funds, and the self-insured health claims fund.

**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.

### **Government-wide Financial Analysis**

The condensed statement of net position is as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b><u>Assets</u></b>						
Current and other assets	\$ 10,468,343	\$ 13,256,524	\$ 8,929,694	\$ 9,308,657	\$ 19,398,037	\$ 22,565,181
Capital assets, net	21,531,656	21,971,663	19,815,177	20,121,190	41,346,833	42,092,853
Total assets	31,999,999	35,228,187	28,744,871	29,429,847	60,744,870	64,658,034
<b><u>Liabilities</u></b>						
Long-term liabilities	10,924,765	9,495,680	10,291,685	11,417,510	21,216,450	20,913,190
Other liabilities	2,382,849	2,338,632	900,674	871,283	3,283,523	3,209,915
Total liabilities	13,307,614	11,834,312	11,192,359	12,288,793	24,499,973	24,123,105
<b><u>Net Position</u></b>						
Invested in capital assets	20,499,333	21,411,734	15,118,749	14,752,852	35,618,082	36,164,586
Restricted	2,249,575	4,190,516	-	-	2,249,575	4,190,516
Unrestricted	(4,056,523)	(2,208,375)	2,433,763	2,388,202	(1,622,760)	179,827
Total Net Position	\$ 18,692,385	\$ 23,393,875	\$ 17,552,512	\$ 17,141,054	\$ 36,244,897	\$ 40,534,929

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$36.2 million (*total net position*), which represents an approximate \$4.3 million decrease from the prior year's balance.

The largest portion (approximately 98.2%) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those

amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately 6.2%) represents resources that are subject to external restrictions on how they may be used.

The remainder, unrestricted, represents a deficit balance primarily due to the recognition of the unfunded portion of other postemployment benefits since the adoption of GASB 45 in 2009 of \$8.8 million.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 1,422,327	\$ 1,666,199	\$ 2,197,384	\$ 1,719,797	\$ 3,619,711	\$ 3,385,996
Operating grants and contributions	17,121,985	18,015,777	319,501	342,292	17,441,486	18,358,069
Capital grants and contributions	374,237	1,315,748	-	601,246	374,237	1,916,994
General revenues:						
Property taxes	9,551,775	9,988,054	-	-	9,551,775	9,988,054
Intergovernmental	1,533,703	1,531,309	-	-	1,533,703	1,531,309
Other	1,017,716	1,194,559	-	-	1,017,716	1,194,559
<b>Total Revenues</b>	<b>31,021,743</b>	<b>33,711,646</b>	<b>2,516,885</b>	<b>2,663,335</b>	<b>33,538,628</b>	<b>36,374,981</b>
<b><u>Expenses</u></b>						
General government	1,890,667	2,696,688	-	-	1,890,667	2,696,688
Public safety	3,211,366	3,234,897	-	-	3,211,366	3,234,897
Education	27,208,703	25,315,425	-	-	27,208,703	25,315,425
Public works	1,212,921	1,216,585	-	-	1,212,921	1,216,585
Health and human services	791,693	710,037	-	-	791,693	710,037
Culture and recreation	359,776	293,860	-	-	359,776	293,860
Community development	474,607	869,022	-	-	474,607	869,022
Debt service	104,728	163,692	-	-	104,728	163,692
Water	-	-	997,727	683,326	997,727	683,326
Sewer	-	-	1,388,760	1,350,865	1,388,760	1,350,865
Transfer station	-	-	187,712	198,162	187,712	198,162
<b>Total Expenses</b>	<b>35,254,461</b>	<b>34,500,206</b>	<b>2,574,199</b>	<b>2,232,353</b>	<b>37,828,660</b>	<b>36,732,559</b>
Change in net position before transfers	(4,232,718)	(788,560)	(57,314)	430,982	(4,290,032)	(357,578)
<b>Transfers</b>	<b>(468,772)</b>	<b>(398,416)</b>	<b>468,772</b>	<b>398,416</b>	<b>-</b>	<b>-</b>
Change in net position	(4,701,490)	(1,186,976)	411,458	829,398	(4,290,032)	(357,578)
Net position, beginning of year	23,393,875	24,580,851	17,141,054	16,311,656	40,534,929	40,892,507
Net position, end of year	<u>\$ 18,692,385</u>	<u>\$ 23,393,875</u>	<u>\$ 17,552,512</u>	<u>\$ 17,141,054</u>	<u>\$ 36,244,897</u>	<u>\$ 40,534,929</u>



## **Governmental Activities**

The reduction in net position in governmental activities was due to the following:

1. Reductions in Capital Grants, specifically, almost \$1.0 million through lower funding of Community Development Block Programs and Chapter 90 roadwork.
2. Reductions in Operating Grants and Donations of over \$0.9 million primarily due to school related ARRA and stimulus grants winding down and less donations related to education.
3. Less property tax revenue of almost \$0.5 million due to ongoing challenges the community has been facing since the economic decline of 2009.
4. An increase in education expenses of almost \$1.9 million, much of this related to an increase in health insurance costs.

During fiscal year 2013, property taxes made up approximately 30.8% of total revenues, up slightly on a percentage basis from the 29.6% in the prior year, but lower than expected in dollar amounts as discussed previously. Operating grants and contributions represented approximately 55.2% and 53.4% of total revenues for fiscal years 2013 and 2012, respectively. These were lower in dollar amounts as discussed above, but this was an anticipated reduction. No other revenues were greater than 10% of total revenues in fiscal years 2013 or 2012.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 77.2% and 73.4% of total fiscal year 2013 and 2012 expenses, respectively. This was due to pupil enrollment being increased by about 5%. No other expense categories were greater than 10% of total expenses in either 2013 or 2012.

## **Business-type Activities**

Major revenue sources consist of revenue from user charges, which represented approximately 87.3% and 64.6% of total fiscal year 2013 and 2012 revenues, respectively. Capital grants and contributions which were approximately 22.6% of total fiscal year 2012 revenues, did not exist in 2013 which is why the user charge revenue spiked on a percentage basis. This was due to the winding down of governmental programs that peaked in the prior year. User charge revenue was up on a dollar basis due to the re-metering of water and sewer and capturing of prior meters that were not read.

Water, sewer and transfer station expenses represented 38.8%, 54.0% and 7.2% of total fiscal year 2013 business-type activities expenses, respectively, and 30.6%, 60.5% and 8.9% of total fiscal year 2012 business-type activities expenses, respectively.

## **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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$6.4 million, which was consistent with the prior year's balances. Of the ending fund balance nearly \$2.0 million in the general fund is *available for*

*spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures. The Town's nonmajor governmental funds reported an unassigned deficit fund balance of over \$0.4 million primarily due to deficits in the Town's capital project funds and special revenue funds.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$2.4 million, while total fund balance was slightly over \$3.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The general fund's unassigned fund balance represents approximately 8.7% of total general fund expenditures, while total fund balance represents approximately 12.5% of that same amount.

***Proprietary Funds*** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At June 30, 2013, net position of the water and sewer enterprise funds were approximately \$6.5million and \$11.0 million, respectively and the transfer station enterprise fund had a deficit fund balance of \$50,410. The Town's Internal Service Fund had a deficit fund balance of over \$0.7 million. This was due to claims exceeding expectations and the designed rate.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were less than 1%. The schedule of budgetary information is provided as *Required Supplementary Information*.

### **Capital Asset and Debt Administration**

**Capital Assets** As of June 30, 2013, the Town's investment in capital assets for its governmental and business-type activities totaled approximately \$21.5 million and \$19.8 million, respectively. Governmental net capital assets decreased approximately \$0.4 million as fiscal year 2013 depreciation expense of approximately \$1.3 million exceeded fiscal year 2013 capital additions of approximately \$0.9 million. Business-type net capital assets decreased by approximately \$0.3 million as fiscal year 2013 depreciation expense of over \$0.5 million exceeded fiscal year 2013 additions of approximately \$0.2 million.

The Town has undergone significant capital improvements over the past several years, particularly to its water infrastructure. A significant portion of these improvements were funded with reimbursements from grants provided by the federal government and the Commonwealth of Massachusetts.

Additional information on the Town capital assets can be found Note III. Subsection C of this report.

**Long-term Debt** At June 30, 2013, the Town had total debt outstanding of over \$12.0 million, which represents a decrease of approximately \$1.6 million from the prior year. At June 30, 2013, the Town had \$1.0 million in general obligation bonds of governmental activities and nearly \$11.0 million in general obligation bonds and notes of business-type activities. Normal scheduled debt repayments totaled nearly \$1.6 million in fiscal year 2013 and there were no new issuances of debt.

The Town will receive reimbursements for a portion of any principal payback of debt issued through agreements with the Massachusetts Water Pollution Abatement Trust. The Town expects to receive approximately \$2.4 million of principal and approximately \$1.5 million of interest in aggregate over the next twelve years.

The Town maintained an "A" rating as set by Standard and Poor for general obligation debt.

State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% 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 Town’s legal debt margin as of June 30, 2013 was approximately \$30.9 million based on an equalized valuation of approximately \$620 million.

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.

Additional information on the Town’s debt can be found in Notes III. Subsections E. and F. of this report.

### **Economic Factors and Next Year’s Budgets and Rates**

- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2014 represent approximately 90.1% of the entire levy. The Town does rely to a lesser, but still moderate, extent on its commercial, industrial and personnel property real estate tax base which comprise the remainder of the levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year’s tax levy.
- The Town has a significant reliance on intergovernmental receipts from the Commonwealth of Massachusetts. \$13.3 million is anticipated for fiscal 2014 which represents over 50% of the Town’s operating budget in the general fund.
- The Town struggled in fiscal 2013 and 2014 to balance its operating budget. Budget deficits of over \$0.4 million existed at the end of fiscal year 2013 and even more are expected once the Town closes its records for fiscal year 2014. Reductions in State Aid and other local non-property tax receipts in fiscal years 2009 to 2012 as well as the taxpayers’ struggles to meet their obligations to the Town created operational issues in fiscal 2013 that are expected to continue. The budget for fiscal year 2014 was adopted at the Annual Town Meeting in May 2013.
- The Town’s tax rate for fiscal year 2014 was approved by the Department of Revenue on December 31, 2013.

The above items were considered when the Town developed its budget for fiscal year 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 Town Manager, Town Hall, 109 Front Street, Winchendon, Massachusetts 01475.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Winchendon Redevelopment Authority</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,770,957	\$ 1,436,123	\$ 4,207,080	\$ 37,441
Investments	3,861,904	-	3,861,904	-
Receivables, net:				
Property taxes	1,001,073	-	1,001,073	-
User fees	-	1,203,402	1,203,402	-
Betterments	-	4,057,504	4,057,504	-
Departmental and other	1,916,051	-	1,916,051	28,600
Intergovernmental	415,154	2,236,869	2,652,023	-
Internal balances	4,204	(4,204)	-	-
Deposit held by third party	499,000	-	499,000	-
Assets held for development	-	-	-	1,192,456
Capital assets not being depreciated	1,982,304	26,735	2,009,039	-
Capital assets, net of accumulated depreciation	19,549,352	19,788,442	39,337,794	-
<b>Total Assets</b>	<b>31,999,999</b>	<b>28,744,871</b>	<b>60,744,870</b>	<b>1,258,497</b>
<b>Liabilities:</b>				
Warrants and accounts payable	1,112,907	37,781	1,150,688	-
Accrued payroll and withholdings	46,193	-	46,193	-
Health claims incurred but not reported	231,237	-	231,237	-
Other liabilities	51,555	-	51,555	-
Promissory note	-	-	-	229,420
Unearned revenues	6,604	-	6,604	-
Bond anticipation notes payable	255,000	-	255,000	-
Noncurrent liabilities:				
Due within one year	679,353	862,893	1,542,246	-
Due in more than one year	10,924,765	10,291,685	21,216,450	-
<b>Total Liabilities</b>	<b>13,307,614</b>	<b>11,192,359</b>	<b>24,499,973</b>	<b>229,420</b>
<b>Net Position</b>				
Invested in capital assets	20,499,333	15,118,749	35,618,082	-
Restricted for:				
Nonexpendable permanent funds	334,409	-	334,409	-
Expendable permanent funds	1,144,006	-	1,144,006	-
Federal and State grants	181,559	-	181,559	-
Other purposes	589,601	-	589,601	1,029,077
Unrestricted	(4,056,523)	2,433,763	(1,622,760)	-
<b>Total Net Position</b>	<b>\$ 18,692,385</b>	<b>\$ 17,552,512</b>	<b>\$ 36,244,897</b>	<b>\$ 1,029,077</b>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Unit
								Winchendon Redevelopment Authority
Primary government:								
Governmental activities:								
General government	\$ 1,890,667	\$ 357,993	\$ 210,973	\$ -	\$ (1,321,701)		\$ (1,321,701)	
Public safety	3,211,366	397,088	79,398	71,863	(2,663,017)		(2,663,017)	
Education	27,208,703	579,604	16,354,793	-	(10,274,306)		(10,274,306)	
Public works	1,212,921	13,795	23,094	233,064	(942,968)		(942,968)	
Health and human services	791,693	49,234	411,137	-	(331,322)		(331,322)	
Culture and recreation	359,776	5,400	42,590	69,310	(242,476)		(242,476)	
Community development	474,607	19,213	-	-	(455,394)		(455,394)	
Interest expense	104,728	-	-	-	(104,728)		(104,728)	
Total governmental activities	35,254,461	1,422,327	17,121,985	374,237	(16,335,912)		(16,335,912)	
Business-type activities:								
Water	997,727	1,006,946	48,447	-		\$ 57,666	57,666	
Sewer	1,388,760	1,012,660	271,054	-		(105,046)	(105,046)	
Transfer station	187,712	177,778	-	-		(9,934)	(9,934)	
Total business-type activities	2,574,199	2,197,384	319,501	-		(57,314)	(57,314)	
Total Primary Government	\$ 37,828,660	\$ 3,619,711	\$ 17,441,486	\$ 374,237	(16,335,912)	(57,314)	(16,393,226)	
Component unit:								
Winchendon Redevelopment Authority	\$ 110,033	\$ 1,000	\$ -	\$ 37,800				\$ (71,233)
<u>General Revenues:</u>								
Property taxes					9,551,775	-	9,551,775	-
Motor vehicle and other excise					899,195	-	899,195	-
Intergovernmental					1,533,703	-	1,533,703	-
Penalties and interest on taxes					150,677	-	150,677	-
Interest income					21,978	-	21,978	-
Loss on investments					(54,134)	-	(54,134)	40
Transfers (net)					(468,772)	468,772	-	-
Total general revenues and transfers					11,634,422	468,772	12,103,194	40
Change in Net Position					(4,701,490)	411,458	(4,290,032)	(71,193)
<u>Net Position:</u>								
Beginning of year					23,393,875	17,141,054	40,534,929	1,100,270
End of year					\$ 18,692,385	\$ 17,552,512	\$ 36,244,897	\$ 1,029,077

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 979,160	\$ 1,791,797	\$ 2,770,957
Investments	2,519,353	1,342,551	3,861,904
Receivables, net of allowance for uncollectibles:			
Property taxes	1,001,073	-	1,001,073
Departmental and other	1,879,051	37,000	1,916,051
Intergovernmental	135,542	279,612	415,154
Due from other funds	319,075	-	319,075
<b>Total Assets</b>	<b>\$ 6,833,254</b>	<b>\$ 3,450,960</b>	<b>\$ 10,284,214</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Warrants and accounts payable	\$ 337,856	\$ 76,815	\$ 414,671
Accrued payroll and withholdings	46,193	-	46,193
Unearned revenues	6,604	-	6,604
Deferred Revenues	3,009,061	128,194	3,137,255
Other liabilities	51,555	-	51,555
Bond anticipation notes payable	-	255,000	255,000
<b>Total Liabilities</b>	<b>3,451,269</b>	<b>460,009</b>	<b>3,911,278</b>
<b>Fund Balances:</b>			
Nonspendable	-	334,409	334,409
Restricted	940,101	3,041,523	3,981,624
Committed	87,715	-	87,715
Assigned	1,156	-	1,156
Unassigned	2,353,013	(384,981)	1,968,032
<b>Total Fund Balances</b>	<b>3,381,985</b>	<b>2,990,951</b>	<b>6,372,936</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,833,254</b>	<b>\$ 3,450,960</b>	<b>\$ 10,284,214</b>

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013**

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<b>Total Governmental Fund Balances</b>	<b>\$ 6,372,936</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,531,656
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred in the funds.	3,137,255
Assets and liabilities of the Town's internal service funds are included in the Statement of Net Position, but are not reported in the governmental funds.	(745,344)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Landfill monitoring	(486,000)
Bonds and notes payable	(1,032,323)
Compensated absences	(1,318,177)
Other post employment benefits	<u>(8,767,618)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 18,692,385</u></b>

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Property taxes	\$ 9,292,474	\$ -	\$ 9,292,474
Intergovernmental	16,584,323	3,549,105	20,133,428
Motor vehicle and other excises	949,957	-	949,957
Departmental and other revenue	652,183	645,730	1,297,913
Licenses and permits	176,351	-	176,351
Penalties and interest on taxes	150,677	-	150,677
Fines and forfeitures	20,232	-	20,232
Investment income	11,965	8,376	20,341
Loss on investment	(24,518)	(29,616)	(54,134)
Contributions and donations	-	434,509	434,509
<b>Total Revenues</b>	<u>27,813,644</u>	<u>4,608,104</u>	<u>32,421,748</u>
<b>Expenditures:</b>			
Current:			
General government	1,325,033	38,679	1,363,712
Public safety	2,023,131	279,068	2,302,199
Education	17,149,172	4,093,180	21,242,352
Public works	1,070,297	235,072	1,305,369
Health and human services	607,639	73,155	680,794
Culture and recreation	160,644	158,377	319,021
Community development	-	474,607	474,607
Pension and fringe benefits	3,055,299	-	3,055,299
State and county assessments	1,038,777	-	1,038,777
Debt service:			
Principal	472,810	-	472,810
Interest	104,728	-	104,728
<b>Total Expenditures</b>	<u>27,007,530</u>	<u>5,352,138</u>	<u>32,359,668</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>806,114</u>	<u>(744,034)</u>	<u>62,080</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	57,810	252,000	309,810
Transfers out	(484,092)	(294,490)	(778,582)
<b>Total Other Financing (Uses) Sources</b>	<u>(426,282)</u>	<u>(42,490)</u>	<u>(468,772)</u>
<b>Net Change in Fund Balances</b>	379,832	(786,524)	(406,692)
Fund Balances - Beginning	<u>3,002,153</u>	<u>3,777,475</u>	<u>6,779,628</u>
Fund Balances - Ending	<u><u>\$ 3,381,985</u></u>	<u><u>\$ 2,990,951</u></u>	<u><u>\$ 6,372,936</u></u>

See accompanying notes to basic financial statements.



**TOWN OF WINCHENDON, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2013**

**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (406,692)**

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

Capital outlays	773,614	
Depreciation expense	(1,213,621)	

Net effect of reporting capital assets		(440,007)
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In the Statement of Activities, Internal Service Funds established to administer the Town's health insurance costs are included within the activity, whereas these activities are not presented in the Statement of Revenues, Expenditures and Changes in Fund Balances. (1,146,363)

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 assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Repayments of debt	472,810	

Net effect of reporting long-term debt		472,810
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Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in deferred revenue. (1,401,642)

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:

Landfill monitoring	27,000	
Compensated absences	(110,808)	
Other post employment benefits	(1,695,788)	

Net effect of reporting long-term liabilities		(1,779,596)
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**Change in Net Position of Governmental Activities** **\$ (4,701,490)**

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013**

	<b>Business-Type Activities</b>				<b>Governmental Activities</b>
			<b>Transfer Station</b>	<b>Total</b>	<b>Internal Service Fund - Health Claims</b>
	<b>Water</b>	<b>Sewer</b>			
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 393,455	\$ 1,042,668	\$ -	\$ 1,436,123	\$ -
Investments	-	-	-	-	-
Receivables (net):					
User charges	550,733	652,669	-	1,203,402	-
Betterments	-	137,803	-	137,803	-
Intergovernmental	43,334	142,329	-	185,663	-
Total current assets	987,522	1,975,469	-	2,962,991	-
Noncurrent assets:					
Receivables (net):					
Betterments	-	3,919,701	-	3,919,701	-
Intergovernmental	296,879	1,754,327	-	2,051,206	-
Deposit held by third party	-	-	-	-	499,000
Capital assets (net)	8,433,369	11,381,808	-	19,815,177	-
Total noncurrent assets	8,730,248	17,055,836	-	25,786,084	499,000
<b>Total Assets</b>	<b>9,717,770</b>	<b>19,031,305</b>	<b>-</b>	<b>28,749,075</b>	<b>499,000</b>
<b>Liabilities:</b>					
Current liabilities:					
Warrants and accounts payable	21,959	10,316	5,506	37,781	698,236
Health claims incurred but not reported	-	-	-	-	231,237
Bonds and notes payable	208,570	652,958	-	861,528	-
Compensated absences	-	-	1,365	1,365	-
Due to other funds	-	-	4,204	4,204	314,871
Total current liabilities	230,529	663,274	11,075	904,878	1,244,344
Noncurrent liabilities:					
Compensated absences	-	-	4,093	4,093	-
Other post employment benefits	19,656	103,421	35,242	158,319	-
Bonds and notes payable	2,922,474	7,206,799	-	10,129,273	-
Total noncurrent liabilities	2,942,130	7,310,220	39,335	10,291,685	-
<b>Total Liabilities</b>	<b>3,172,659</b>	<b>7,973,494</b>	<b>50,410</b>	<b>11,196,563</b>	<b>1,244,344</b>
<b>Net Position:</b>					
Invested in capital assets	5,642,538	9,476,211	-	15,118,749	-
Unrestricted	902,573	1,581,600	(50,410)	2,433,763	(745,344)
<b>Total Net Position</b>	<b>\$ 6,545,111</b>	<b>\$ 11,057,811</b>	<b>\$ (50,410)</b>	<b>\$ 17,552,512</b>	<b>\$ (745,344)</b>

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Business-Type Activities</b>				<b>Governmental Activities</b>
	<b>Water</b>	<b>Sewer</b>	<b>Transfer Station</b>	<b>Total</b>	<b>Internal Service Fund - Health Claims</b>
<b>Operating Revenues:</b>					
Charges for services	\$ 984,388	\$ 944,908	\$ 177,778	\$ 2,107,074	\$ -
Employee contributions	-	-	-	-	1,410,975
Employer contributions	-	-	-	-	1,883,668
Other	22,558	19,962	-	42,520	246,099
Total Operating Revenues	<u>1,006,946</u>	<u>964,870</u>	<u>177,778</u>	<u>2,149,594</u>	<u>3,540,742</u>
<b>Operating Expenses:</b>					
Operating costs	639,763	689,380	187,712	1,516,855	-
Health claims	-	-	-	-	4,688,742
Depreciation	229,282	313,439	-	542,721	-
Total Operating Expenses	<u>869,045</u>	<u>1,002,819</u>	<u>187,712</u>	<u>2,059,576</u>	<u>4,688,742</u>
<b>Operating Income (Loss)</b>	<u>137,901</u>	<u>(37,949)</u>	<u>(9,934)</u>	<u>90,018</u>	<u>(1,148,000)</u>
<b>Nonoperating Revenues (Expenses):</b>					
Intergovernmental	48,447	271,054	-	319,501	-
Interest income	-	-	-	-	1,637
Interest expense	(128,682)	(385,941)	-	(514,623)	-
Total Nonoperating Revenues (Expenses)	<u>(80,235)</u>	<u>(114,887)</u>	<u>-</u>	<u>(195,122)</u>	<u>1,637</u>
<b>Income (Loss) Before Capital Contributions and Transfers</b>	<u>57,666</u>	<u>(152,836)</u>	<u>(9,934)</u>	<u>(105,104)</u>	<u>(1,146,363)</u>
<b>Capital Contributions</b>					
Betterments	<u>-</u>	<u>47,790</u>	<u>-</u>	<u>47,790</u>	<u>-</u>
<b>Transfers</b>					
Transfers (net)	<u>132,644</u>	<u>336,128</u>	<u>-</u>	<u>468,772</u>	<u>-</u>
<b>Change in Net Position</b>	<u>190,310</u>	<u>231,082</u>	<u>(9,934)</u>	<u>411,458</u>	<u>(1,146,363)</u>
Total Net Position - Beginning	<u>6,354,801</u>	<u>10,826,729</u>	<u>(40,476)</u>	<u>17,141,054</u>	<u>401,019</u>
Total Net Position - Ending	<u><b>\$ 6,545,111</b></u>	<u><b>\$ 11,057,811</b></u>	<u><b>\$ (50,410)</b></u>	<u><b>\$ 17,552,512</b></u>	<u><b>\$ (745,344)</b></u>

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2013**

	<b>Business-Type Activities</b>				<b>Governmental Activities</b>
	<b>Water</b>	<b>Sewer</b>	<b>Transfer Station</b>	<b>Total</b>	<b>Internal Service Fund - Health Claims</b>
Cash Flows from Operating Activities:					
Receipts from users	\$ 827,698	\$ 766,971	\$ 177,778	\$ 1,772,447	\$ -
Employee contributions	-	-	-	-	1,410,975
Employer contributions	-	-	-	-	1,883,668
Other income	22,558	19,962	-	42,520	246,099
Payments to employees	(141,938)	(266,068)	(94,524)	(502,530)	-
Payments to vendors	(492,524)	(412,185)	(86,794)	(991,503)	-
Payments for interfund services used	-	-	-	-	(4,106,489)
Net Cash Provided by (Used in) Operating Activities	215,794	108,680	(3,540)	320,934	(565,747)
Cash Flows from Noncapital Financing Activities:					
Advances from other funds	-	-	3,540	3,540	314,871
Transfers, net	132,644	336,128	-	468,772	-
Net Cash Provided by (Used in) Noncapital Financing Activities	132,644	336,128	3,540	472,312	314,871
Cash Flows from Capital and Related Financing Activities:					
Proceeds from capital betterments	-	332,119	-	332,119	-
Proceeds from capital grants	88,576	393,942	-	482,518	-
Acquisition and construction of capital assets	(114,095)	(122,613)	-	(236,708)	-
Principal payments on bonds and notes	(488,785)	(630,471)	-	(1,119,256)	-
Interest expense	(128,682)	(385,941)	-	(514,623)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(642,986)	(412,964)	-	(1,055,950)	-
Cash Flows from Investing Activities:					
Interest income	-	-	-	-	1,637
Liquidation of investments	-	-	-	-	152,103
Net Cash Provided by (used in) Investing Activities	-	-	-	-	153,740
Net Change in Cash and Cash Equivalents	(294,548)	31,844	-	(262,704)	(97,136)
Cash and Cash Equivalents:					
Beginning of the year	688,003	1,010,824	-	1,698,827	97,136
End of the year	<u>\$ 393,455</u>	<u>\$ 1,042,668</u>	<u>\$ -</u>	<u>\$ 1,436,123</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ 137,901	\$ (37,949)	\$ (9,934)	\$ 90,018	\$ (1,148,000)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	229,282	313,439	-	542,721	-
Changes in assets and liabilities:					
Receivables	(156,690)	(177,937)	-	(334,627)	-
Working capital deposit	-	-	-	-	-
Accounts payable and accrued expenses	5,301	11,127	6,394	22,822	582,253
Net Cash Provided by (Used in) Operating Activities	<u>\$ 215,794</u>	<u>\$ 108,680</u>	<u>\$ (3,540)</u>	<u>\$ 320,934</u>	<u>\$ (565,747)</u>

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

**JUNE 30, 2013**

	Private Purpose Trust Funds	Agency Funds
<b>Assets:</b>		
Cash and cash equivalents	\$ 152,269	\$ 100,183
Investments	288,246	-
<b>Total Assets</b>	<b>440,515</b>	<b>100,183</b>
<b>Liabilities:</b>		
Warrants payable	-	49,766
Agency liabilities	-	9,629
Planning board deposits	-	40,788
<b>Total Liabilities</b>	<b>-</b>	<b>100,183</b>
<b>Net Position</b>		
Held in trust for other purposes	440,515	-
<b>Total Net Position</b>	<b>\$ 440,515</b>	<b>\$ -</b>

See accompanying notes to basic financial statements.

**TOWN OF WINCHENDON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2013**

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	Private Purpose Trust Funds
<b>Additions:</b>	
Investment income	\$ 4,950
Contributions	<u>4,000</u>
<b>Total Additions</b>	<u>8,950</u>
<b>Deductions:</b>	
Education - scholarships	6,000
Health and human services - public assistance	<u>5,545</u>
<b>Total Deductions</b>	<u>11,545</u>
Change in Net Position	(2,595)
Total Net Position - Beginning	<u>443,110</u>
Total Net Position - Ending	<u><u>\$ 440,515</u></u>

See accompanying notes to basic financial statements.

# TOWN OF WINCHENDON, MASSACHUSETTS

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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### **I. Summary of Significant Accounting Policies**

The 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 governmental entities. The following is a summary of the more significant policies and practices used by the Town:

#### **A. Reporting Entity**

The Town, which is approximately forty-four square miles, is located in Worcester County and is bordered by the State of New Hampshire on its northern side. The Town was incorporated as a town in 1764. An elected five-member Board of Selectmen governs the Town and an appointed Town Manager oversees the Town's daily executive and administrative duties. Selectmen serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water, sewer and solid waste services, street maintenance, parks and recreational facilities.

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 including: being financially accountable, and able to impose its will; appointing a voting majority of the component units' governing body and if the potential for the component unit to provide specific financial benefits or to impose specific financial burdens on the Town.

*Discretely Presented Component Unit* - The Winchendon Redevelopment Authority ("WRA") is presented in a separate column to emphasize that it is legally separate from the Town, but is included because the Town is financially accountable for, and can impose its will on, the organization. The WRA is organized under Massachusetts state law with the authority to administer the Town's redevelopment activities. The WRA is managed by a five member board, of which four members are appointed by the Town Manager without restriction. The fifth member is appointed by the Governor of the Commonwealth of Massachusetts upon recommendation of the Town Manager. A stand alone report has not been issued for the WRA as of and for the fiscal year ended June 30, 2013.

#### **B. Government-Wide and Fund Financial Statements**

In 2013, the Town implemented GASB No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of the implementation, the basic financial statements were renamed to the *statement of net position* and *statement of revenues, expenses and changes in net position*. These statements were formerly referred to as the *statement of net assets* and *statement of revenues, expensed and changes in net assets*. All previous references to *net assets* have been replaced with the concept of *net position* in accordance with GASB 63.

The Town did not have any assets or liabilities that were required to be reported as deferred outflows of resources and deferred inflows of resources in these 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 and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets, liabilities, 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*, as are proprietary funds. 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 have been 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*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

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 interest on general long-term debt which is recognized when payment is 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 Town reports its general fund as its only major governmental fund. The general fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The *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 Town reports the following major proprietary funds:

*Water Enterprise Fund* - accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

*Sewer Enterprise Fund* - accounts user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

*Transfer Station Fund* - accounts for user charges collected to finance costs associated with operating facilities for the disposal of household waste and recycling.

Additionally, the Town reports an *internal service fund* to account for the activities associated with the Town's self insurance efforts for health benefits. Because these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements.

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 Town reports a *private-purpose trust fund* that is used to account for resources legally held in trust for use in funding scholarships and energy support for qualified citizens. There is a requirement that a portion of these resources be preserved as principal. Furthermore, *agency funds* are used to account for resources and deposits held by the Town for the benefit of others.

#### **D. Assets, Liabilities, 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 to the statutory rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes, water and sewer user fees are secured through a lien process and are considered 100% collectible. Accordingly, an allowance 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, if material. The allowance for uncollectible balances for other receivables is estimated based on historical trends and specific account analysis.

*Inventories and Prepaid Items* – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

*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. Net 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 using the straight line method over the following estimated useful lives:

Infrastructure	40 - 50 years
Buildings and improvements	40 years
Equipment, furniture, fixtures and vehicles	5 - 10 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* – Excluding the permanent funds, 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 is voluntarily assigned to the general fund except for the Health Claims Internal Service Fund that retains any interest earned.

*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 the 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 fund financial statements 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 deferred and 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.

*Net Position* – In the government-wide financial statements, net position reported as “invested 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 and

outstanding debt related to future state reimbursements for capital construction costs are 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* represent 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.

*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*** – The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on 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. The Town's non-spendable fund balance reported in the Nonmajor governmental funds consists of the corpus of endowments for the cemetery, the library and various other purposes.

*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 Articles. 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 Articles) 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 authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

*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.

*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 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 following represents the breakdown of fund balance by type and functional purpose:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Nonexpendable permanent funds	\$ -	\$ 334,409	\$ 334,409
Restricted:			
General government	-	458,407	458,407
Public safety	-	53,737	53,737
Education	-	1,391,392	1,391,392
Health and human services	-	193,530	193,530
Culture and recreation	-	887,421	887,421
Infrastructure improvements	940,101	-	940,101
Other purposes	-	45,888	45,888
Committed:			
General government articles	23,767	-	23,767
Education articles	63,948	-	63,948
Assigned:			
Purchase orders	1,156	-	1,156
Unassigned	2,353,013	(384,981)	1,968,032
	<u>\$ 3,381,985</u>	<u>\$ 2,990,951</u>	<u>\$ 6,372,936</u>

#### **E. Excess of Expenditures Over Appropriations and Deficits**

During the fiscal year ended June 30, 2013, expenditures exceeded appropriations in the General Fund for the following budget line items:

<u>Department</u>	<u>Amount</u>
Treasurer	\$ (15,581)
Town Clerk	(2,390)
Registrar of Voters	(5,591)
Police Department	(60,351)
Highway Department	(13,097)
Snow & Ice Removal	(158,721)
Tree Trimming	(1,915)
Veterans Service	(52,849)
Debt Service Interest	(10,139)
Workers' Compensation	(3,268)
Health Insurance	(122,847)
Medicare	(7,128)
School Budget	(869)
	<u>\$ (454,746)</u>

In addition, the Town over expended its Circuit Breaker Grant by nearly \$160,000, its Health Claims Trust fund by approximately \$745,000 and various Capital Project accounts by over \$225,000.

#### **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.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the Town'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 June 30, 2013, the carrying amount of the Town's deposits was \$6,297,530 and the bank balance was \$6,445,623. Of the Town's bank balance, \$3,886,221, was covered by either federal depository insurance or by the depositors' insurance fund, \$2,559,402 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk: Investments* – This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Of the Town's investments, \$596,286 in U.S. government obligations, \$637,273 of corporate fixed income obligations and \$6,144 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the counterparty. Credit risk is managed under the auspices of a formal policy drafted by the Treasurer and approved by the Board of Selectmen.

*Credit Risk* – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer's investment 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 U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

At June 30, 2013, all of the Town's investments in U.S. government obligation were rated Aaa by Moody's Investors Service, Inc. ("Moody's"). Of the Town's investments in corporate fixed income, securities with an aggregate fair value of \$283,553, \$303,370 and \$50,350 were rated A1, Baa1 and Ba3 by Moody's, respectively. No other investment types were rated by Moody's or any other recognizable credit rating agency.

Investment Maturities – The Town had the following investments at June 30, 2013:

Investments	Fair Value	Maturity in Years		
		Less than Year	1 to 5 Years	Greater than 5 Years
<u>Debt securities:</u>				
U.S. Government obligations	\$ 596,286	\$ 496	\$ 595,790	\$ -
Corporate fixed income	637,273	149,860	487,413	-
Certificates of deposit	2,590,409	755,062	1,835,347	-
Total investments with maturities	3,823,968	\$ 905,418	\$ 2,918,550	\$ -
<u>Other investments:</u>				
Equities	6,144			
State Treasurer investment pool	32,208			
Mutual Funds	583,351			
Money Market Mutual Funds	456,892			
Total Investments	\$ 4,902,563			

Interest Rate Risk – The Town has a formal investment policy that limits 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 maintain balances in any single investment that would represent more than 5% of the Town’s total cash, cash equivalents and investments.

WRA Deposits – State and local statutes place certain limitations on the nature of deposits and investments available to the WRA. The WRA’s deposits are subject to custodial credit risk similar to the risks born by the Town. The WRA does not have a formal deposit policy to mitigate custodial credit risk. At June 30, 2013, all of the WRA’s bank deposits were covered by federal depository insurance.

## **B. Receivables**

MWPAT Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Water Pollution Abatement Trust (“MWPAT”). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$2,372,411 and interest in the amount of \$1,505,012 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amounts of \$135,542, \$340,213 and \$1,896,656 are reported as receivables in the general fund, water enterprise fund and sewer enterprise fund, respectively.



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
Receivables:			
Real estate and personal property taxes	\$ 1,001,073	\$ -	\$ 1,001,073
Tax liens	1,466,876	-	1,466,876
Motor vehicle excise	269,072	-	269,072
Departmental	412,261	(232,158)	180,103
Intergovernmental:			
Due from MWPAT	135,542	-	135,542
Due from State - grants	279,612	-	279,612
Total	<u>\$ 3,564,436</u>	<u>\$ (232,158)</u>	<u>\$ 3,332,278</u>

Receivables as of year-end for Town's enterprise funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
User fees - water	\$ 550,733	\$ -	\$ 550,733
User fees - sewer	652,669	-	652,669
Betterments - sewer	4,057,504	-	4,057,504
Due from MWPAT - water	340,213	-	340,213
Due from MWPAT - sewer	1,896,656	-	1,896,656
Total	<u>\$ 7,497,775</u>	<u>\$ -</u>	<u>\$ 7,497,775</u>

Betterments - Unapportioned sewer betterments of \$3,919,701 are included in the betterments receivable amount above and represent amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of unearned revenues in the governmental funds:

	General Fund	Nonmajor Governmental	Total
Receivable type:			
Real estate and personal property taxes	\$ 994,468	\$ -	\$ 994,468
Tax liens	1,466,876	-	1,466,876
Motor vehicle excise	269,072	-	269,072
Departmental	143,103	37,000	180,103
Intergovernmental	135,542	91,194	226,736
Total	<u>\$ 3,009,061</u>	<u>\$ 128,194</u>	<u>\$ 3,137,255</u>

## C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 1,982,304	\$ -	\$ -	\$ 1,982,304
Total capital assets not being depreciated	1,982,304	-	-	1,982,304
Capital assets being depreciated:				
Buildings and improvements	28,046,938	-	-	28,046,938
Infrastructure	5,201,802	605,590	-	5,807,392
Machinery, equipment and vehicles	10,339,302	276,025	(108,000)	10,507,327
Total capital assets being depreciated	43,588,042	881,615	(108,000)	44,361,657
Less accumulated depreciation for:				
Buildings and improvements	(14,404,829)	(748,635)	-	(15,153,464)
Infrastructure	(651,087)	(159,052)	-	(810,139)
Machinery, equipment and vehicles	(8,542,767)	(413,935)	108,000	(8,848,702)
Total accumulated depreciation	(23,598,683)	(1,321,622)	108,000	(24,812,305)
Total capital assets being depreciated, net	19,989,359	(440,007)	-	19,549,352
Governmental activities capital assets, net	<u>\$ 21,971,663</u>	<u>\$ (440,007)</u>	<u>\$ -</u>	<u>\$ 21,531,656</u>
<i><u>Business Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 26,735	\$ -	\$ -	\$ 26,735
Total capital assets not being depreciated	26,735	-	-	26,735
Capital assets being depreciated:				
Buildings and improvements	2,532,440	-	-	2,532,440
Infrastructure	22,842,309	236,708	-	23,079,017
Machinery, equipment and vehicles	469,599	-	-	469,599
Total capital assets being depreciated	25,844,348	236,708	-	26,081,056
Less accumulated depreciation for:				
Buildings and improvements	(1,225,731)	(58,026)	-	(1,283,757)
Infrastructure	(4,354,625)	(462,867)	-	(4,817,492)
Machinery, equipment and vehicles	(169,537)	(21,828)	-	(191,365)
Total accumulated depreciation	(5,749,893)	(542,721)	-	(6,292,614)
Total capital assets being depreciated, net	20,094,455	(306,013)	-	19,788,442
Business activities capital assets, net	<u>\$ 20,121,190</u>	<u>\$ (306,013)</u>	<u>\$ -</u>	<u>\$ 19,815,177</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities - Water:</u></i>				
Capital assets not being depreciated:				
Land	\$ 16,385	\$ -	\$ -	\$ 16,385
Total capital assets not being depreciated	16,385	-	-	16,385
Capital assets being depreciated:				
Buildings and improvements	2,210,726	-	-	2,210,726
Infrastructure	8,274,047	114,095	-	8,388,142
Machinery, equipment and vehicles	416,500	-	-	416,500
Total capital assets being depreciated	10,901,273	114,095	-	11,015,368
Less accumulated depreciation for:				
Buildings and improvements	(1,107,769)	(47,302)	-	(1,155,071)
Infrastructure	(1,133,293)	(163,862)	-	(1,297,155)
Machinery, equipment and vehicles	(128,040)	(18,118)	-	(146,158)
Total accumulated depreciation	(2,369,102)	(229,282)	-	(2,598,384)
Total capital assets being depreciated, net	8,532,171	(115,187)	-	8,416,984
Water activities capital assets, net	<u>\$ 8,548,556</u>	<u>\$ (115,187)</u>	<u>\$ -</u>	<u>\$ 8,433,369</u>
<i><u>Business-Type Activities - Sewer:</u></i>				
Capital assets not being depreciated:				
Land	\$ 10,350	\$ -	\$ -	\$ 10,350
Total capital assets not being depreciated	10,350	-	-	10,350
Capital assets being depreciated:				
Buildings and improvements	321,714	-	-	321,714
Infrastructure	14,568,262	122,613	-	14,690,875
Machinery, equipment and vehicles	53,099	-	-	53,099
Total capital assets being depreciated	14,943,075	122,613	-	15,065,688
Less accumulated depreciation for:				
Buildings and improvements	(117,962)	(10,724)	-	(128,686)
Infrastructure	(3,221,332)	(299,005)	-	(3,520,337)
Machinery, equipment and vehicles	(41,497)	(3,710)	-	(45,207)
Total accumulated depreciation	(3,380,791)	(313,439)	-	(3,694,230)
Total capital assets being depreciated, net	11,562,284	(190,826)	-	11,371,458
Sewer activities capital assets, net	<u>\$ 11,572,634</u>	<u>\$ (190,826)</u>	<u>\$ -</u>	<u>\$ 11,381,808</u>
<i><u>Business-Type Activities - All:</u></i>				
Business-type activities capital assets, net	<u>\$ 20,121,190</u>	<u>\$ (306,013)</u>	<u>\$ -</u>	<u>\$ 19,815,177</u>

For the year ended June 30, 2013, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 85,298
Public safety	123,453
Education	859,509
Public works	168,206
Health and human services	45,115
Culture and recreation	40,041
Total Governmental Activities	<u>\$ 1,321,622</u>

Business-Type Activities:

Water	\$ 229,282
Sewer	313,439
Total Business-Type Activities	<u>\$ 542,721</u>

The following schedule represents the calculation of invested in capital assets:

Description	Governmental Activities	Business Type Activities
Fixed assets	\$ 46,343,961	\$ 26,107,791
Accumulated depreciation	(24,812,305)	(6,292,614)
Outstanding debt related to fixed assets	(1,032,323)	(10,990,801)
Betterments receivable	-	4,057,504
Future grants reimbursing debt	-	2,236,869
Invested in capital, net of related debt	<u>\$ 20,499,333</u>	<u>\$ 15,118,749</u>

**D. Interfund Receivables, Payables and Transfers**

Transfers Out	Transfers In				Total	
	General Fund	Nonmajor Funds	Water Enterprise	Sewer Enterprise		
General Fund	\$ -	\$ 252,000	\$ 18,576	\$ 213,516	\$ 484,092	(1)
Nonmajor Funds	57,810	-	114,068	122,612	294,490	(2)
	<u>\$ 57,810</u>	<u>\$ 252,000</u>	<u>\$ 132,644</u>	<u>\$ 336,128</u>	<u>\$ 778,582</u>	

(1) Transfers to nonmajor funds for capital outlays and enterprise funds for debt service costs.

(2) Transfers to general fund for budgetary purposes and transfers to enterprise funds for infrastructure.

Interfund receivables and payables for the fiscal year ended June 30, 2013, represent interfund borrowing for cash flow purposes and are summarized as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Internal Service Fund	\$ 314,871
General Fund	Transfer Station Enterprise	4,204
		<u>\$ 319,075</u>

## E. Temporary Debt

The Town (excluding component units) is authorized to borrow on a temporary basis to fund the following:

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or state aid anticipation notes (SAANS). 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 debt are accounted for in the general fund and enterprise funds, respectively. Temporary notes outstanding at June 30, 2013, are payable as follows:

Type	Interest Rate	Maturity Date	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
BAN	0.90%	matured	492,000	-	(492,000)	-
BAN	0.55%	10/1/13	-	255,000	-	255,000
			<u>\$ 492,000</u>	<u>\$ 255,000</u>	<u>\$ (492,000)</u>	<u>\$ 255,000</u>

Temporary notes outstanding at June 30, 2013 were issued for governmental capital projects relating to public safety equipment (\$115,000) and school boilers (\$140,000).

### Temporary Loan – WRA

On August 10, 2010, the WRA entered into a temporary loan agreement with a commercial bank in the amount of \$255,000 with monthly interest payable at a variable rate of no less than 4.5%. The interest rate is determined by adding 0.5% to the current Wall Street Journal Prime Rate. The carrying value of this temporary loan is \$229,420 at June 30, 2013. Additionally, assets consisting primarily of land and buildings recorded at a value of \$386,200 at June 30, 2013 are being used as collateral for this loan. Under the agreement, if any of these assets are sold by the WRA, the proceeds must be applied to the outstanding loan balance.

## F. Long-Term Obligations

**Bond and Note Indebtedness** - 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 and landfill closure.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the 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:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds	\$ 1,505,133	\$ -	\$ (472,810)	\$ 1,032,323	\$ 322,809
Compensated absences	1,207,369	338,784	(227,976)	1,318,177	329,544
Landfill closure	513,000	-	(27,000)	486,000	27,000
Other post employment benefits	7,071,830	2,246,757	(550,969)	8,767,618	-
Total Governmental Activities	<u>\$ 10,297,332</u>	<u>\$ 2,585,541</u>	<u>\$ (1,278,755)</u>	<u>\$ 11,604,118</u>	<u>\$ 679,353</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds	\$ 3,619,829	\$ -	\$ (488,785)	\$ 3,131,044	\$ 208,570
Other post employment benefits	15,854	5,037	(1,235)	19,656	-
Total Water Enterprise	<u>3,635,683</u>	<u>5,037</u>	<u>(490,020)</u>	<u>3,150,700</u>	<u>208,570</u>
<u>Sewer</u>					
General obligation bonds	8,490,228	-	(630,471)	7,859,757	652,958
Other post employment benefits	83,418	26,502	(6,499)	103,421	-
Total Sewer Enterprise	<u>8,573,646</u>	<u>26,502</u>	<u>(636,970)</u>	<u>7,963,178</u>	<u>652,958</u>
<u>Transfer Station</u>					
Compensated absences	5,406	340	(289)	5,457	1,365
Other post employment benefits	28,426	9,031	(2,215)	35,242	-
Total Transfer Station Enterprise	<u>33,832</u>	<u>9,371</u>	<u>(2,504)</u>	<u>40,699</u>	<u>1,365</u>
Total Business-type Activities	<u>\$ 12,243,161</u>	<u>\$ 40,910</u>	<u>\$ (1,129,494)</u>	<u>\$ 11,154,577</u>	<u>\$ 862,893</u>
<b>Total Long-term Obligations</b>	<u>\$ 22,540,493</u>	<u>\$ 2,626,451</u>	<u>\$ (2,408,249)</u>	<u>\$ 22,758,695</u>	<u>\$ 1,542,246</u>

The governmental activities liabilities of will be liquidated by the general fund. The business-type liabilities will be liquidated by the respective enterprise funds.

General obligation bonds outstanding at June 30, 2013 are as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities:</u>					
General obligation bonds	4.125 - 4.70%	\$ 910,000	\$ -	\$ (405,000)	\$ 505,000
MWPAT notes	1.50 - 2.0%	595,133	-	(67,810)	527,323
Total Governmental Activities		<u>\$ 1,505,133</u>	<u>\$ -</u>	<u>\$ (472,810)</u>	<u>\$ 1,032,323</u>
<u>Business-type Activities - Water:</u>					
USDA bond notes	2.25 - 3.25%	\$ 2,193,823	\$ -	\$ (334,026)	\$ 1,859,797
MWPAT notes	1.50 - 2.0%	1,426,006	-	(154,759)	1,271,247
Total Water		<u>3,619,829</u>	<u>-</u>	<u>(488,785)</u>	<u>3,131,044</u>
<u>Business-type Activities - Sewer:</u>					
USDA bond notes	4.75%	141,045	-	-	141,045
MWPAT notes	1.50 - 2.0%	8,349,183	-	(630,471)	7,718,712
Total Sewer		<u>8,490,228</u>	<u>-</u>	<u>(630,471)</u>	<u>7,859,757</u>
Total Business-type Activities		<u>\$ 12,110,057</u>	<u>\$ -</u>	<u>\$ (1,119,256)</u>	<u>\$ 10,990,801</u>
Total Bond and Note Debt		<u>\$ 13,615,190</u>			<u>\$ 12,023,124</u>

Payments on general long-term debt obligation bonds due in future years consist of the following:

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2014	\$ 322,809	\$ (18,713)	\$ 304,096	\$ 42,961	\$ (18,905)	\$ 24,056	\$ 328,152
2015	322,809	(18,492)	304,317	27,282	(16,486)	10,796	315,113
2016	72,809	(18,654)	54,155	18,029	(14,151)	3,878	58,033
2017	72,809	(18,796)	54,013	14,199	(11,931)	2,268	56,281
2018	77,810	(19,420)	58,390	9,898	(9,079)	819	59,209
2019-2021	163,277	(41,467)	121,810	8,981	(8,981)	-	121,810
Totals	<u>\$ 1,032,323</u>	<u>\$ (135,542)</u>	<u>\$ 896,781</u>	<u>\$ 121,350</u>	<u>\$ (79,533)</u>	<u>\$ 41,817</u>	<u>\$ 938,598</u>

Bonded Debt - Business-Type Activities - Water:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2014	208,570	(43,334)	165,236	110,225	(42,109)	\$ 68,116	\$ 233,352
2015	214,296	(45,323)	168,973	97,175	(35,180)	61,995	230,968
2016	220,054	(46,405)	173,649	86,766	(30,507)	56,259	229,908
2017	230,849	(47,624)	183,225	75,851	(25,603)	50,248	233,473
2018	236,679	(49,688)	186,991	64,624	(19,965)	44,659	231,650
2019-2023	666,136	(107,839)	558,297	207,565	(19,521)	188,044	746,341
2024-2028	308,604	-	308,604	149,066	-	149,066	457,670
2029-2033	284,893	-	284,893	105,235	-	105,235	390,128
2034-2038	194,887	-	194,887	77,033	-	77,033	271,920
2039-2043	217,820	-	217,820	54,100	-	54,100	271,920
2044-2048	243,453	-	243,453	28,468	-	28,468	271,921
2049-2050	104,803	-	104,803	3,545	-	3,545	108,348
Totals	<u>\$ 3,131,044</u>	<u>\$ (340,213)</u>	<u>\$ 2,790,831</u>	<u>\$ 1,059,653</u>	<u>\$ (172,885)</u>	<u>\$ 886,768</u>	<u>\$ 3,677,599</u>

*Bonded Debt - Business-Type Activities - Sewer:*

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2014	652,958	(142,329)	510,629	321,492	(224,757)	\$ 96,735	\$ 607,364
2015	674,945	(152,584)	522,361	287,358	(200,722)	86,636	608,997
2016	697,838	(161,919)	535,919	255,389	(178,530)	76,859	612,778
2017	716,925	(172,237)	544,688	221,141	(153,914)	67,227	611,915
2018	739,840	(178,847)	560,993	193,287	(136,174)	57,113	618,106
2019-2023	4,013,179	(1,019,217)	2,993,962	485,984	(358,497)	127,487	3,121,449
2024-2028	331,736	(69,523)	262,213	14,274	-	14,274	276,487
2029-2031	32,336	-	32,336	3,117	-	3,117	35,453
Totals	<u>\$ 7,859,757</u>	<u>\$ (1,896,656)</u>	<u>\$ 5,963,101</u>	<u>\$ 1,782,042</u>	<u>\$ (1,252,594)</u>	<u>\$ 529,448</u>	<u>\$ 6,492,549</u>

MWPAT Loan Subsidies – As previously noted in Note I. B., the Town has entered into loan agreements with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$2,372,411 and interest in the amount of \$1,505,012 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2013, the Town had authorized and unissued debt for the following:

Project	Amount
<i>Governmental:</i>	
Chapter 90 highway	\$ 799,510
Landfill	293,053
Equipment	1,134,500
Police station	2,750,000
<i>Business-Type:</i>	
Water	1,773,000
Sewer	1,930,865
Total authorized and unissued	<u>\$ 8,680,928</u>



### **III. Other Information**

#### **A. Retirement System**

*Retirement System Description* – The Town contributes to the Worcester Regional Retirement System (the “System”), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (“MGL”) and administered by Worcester Regional 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 Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts’ Public Employee Retirement Administration Commission (“PEREC”) that includes financial statements and required supplementary information. The report may be obtained by writing to the Worcester Regional Retirement System, 2 Main Street, Worcester, Massachusetts 01608.

*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, 2013, 2012, and 2011 were \$850,908, \$717,245 and \$731,207 respectively. These contributions were equal to the required contribution for each year as set by the Retirement 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 \$2,435,801 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-Employment 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 MGL 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 insurance program. 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 consisted of 290 active employees and 101 retired employees, which include spouses, for a total of 391 participants.

**Funding Policy** - The contribution requirements of Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employee unions. Retirees contribute 50% of the cost of the calculated health insurance contributions. The remainder of the health insurance premiums is funded by the Town. The Town pays 50% of the annual cost of life insurance premiums (\$5,000 policy) for each participant; the participants pay 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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. 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)	\$ 2,341,046
Interest on net OPEB obligation	287,983
Adjustment to ARC	<u>(341,702)</u>
Annual OPEB cost	2,287,327
Contributions made	<u>(560,918)</u>
Increase in net OPEB obligation	1,726,409
Net OPEB obligation at beginning of year	<u>7,199,528</u>
Net OPEB obligation at end of year	<u><u>\$ 8,925,937</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)*</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$2,287,327	24.5%	\$8,925,937
June 30, 2012	2,449,703	24 %	7,199,528
June 30, 2011	2,329,078	22 %	5,348,231

\* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$120,705; Public Safety \$297,344; Public Works \$93,411; Health and Human Services \$21,137; Culture and Recreation \$21,038; Education \$1,693,122; Water \$5,037; Sewer \$26,502; and Transfer Station \$9,031.

**Funding Status and Funding Progress** – The funded status of the Plan at June 30, 2013 for the most recent actuarial valuation performed as of July 1, 2012, was as follows:

Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 24,874,256	\$ 24,874,256	0.00%	\$ 14,084,035	177 %

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 schedule 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, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	24 years as of July 1, 2012 (closed)
Interest discount rate	4%
Salary increases	3.5%
Inflation rate	2.5%
Healthcare/Medical cost trend rate	9% grading down to 5% in year 2016 and thereafter

#### **D. Risk Financing**

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation.

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. In addition, the Town is entirely self-insured for police and fire employees' unemployment insurance. Unemployment claims for other Town employees are paid to employees by the Commonwealth of Massachusetts, for which the Town is billed on a monthly basis. All other insurance is carried through conventional carriers. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

*Group Health Insurance Plan* – The Town maintains a “reinsured cost reimbursement program” which covers the group health insurance requirements of a majority of Town and WRA employees. The Plan is essentially a self-insurance program, except employee claims in excess of \$70,000, effective July 1, 2012 which are covered by reinsurance through the Plan. The Town, as employer, makes health contributions of approximately 60% of the health costs. Employees contribute the remaining 40%. The Town accrues an amount representing claims incurred but not reported (“IBNR”), which is based on a monthly claims paid average. At June 30, 2013, the amount of the liability for health claims IBNR totaled \$231,237. In the fund-wide financial statements, the Town reports the activities of the Group Insurance Health Plan in the Internal Service Fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. Changes in the reported liability since July 1, 2012, are as follows:

	Balance at Beginning of Year	Claims and Changes in Estimates	Claims Payments	Balance at End of Year	Current Portion
Fiscal Year 2013	347,220	\$ 4,688,742	\$(4,804,725)	\$ 231,237	\$ 231,237
Fiscal Year 2012	434,051	3,611,565	(3,698,396)	347,220	347,220

## **B. Commitments and Contingencies**

The Town is party to 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, 2013, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2013.

*Grant Compliance* – 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, would not have a material effect on its financial condition.

*Arbitrage* – 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, would not have a material effect on its financial condition.

*Sewer Treatment Plant Capacity* – The Town is under a consent decree from the Massachusetts Department of Environmental Protection (“MA DEP”), the U.S. Environmental Protection Agency and U.S. Department of Justice to increase its sewer treatment plant capacity. The total estimated cost of \$15,545,000 represents \$15,500,000 in construction costs and a civil penalty of \$45,000 for failure to respond within required timeframes. In May 1998 and September 2001, the Town authorized borrowing of \$5,000,000 and \$10,500,000, respectively. The Town is currently complying with various interim milestones contained in the decree and the project is substantially completed.

*Safe Water Drinking Act* – In a prior year, the Town received a first notice from the MA DEP regarding issues to be resolved in order for the Town to comply with the Safe Water Drinking Act. The issues include removal and monitoring of water storage tanks, devices to monitor water leaks, capital project planning, and increased staffing. The cost of compliance cannot be estimated at the current time. However, in all likelihood, the cost of compliance is expected to have a material effect on the Town's financial condition.

*Water Treatment Facility: Operating Agreement* – The Ashburnham Winchendon Joint Water Authority has an extended agreement with an outside consultant to operate the water treatment facility until November 1, 2016. The total monthly contract amount for these services is approximately \$31,200, split 40% Ashburnham and 60% Winchendon thru an intermunicipal agreement based on actual metered rate of use. The Town of Winchendon's cost for the remaining years of the agreement is expected to approximate slightly more than \$70,000. This amount is anticipated to be funded through annual appropriations and user charges.

### **C. Landfill Closure and Post-Closure Care Costs**

The Town's landfill was closed in 1999 and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for thirty years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$486,000 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

## **IV. Implementation of New GASB Pronouncements**

### **A. Current Year Implementation**

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 became effective for the Town in fiscal year 2013 and did not have a material effect on its financials.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. This statement was intended to enhance the usefulness of its codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements. The provisions of GASB 62 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement was to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 became effective for the Town in fiscal year 2013 and its effect on the financial statements is described in Note 1.B of these financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement was to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The provisions of GASB 64 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

## **B. Future 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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the 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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

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. The 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. GASB 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 financial statements for periods

beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its 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 is currently evaluating whether adoption will have a material impact on its 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 disposal 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 April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this statement are effective for financial reporting periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

## **V. Economic Dependence**

During the year ended June 30, 2013, approximately 60% of revenues of the general fund were recognized from the Commonwealth of Massachusetts as well as the federal government.

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2013

SCHEDULES OF FUNDING PROGRESS

Pension System - Worcester Regional Retirement System (All Participants)

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)
1/1/2012	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,952,079	228.5%
1/1/2010	413,976,785	863,002,067	449,025,282	48.0%	241,992,607	185.6%
1/1/2007	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%
1/1/2004	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%

Other Post Employment 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)
7/1/2012	\$ -	\$ 24,874,256	\$ 24,874,256	0.0%	\$ 14,084,035	176.6%
7/1/2010	-	25,782,451	25,782,451	0.0%	13,241,286	194.7%
7/1/2008	-	22,969,290	22,969,290	0.0%	11,621,276	198.6%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended June 30,	Worcester Regional Retirement System			Town	
	Annual Required Contributions	Actual Contributions (a)	Percentage Contributed	Actual Contribution (b)	Town's Percentage of System Wide Actual Contributions (b/a)
2013	\$ 35,056,320	\$ 35,056,320	100%	\$ 850,908	2.4%
2012	33,072,000	33,072,000	100%	717,245	2.2%
2011	31,200,000	31,200,000	100%	731,207	2.3%
2010	28,800,000	28,800,000	100%	760,064	2.6%

Other Post Employment Benefits

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2013	\$ 2,287,327	\$ 560,918	24.5%
2012	2,449,703	598,406	24.4%
2011	2,329,078	521,520	22.4%
2010	2,274,177	474,961	20.9%
2009	2,150,830	409,373	19.0%

See accompanying independent auditors' report.



TOWN OF WINCHENDON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Postive
	Budget	Budget	Amounts		Adjusted	(Negative)
<b>Revenues:</b>						
Property taxes	\$ 9,555,105	\$ 9,555,105	\$ 9,292,474		\$ 9,292,474	\$ (262,631)
Intergovernmental	13,250,090	13,250,090	13,502,057		13,502,057	251,967
Motor vehicle and other excise	845,000	845,000	949,957		949,957	104,957
Departmental and other revenue	880,000	701,000	650,183		650,183	(50,817)
Licenses and permits	125,000	125,000	176,351		176,351	51,351
Fines and forfeitures	25,000	25,000	20,232		20,232	(4,768)
Penalties and interest on taxes	183,000	183,000	150,677		150,677	(32,323)
Investment income	8,000	8,000	6,256		6,256	(1,744)
Total Revenues	24,871,195	24,692,195	24,748,187		24,748,187	55,992
<b>Expenditures:</b>						
General government	1,489,971	1,430,970	1,325,033	\$ 23,767	1,348,800	82,170
Public safety	2,005,162	1,996,162	2,023,131	-	2,023,131	(26,969)
Education	14,728,674	14,728,674	14,713,371	65,104	14,778,475	(49,801)
Public works	1,012,518	912,519	1,070,297	-	1,070,297	(157,778)
Health and human services	518,232	563,232	607,639	-	607,639	(44,407)
Culture and recreation	167,441	167,441	160,644	-	160,644	6,797
Pension and fringe benefits	3,015,725	2,980,725	3,055,299	-	3,055,299	(74,574)
State and county tax assessments	1,029,108	1,029,108	1,038,777	-	1,038,777	(9,669)
Debt service	996,017	996,017	1,006,155	-	1,006,155	(10,138)
Total Expenditures	24,962,848	24,804,848	25,000,346	88,871	25,089,217	(284,369)
<b>Other Financing Sources (Uses):</b>						
Transfers in	142,286	163,286	163,286		163,286	-
Transfers out	(15,000)	(15,000)	(15,000)		(15,000)	-
Total Other Financing Sources (Uses)	127,286	148,286	148,286		148,286	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE</b>	<u>35,633</u>	<u>35,633</u>	<u>\$ (103,873)</u>		<u>\$ (192,744)</u>	<u>\$ (228,377)</u>
<b>Other Budgetary Items:</b>						
Prior year encumbrances	153,112	153,112				
Prior year deficits	(217,479)	(217,479)				
From overlay surplus	26,420	26,420				
Miscellaneous	2,314	2,314				
Total other budgetary items	<u>(35,633)</u>	<u>(35,633)</u>				
<b>NET BUDGET</b>	<u>\$ -</u>	<u>\$ -</u>				

See notes to the required supplementary information of this schedule.

See accompanying independent auditors' report.

# TOWN OF WINCHENDON, MASSACHUSETTS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

### I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund and the Enterprise Fund. The budget is initiated by department heads and finalized by the Town Manager as a proposed budget for Town Meeting. The Finance Committee and the Board of Selectmen give recommendations for Town meeting to consider prior to final approval. It is then presented to Town Meeting for final approval, annually in May. Expenditures may legally exceed appropriations at the department level.

Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Manager may, without Town Meeting approval transfer unencumbered appropriation balances between departments (except School). At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. The Town made several minor (less than 1%) supplemental budgetary appropriations throughout the year. The majority of these were to supplement the Town's individual appropriations.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis 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, 2013, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 24,748,187
Stabilization investment income	\$ -	\$ (18,809)	(18,809)
On behalf payments	2,435,801	-	2,435,801
MWPAT subsidy	40,475	-	40,475
MSBA school construction reimbursement	605,990	-	605,990
Private purpose trust funding	2,000	-	2,000
Revenues on a GAAP basis	<u>\$ 3,084,266</u>	<u>\$ (18,809)</u>	<u>\$ 27,813,644</u>
Expenditures on a budgetary basis			\$ 25,000,346
On behalf payments	\$ 2,435,801	\$ -	2,435,801
Capital projects debt service reported in capital project funds	-	(237,000)	(237,000)
Water debt service reported in water fund	-	(18,576)	(18,576)
Sewer debt service reported in sewer fund	-	(213,516)	(213,516)
MWPAT debt subsidy	40,475	-	40,475
Expenditures on a GAAP basis	<u>\$ 2,476,276</u>	<u>\$ (469,092)</u>	<u>\$ 27,007,530</u>
Net transfers on a budgetary basis			\$ 148,286
Capital projects debt service reported in capital project funds	\$ -	\$ (237,000)	(237,000)
Water debt service reported in water fund	-	(18,576)	(18,576)
Sewer debt service reported in sewer fund	-	(213,516)	(213,516)
Private purpose trust funding	-	(2,000)	(2,000)
Stabilization transfers	-	(103,476)	(103,476)
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ (337,568)</u>	<u>\$ (426,282)</u>

*Appropriation Deficits* – During the fiscal year ended June 30, 2013, expenditures exceeded appropriations in the General Fund for the following departments:

<u>Department</u>	<u>Amount</u>
Treasurer	\$ (15,581)
Town Clerk	(2,390)
Registrar of Voters	(5,591)
Police Department	(60,351)
Highway Department	(13,097)
Snow & Ice Removal	(158,721)
Tree Trimming	(1,915)
Veterans Service	(52,849)
Debt Service Interest	(10,139)
Workers' Compensation	(3,268)
Health Insurance	(122,847)
Medicare	(7,128)
School Budget	(869)
	<u>\$ (454,746)</u>