

TOWN OF WINCHENDON, MASSACHUSETTS

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

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 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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and 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 discretely presented component unit, each major fund and the aggregate remaining fund information of Town as of June 30, 2014, 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.

Emphasis of a Matter

As described in detail in Note I, during the year ended June 30, 2014 the Town experienced appropriation deficits of \$1,161,682, a health insurance claims deficit of \$1,851,793, grant and other fund deficits in its nonmajor governmental funds of \$280,534 and a general fund cash overdraft of \$1,878,177. As a result the Town was unable to balance its budget and set a tax rate for its June 30, 2015 fiscal year. On January 6, 2015, at the request of the Town voters, the Massachusetts State legislature approved a bill that allows the Town cash relief in the form of deficit borrowing for an amount up to \$5,700,000 and an additional \$300,000 at the Department of Revenue, Director of Account's discretion. The Town will borrow \$3,000,000 of such deficit notes in order to balance its budget and set its tax rate for fiscal year 2015. Our opinion was not modified with respect to this matter.

Change in Accounting Principle

As described in Note B, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 January 29, 2015 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.

A handwritten signature in black ink that reads "Roselli Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates
Certified Public Accountants
January 29, 2015

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, 2014.

Financial Highlights

- As described in detail in Note I, during the year ended June 30, 2014 the Town experienced operating deficits and health insurance deficits in the general fund of \$1,161,682, and \$1,851,793 respectfully; grant and other fund deficits in its nonmajor governmental funds of \$280,534 and a general fund cash overdraft of \$1,878,177 in its general fund. This experience caused the Town severe cash flow issues that required advances of state aid to satisfy its weekly payroll and operating needs. In addition, as required by law, the Town did not have sufficient resources to fund these deficits in its fiscal year 2015 budget and thus was unable to establish a tax rate for fiscal 2015. A property tax override to address these issues failed at the November 24, 2014 Town Meeting, however the voters authorized the Town to seek legislative assistance in the form of an approval for deficit borrowing.

Subsequently, on January 6, 2015, the Massachusetts State legislature approved a bill that allows the Town cash relief in the form of deficit borrowing for an amount up to \$5,700,000 and an additional \$300,000 at the Department of Revenue, Director of Account's discretion. The Town will borrow \$3,000,000 of such deficit notes in order to balance its budget and set its tax rate for fiscal year 2015.

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$31.4 million (*total net position*). The nearly \$4.5 million decrease in the Town's total net position was attributable mainly to the *governmental activities* as *business-type activities* were relatively flat for the year.

The decrease in government activities net position is primarily due to lower revenues and exceeding expenditures as discussed in the first paragraph 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 \$0.8 million, which is approximately \$5.6 million less than the prior year's balance. The issues described in the first paragraph of this Management Discussion and Analysis combined with construction costs for ongoing capital projects contributed to this decrease.

Unassigned fund balance in the general fund is in a deficit position of over \$0.8 million. Almost \$0.9 million is restricted and over \$0.4 million is assigned.

- The Town's total long-term debt decreased by approximately \$1.2 million during the current fiscal year due to scheduled debt repayments. No debt was issued during the current year, although short-term notes to fund the capital projects in the amount of \$2.85 million were issued.

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, liabilities, and deferred inflows/outflows of resources, 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.

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.

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:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
				As Restated		As Restated
<u>Assets</u>						
Current and other assets	\$ 8,282,686	\$ 10,468,343	\$ 8,218,812	\$ 8,929,694	\$ 16,501,498	\$ 19,398,037
Capital assets, net	22,998,522	21,531,656	19,320,893	19,815,177	42,319,415	41,346,833
Total assets	31,281,208	31,999,999	27,539,705	28,744,871	58,820,913	60,744,870
<u>Liabilities</u>						
Long-term liabilities	12,171,407	10,924,765	9,430,215	10,291,685	21,601,622	21,216,450
Other liabilities	4,879,598	2,382,849	930,897	900,674	5,810,495	3,283,523
Total liabilities	17,051,005	13,307,614	10,361,112	11,192,359	27,412,117	24,499,973
<u>Net Position</u>						
Invested in capital assets	22,289,008	20,499,333	14,984,031	15,118,749	37,273,039	35,618,082
Restricted	2,465,280	2,249,575	-	-	2,465,280	2,249,575
Unrestricted	(10,524,085)	(4,056,523)	2,194,562	2,433,763	(8,329,523)	(1,622,760)
Total Net Position	\$ 14,230,203	\$ 18,692,385	\$ 17,178,593	\$ 17,552,512	\$ 31,408,796	\$ 36,244,897

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$31.4 million (*total net position*), which represents an approximate \$4.5 million decrease from the prior year's balance.

The largest portion (approximately \$37.3 million of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt 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 \$2.4 million) 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 costs since the adoption of GASB 45 in 2009 of \$10.5 million.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
				As Restated		As Restated
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,346,417	\$ 1,422,327	\$ 1,929,268	\$ 2,197,384	\$ 3,275,685	\$ 3,619,711
Operating grants and contributions	17,239,493	17,121,985	266,866	319,501	17,506,359	17,441,486
Capital grants and contributions	969,829	374,237	-	-	969,829	374,237
General revenues:						
Property taxes	9,739,422	9,551,775	-	-	9,739,422	9,551,775
Intergovernmental	1,825,514	1,533,703	-	-	1,825,514	1,533,703
Other	1,239,074	1,017,716	-	-	1,239,074	1,017,716
Total Revenues	32,359,749	31,021,743	2,196,134	2,516,885	34,555,883	33,538,628
<u>Expenses</u>						
General government	1,748,443	1,890,667	-	-	1,748,443	1,890,667
Public safety	3,725,490	3,211,366	-	-	3,725,490	3,211,366
Education	28,059,666	27,208,703	-	-	28,059,666	27,208,703
Public works	1,560,666	1,212,921	-	-	1,560,666	1,212,921
Health and human services	874,270	791,693	-	-	874,270	791,693
Culture and recreation	510,522	359,776	-	-	510,522	359,776
Community development	232,540	474,607	-	-	232,540	474,607
Debt service	66,552	104,728	-	-	66,552	104,728
Water	-	-	930,474	997,727	930,474	997,727
Sewer	-	-	1,221,941	1,388,760	1,221,941	1,388,760
Transfer station	-	-	160,918	187,712	160,918	187,712
Total Expenses	36,778,149	35,254,461	2,313,333	2,574,199	39,091,482	37,828,660
Change in net position before transfers	(4,418,400)	(4,232,718)	(117,199)	(57,314)	(4,535,599)	(4,290,032)
Transfers	(43,782)	(468,772)	43,782	468,772	-	-
Change in net position	(4,462,182)	(4,701,490)	(73,417)	411,458	(4,535,599)	(4,290,032)
Net position, beginning of year	18,692,385	23,393,875	17,252,010	16,840,552	35,944,395	40,234,427
Net position, end of year	<u>\$ 14,230,203</u>	<u>\$ 18,692,385</u>	<u>\$ 17,178,593</u>	<u>\$ 17,252,010</u>	<u>\$ 31,408,796</u>	<u>\$ 35,944,395</u>

Governmental Activities – The reduction in net position in governmental activities was due primarily to the following:

1. Health Claims and other operating expenses exceeding revenues in the Town's Health Insurance Fund (\$1.8 million).
2. Expenditures exceeding appropriations in the General Fund (\$1.2 million).
3. Current year provision for other postemployment costs (\$1.8 million).

During fiscal year 2014, property taxes made up approximately 30.1% of total revenues, consistent with the prior year amount of 30.8% but lower than expected due to the Town's continued difficulty in collecting taxes timely. Operating grants and contributions represented approximately 53.3% and 55.2% of total revenues for fiscal years 2014 and 2013, respectively. Dollar amounts were consistent with the

prior year as expected; no other revenues were greater than 10% of total revenues in fiscal years 2014 or 2013.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 76.3% and 77.2% of total fiscal year 2014 and 2013 expenses, respectively. Although ratios were lower, dollar amounts were higher due to increased health costs, as discussed, allocated to education. No other expense categories were greater than 10% of total expenses in either 2014 or 2013.

Business-Type Activities – Major revenue sources consist of revenue from user charges, which represented approximately 87.8% and 87.3% of total fiscal year 2014 and 2013 revenues, respectively. . User charge revenue was down on a dollar basis due to seasonal conditions.

Water, sewer and transfer station expenses represented 40.2%, 52.8% and 7.0% of total fiscal year 2014 business-type activities expenses, respectively, and 38.8%, 53.9% and 7.3% of total fiscal year 2013 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 \$0.8 million. This represented a reduction of \$5.6 million from the prior year.

This was primarily a result of the following:

1. Health Claims and other operating expenses exceeding revenues in the Town's Health Insurance Fund (\$1.8 million).
2. Expenditures exceeding appropriations in the General Fund (\$1.2 million).
3. Ongoing capital project costs (\$1.9 million).
4. Grant and other special revenue fund deficits of \$0.3 million.

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 had a deficit balance of approximately \$0.8 million, while total fund balance was slightly over \$0.4 million. The deficit and reduced balance was primarily due to factors already discussed above.

The capital projects major fund had a legal deficit balance of almost \$1.8 million as result of costs related to a new police facility as well as fire apparatus funded from short-term notes.

The aggregate nonmajor funds had a restricted fund balance of \$2.1 million and nonspendable balances of \$0.3 million.

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, 2014, net position of the water and sewer enterprise funds were approximately \$6.3 million and \$10.9 million, respectively and the transfer station enterprise fund had a deficit fund balance of \$72,130. The Town’s Internal Service Fund had a zero balance due to a subsidy of \$1.8 million from the general fund to cover a significant deficit. The deficit arose due to rates and Town contribution levels insufficient to cover health claims that were exacerbated by a significant increase in catastrophic cases.

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 – The Town’s investment in capital assets for its governmental and business-type activities totaled approximately \$23.0 million and \$19.3 million, respectively. Governmental net capital assets increased approximately nearly \$1.5 million as fiscal year 2014 additions of approximately \$2.8 million exceeded fiscal year 2014 depreciation of over \$1.3 million. Business-type net capital assets decreased by nearly \$0.5 million as fiscal year 2014 depreciation expense of over \$0.5 million exceeded fiscal year 2014 additions of approximately \$0.05 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, 2014, the Town had total debt outstanding of over \$10.8 million, which represents a decrease of approximately \$1.2 million from the prior year. At June 30, 2014, the Town had \$0.7 million in general obligation bonds of governmental activities and over \$10.0 million in general obligation bonds and notes of business-type activities. Normal scheduled debt repayments totaled nearly \$1.2 million in fiscal year 2014 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 \$2.2 million of principal and approximately \$1.2 million of interest in aggregate over the next twelve years.

The Town’s bond rating was upgraded to an “AA” 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, 2014 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 relies 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. \$13.4 million is anticipated for fiscal 2015. This represents over 50% of the Town's operating budget in the general fund.
- The Town has yet to balance its budget for fiscal year 2015 or set a tax rate. The Town does not have sufficient resources to fund 2014 deficits of over \$3 million that are required to be funded by law as part of the 2015 budget. (Please refer to previous discussion in the Management Discussion and Analysis.) It is the Town's intention to use \$3.0 million of the available deficit borrowing to balance the 2015 budget and set its tax rate.
- The Town is required to pay-back the deficit loan over 10 years with provisions for early pay-off available. In addition the Town is required to establish a revenue reserve fund set at a percentage of the prior year budget for extraordinary and unforeseen items. These mandates per the deficit legislation will add a burden of almost \$400,000 to the annual budget, therefore the adoption of future balanced budgets will be a challenge to the Town.

The above items are being considered as the Town strives to balance its budget and set a tax rate for fiscal year 2015.

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, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Winchendon Redevelopment Authority
Assets:				
Cash and cash equivalents	\$ -	\$ 1,401,784	\$ 1,401,784	\$ 42,651
Investments	4,141,369	-	4,141,369	-
Receivables, net:				
Property taxes	2,269,264	-	2,269,264	-
Motor vehicle excise	250,682	-	250,682	-
User fees	-	965,801	965,801	-
Betterments	-	3,741,205	3,741,205	-
Departmental and other	634,177	-	634,177	-
Intergovernmental	547,010	2,051,206	2,598,216	78,557
Internal balances	(58,816)	58,816	-	-
Deposit held by third party	499,000	-	499,000	-
Assets held for development	-	-	-	949,456
Capital assets not being depreciated	2,951,832	26,735	2,978,567	-
Capital assets, net of accumulated depreciation	20,046,690	19,294,158	39,340,848	-
Total Assets	31,281,208	27,539,705	58,820,913	1,070,664
Liabilities:				
Warrants and accounts payable	614,967	40,825	655,792	-
Accrued payroll and withholdings	198,115	-	198,115	-
Cash overdraft	316,820	-	316,820	-
Health claims incurred but not reported	208,536	-	208,536	-
Other liabilities	67,842	-	67,842	-
Promissory note	-	-	-	193,008
Bond anticipation notes payable	2,850,000	-	2,850,000	-
Noncurrent liabilities:				
Due within one year	623,318	890,072	1,513,390	-
Due in more than one year	12,171,407	9,430,215	21,601,622	-
Total Liabilities	17,051,005	10,361,112	27,412,117	193,008
Net Position				
Invested in capital assets	22,289,008	14,984,031	37,273,039	-
Restricted for:				
Nonexpendable permanent funds	334,459	-	334,459	-
Expendable permanent funds	1,142,259	-	1,142,259	-
Federal and State grants	490,497	-	490,497	-
Other purposes	498,065	-	498,065	877,656
Unrestricted	(10,524,085)	2,194,562	(8,329,523)	-
Total Net Position	\$ 14,230,203	\$ 17,178,593	\$ 31,408,796	\$ 877,656

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Primary Government Total	Winchendon Redevelopment Authority
Primary Government								
Governmental activities:								
General government	\$ 1,748,443	\$ 270,335	\$ 12,629	\$ 14,566	\$ (1,450,913)		\$ (1,450,913)	
Public safety	3,725,490	679,744	97,547	14,063	(2,934,136)		(2,934,136)	
Education	28,059,666	331,397	16,596,801	-	(11,131,468)		(11,131,468)	
Public works	1,560,666	13,180	20,304	704,619	(822,563)		(822,563)	
Health and human services	874,270	31,357	387,198	8,103	(447,612)		(447,612)	
Culture and recreation	510,522	6,641	125,014	60,935	(317,932)		(317,932)	
Community development	232,540	13,763	-	167,543	(51,234)		(51,234)	
Interest expense	66,552	-	-	-	(66,552)		(66,552)	
Total governmental activities	36,778,149	1,346,417	17,239,493	969,829	(17,222,410)		(17,222,410)	
Business-type activities:								
Water	930,474	885,552	42,109	-		\$ (2,813)	(2,813)	
Sewer	1,221,941	870,782	224,757	-		(126,402)	(126,402)	
Transfer station	160,918	172,934	-	-		12,016	12,016	
Total business-type activities	2,313,333	1,929,268	266,866	-		(117,199)	(117,199)	
Total Primary Government	\$ 39,091,482	\$ 3,275,685	\$ 17,506,359	\$ 969,829	(17,222,410)	(117,199)	(17,339,609)	
Component unit:								
Winchendon Redevelopment Authority	\$ 232,149	\$ 2,000	\$ -	\$ 78,557				\$ (151,592)
General Revenues:								
Property taxes					9,739,422	-	9,739,422	-
Motor vehicle and other excise					984,207	-	984,207	-
Intergovernmental					1,825,514	-	1,825,514	-
Penalties and interest on taxes					216,007	-	216,007	-
Interest income					38,860		38,860	171
Transfers (net)					(43,782)	43,782	-	-
Total general revenues and transfers					12,760,228	43,782	12,804,010	171
Change in Net Position					(4,462,182)	(73,417)	(4,535,599)	(151,421)
Net Position:								
Beginning of year, as restated					18,692,385	17,252,010	35,944,395	1,029,077
End of year					\$ 14,230,203	\$ 17,178,593	\$ 31,408,796	\$ 877,656

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments	2,664,583	-	1,476,786	4,141,369
Receivables, net of allowance for uncollectibles:				
Property taxes	2,269,264	-	-	2,269,264
Motor vehicle excise	250,682	-	-	250,682
Departmental and other	553,047	-	29,837	582,884
Intergovernmental	204,074	-	342,936	547,010
Due from other funds	-	1,118,225	504,117	1,622,342
Total Assets	5,941,650	1,118,225	2,353,676	9,413,551
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 5,941,650	\$ 1,118,225	\$ 2,353,676	\$ 9,413,551
Liabilities				
Warrants and accounts payable	\$ 177,045	\$ 57,630	\$ 158,336	\$ 393,011
Accrued payroll and withholdings	188,756	-	9,359	198,115
Due to other funds	1,878,177	-	-	1,878,177
Other liabilities	67,842	-	-	67,842
Bond anticipation notes payable	-	2,850,000	-	2,850,000
Total Liabilities	2,311,820	2,907,630	167,695	5,387,145
Deferred Inflows of Resources				
Unavailable revenue - property taxes	2,269,264	-	-	2,269,264
Unavailable revenue - excise taxes	250,682	-	-	250,682
Unavailable revenue - other	669,876	-	29,837	699,713
Total Deferred Inflows of Resources	3,189,822	-	29,837	3,219,659
Fund Balances				
Nonspendable	-	-	334,459	334,459
Restricted	877,378	-	2,102,219	2,979,597
Committed	-	-	-	-
Assigned	404,920	-	-	404,920
Unassigned:				
Operating deficits	(1,161,682)	-	-	(1,161,682)
Health insurance activities	(1,851,793)	-	-	(1,851,793)
Other	2,171,185	(1,789,405)	(280,534)	101,246
Total Fund Balances	440,008	(1,789,405)	2,156,144	806,747
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,941,650	\$ 1,118,225	\$ 2,353,676	\$ 9,413,551

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, 2014**

Total Governmental Fund Balances	\$ 806,747
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,998,522
Other long-term assets are unavailable to pay for current-period expenditures	3,219,659
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Landfill monitoring	(459,000)
Bonds and notes payable	(709,514)
Compensated absences	(1,094,037)
Other postemployment benefits	<u>(10,532,174)</u>
Net Position of Governmental Activities	<u>\$ 14,230,203</u>

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, 2014**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 9,643,425	\$ -	\$ -	\$ 9,643,425
Intergovernmental	16,051,970	-	3,371,595	19,423,565
Motor vehicle and other excises	1,002,597	-	-	1,002,597
Departmental and other revenue	671,372	-	381,201	1,052,573
Licenses and permits	158,012	-	-	158,012
Penalties and interest on taxes	216,007	-	-	216,007
Fines and forfeitures	21,158	-	-	21,158
Investment income	24,848	-	12,447	37,295
Contributions and donations	-	-	721,178	721,178
Total Revenues	<u>27,789,389</u>	<u>-</u>	<u>4,486,421</u>	<u>32,275,810</u>
Expenditures				
Current:				
General government	1,346,156	-	58,307	1,404,463
Public safety	2,229,405	1,876,367	248,893	4,354,665
Education	18,110,072	-	3,904,370	22,014,442
Public works	1,203,480	-	677,223	1,880,703
Health and human services	656,375	-	87,349	743,724
Culture and recreation	166,769	-	275,602	442,371
Community development	-	-	232,540	232,540
Pension and fringe benefits	3,432,977	-	-	3,432,977
State and county assessments	1,051,178	-	-	1,051,178
Debt service:				
Principal	322,809	-	-	322,809
Interest	66,552	-	-	66,552
Health insurance deficit; subsidy	1,851,793	-	-	1,851,793
Total Expenditures	<u>30,437,566</u>	<u>1,876,367</u>	<u>5,484,284</u>	<u>37,798,217</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,648,177)</u>	<u>(1,876,367)</u>	<u>(997,863)</u>	<u>(5,522,407)</u>
Other Financing Sources (Uses)				
Transfers in	250,549	312,000	-	562,549
Transfers out	(544,349)	-	(61,982)	(606,331)
Total Other Financing (Uses) Sources	<u>(293,800)</u>	<u>312,000</u>	<u>(61,982)</u>	<u>(43,782)</u>
Net Change in Fund Balances	<u>(2,941,977)</u>	<u>(1,564,367)</u>	<u>(1,059,845)</u>	<u>(5,566,189)</u>
Fund Balances - Beginning (as restated - see Note V)	<u>3,381,985</u>	<u>(225,038)</u>	<u>3,215,989</u>	<u>6,372,936</u>
Fund Balances - Ending	<u>\$ 440,008</u>	<u>\$ (1,789,405)</u>	<u>\$ 2,156,144</u>	<u>\$ 806,747</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, 2014**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (5,566,189)**

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	2,822,926	
Depreciation expense	(1,356,060)	

Net effect of reporting capital assets		1,466,866
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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. 745,344

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Repayments of debt	322,809	

Net effect of reporting long-term debt		322,809
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Revenues in the Statement of Activities that do not provide current financial resources are not available 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. 82,404

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	224,140	
Other postemployment benefits	(1,764,556)	

Net effect of reporting long-term liabilities		(1,513,416)
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Change in Net Position of Governmental Activities **\$ (4,462,182)**

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Assets					
Current assets:					
Cash and cash equivalents	\$ 211,769	\$ 1,190,015	\$ -	\$ 1,401,784	\$ -
Investments	-	-	-	-	-
Receivables (net):					
User charges	445,399	520,402	-	965,801	-
Betterments	-	112,236	-	112,236	-
Intergovernmental	46,405	152,584	-	198,989	-
Stop loss insurance reimbursements	-	-	-	-	51,293
Due from other funds	80,738	-	-	80,738	-
Total current assets	<u>784,311</u>	<u>1,975,237</u>	<u>-</u>	<u>2,759,548</u>	<u>51,293</u>
Noncurrent assets:					
Receivables (net):					
Betterments	-	3,628,969	-	3,628,969	-
Intergovernmental	250,474	1,601,743	-	1,852,217	-
Deposit held by third party	-	-	-	-	499,000
Land	16,385	10,350	-	26,735	-
Depreciable capital assets (net of depreciation)	<u>8,237,417</u>	<u>11,056,741</u>	<u>-</u>	<u>19,294,158</u>	<u>-</u>
Total noncurrent assets	<u>8,504,276</u>	<u>16,297,803</u>	<u>-</u>	<u>24,802,079</u>	<u>499,000</u>
Total Assets	<u>9,288,587</u>	<u>18,273,040</u>	<u>-</u>	<u>27,561,627</u>	<u>550,293</u>
Liabilities					
Current liabilities:					
Warrants and accounts payable	8,001	25,782	7,042	40,825	221,956
Health claims incurred but not reported	-	-	-	-	208,536
Bonds and notes payable	214,296	674,945	-	889,241	-
Compensated absences	-	-	831	831	-
Due to other funds	-	-	21,922	21,922	119,801
Total current liabilities	<u>222,297</u>	<u>700,727</u>	<u>29,795</u>	<u>952,819</u>	<u>550,293</u>
Noncurrent liabilities:					
Other post employment benefits	23,612	124,236	42,335	190,183	-
Bonds and notes payable	<u>2,708,178</u>	<u>6,531,854</u>	<u>-</u>	<u>9,240,032</u>	<u>-</u>
Total noncurrent liabilities	<u>2,731,790</u>	<u>6,656,090</u>	<u>42,335</u>	<u>9,430,215</u>	<u>-</u>
Total Liabilities	<u>2,954,087</u>	<u>7,356,817</u>	<u>72,130</u>	<u>10,383,034</u>	<u>550,293</u>
Net Position					
Invested in capital assets	5,628,207	9,355,824	-	14,984,031	-
Unrestricted	<u>706,293</u>	<u>1,560,399</u>	<u>(72,130)</u>	<u>2,194,562</u>	<u>-</u>
Total Net Position	<u>\$ 6,334,500</u>	<u>\$ 10,916,223</u>	<u>\$ (72,130)</u>	<u>\$ 17,178,593</u>	<u>\$ -</u>

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, 2014

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Operating Revenues					
Charges for services	\$ 865,793	\$ 848,554	\$ 172,934	\$ 1,887,281	\$ -
Employee contributions	-	-	-	-	1,479,099
Employer contributions	-	-	-	-	1,916,721
Other	19,759	20,949	-	40,708	533,875
Total Operating Revenues	<u>885,552</u>	<u>869,503</u>	<u>172,934</u>	<u>1,927,989</u>	<u>3,929,695</u>
Operating Expenses					
Operating costs	585,863	585,733	160,918	1,332,514	-
Health claims	-	-	-	-	5,037,679
Depreciation	234,387	314,717	-	549,104	-
Total Operating Expenses	<u>820,250</u>	<u>900,450</u>	<u>160,918</u>	<u>1,881,618</u>	<u>5,037,679</u>
Operating Income (Loss)	<u>65,302</u>	<u>(30,947)</u>	<u>12,016</u>	<u>46,371</u>	<u>(1,107,984)</u>
Nonoperating Revenues (Expenses)					
Intergovernmental	42,109	224,757	-	266,866	-
Deficit subsidy from employer	-	-	-	-	1,851,793
Interest income	-	-	-	-	1,535
Interest expense	(110,224)	(321,491)	-	(431,715)	-
Total Nonoperating Revenues (Expenses)	<u>(68,115)</u>	<u>(96,734)</u>	<u>-</u>	<u>(164,849)</u>	<u>1,853,328</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(2,813)</u>	<u>(127,681)</u>	<u>12,016</u>	<u>(118,478)</u>	<u>745,344</u>
Capital Contributions					
Betterments	-	1,279	-	1,279	-
Transfers					
Transfers (net)	<u>(66,673)</u>	<u>144,191</u>	<u>(33,736)</u>	<u>43,782</u>	<u>-</u>
Change in Net Position	<u>(69,486)</u>	<u>17,789</u>	<u>(21,720)</u>	<u>(73,417)</u>	<u>745,344</u>
Total Net Position - Beginning, as restated	<u>6,403,986</u>	<u>10,898,434</u>	<u>(50,410)</u>	<u>17,252,010</u>	<u>(745,344)</u>
Total Net Position - Ending	<u>\$ 6,334,500</u>	<u>\$ 10,916,223</u>	<u>\$ (72,130)</u>	<u>\$ 17,178,593</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	Business-Type Activities				Governmental Activities
					Internal Service Fund - Health Claims
	Water	Sewer	Transfer Station	Total	
Cash Flows from Operating Activities:					
Receipts from users	\$ 830,002	\$ 821,444	\$ 172,934	\$ 1,824,380	\$ -
Employee contributions	-	-	-	-	1,479,099
Employer contributions	-	-	-	-	1,916,721
Other income	19,759	20,949	-	40,708	482,582
Payments to employees	(292,755)	(313,108)	(87,338)	(693,201)	-
Payments to vendors	(303,110)	(236,344)	(69,578)	(609,032)	-
Payments for interfund services used	-	-	-	-	(5,536,660)
Net Cash Provided by (Used in) Operating Activities	253,896	292,941	16,018	562,855	(1,658,258)
Cash Flows from Noncapital Financing Activities:					
Advances from (to) other funds	(80,738)	-	17,718	(63,020)	(195,070)
Subsidy from general fund for deficit	-	-	-	-	1,851,793
Transfers, net	(66,673)	144,191	(33,736)	43,782	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(147,411)	144,191	(16,018)	(19,238)	1,656,723
Cash Flows from Capital and Related Financing Activities:					
Proceeds from capital betterments	-	317,578	-	317,578	-
Proceeds from capital grants	85,443	367,086	-	452,529	-
Acquisition and construction of capital assets	(54,820)	-	-	(54,820)	-
Principal payments on bonds and notes	(208,570)	(652,958)	-	(861,528)	-
Interest expense	(110,224)	(321,491)	-	(431,715)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(288,171)	(289,785)	-	(577,956)	-
Cash Flows from Investing Activities:					
Interest income	-	-	-	-	1,535
Liquidation of investments	-	-	-	-	-
Net Cash Provided by (used in) Investing Activities	-	-	-	-	1,535
Net Change in Cash and Cash Equivalents	(181,686)	147,347	-	(34,339)	-
Cash and Cash Equivalents					
Beginning of the year	393,455	1,042,668	-	1,436,123	-
End of the year	<u>\$ 211,769</u>	<u>\$ 1,190,015</u>	<u>\$ -</u>	<u>\$ 1,401,784</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ 65,302	\$ (30,947)	\$ 12,016	\$ 46,371	\$ (1,107,984)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	234,387	314,717	-	549,104	-
Changes in assets and liabilities:					
Receivables	(35,791)	(27,110)	-	(62,901)	(51,293)
Working capital deposit	-	-	-	-	-
Accounts payable and accrued expenses	(10,002)	36,281	4,002	30,281	(498,981)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 253,896</u>	<u>\$ 292,941</u>	<u>\$ 16,018</u>	<u>\$ 562,855</u>	<u>\$ (1,658,258)</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

JUNE 30, 2014

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ -
Investments	-	-
Receivables - details	-	31,190
Due from other funds	441,507	316,820
Total Assets	441,507	348,010
Liabilities		
Warrants payable	-	265,352
Agency liabilities	-	82,658
Total Liabilities	-	348,010
Net Position		
Held in trust for other purposes	441,507	-
Total Net Position	\$ 441,507	\$ -

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

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

	<u>Private Purpose Trust Funds</u>
Additions	
Investment income	\$ 266
Contributions	<u>18,250</u>
Total Additions	<u>18,516</u>
Deductions	
Education - scholarships	12,850
Health and human services - public assistance	<u>4,674</u>
Total Deductions	<u>17,524</u>
Change in Net Position	992
Total Net Position - Beginning	<u>440,515</u>
Total Net Position - Ending	<u><u>\$ 441,507</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 appoints a Town Manager as Chief Administrative Officer to oversee the Town's daily administrative duties and a Town Accountant to oversee the Town's financial 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, 2014.

B. Deficits/Deficit Legislation

The Town experienced significant deficits during fiscal year 2014. Appropriation deficits were nearly \$1.2 million; health insurance claims deficits were over \$1.8 million; grant and other special revenue deficits were nearly \$0.3 million and the general fund was in a cash overdraft position of nearly \$1.9 million. The severity of these issues caused significant cash flow stress that eventually led to the Town being unable to meet its weekly payroll and vendor obligations which necessitated a \$2 million advance of its fiscal 2015 state aid in order to sustain operations.

In addition, the Town did not have sufficient resources in 2015 to fund the deficits that existed at the close of fiscal year 2014 as is required by law. This imbalance in the budget precluded the

Town from setting a tax rate for fiscal 2015 and thus created more stress on the Town's already depleted cash flow.

In order to address this, the Town requested its voters to pass an override to fund the fiscal 2014 deficits. The article failed; however the voters authorized the Town to petition the legislature to pass a bill that would allow the Town to issue deficit bonds (deficit legislation).

Subsequently, on January 6, 2015, the Massachusetts State Legislature established *Chapter 448 of the Acts of 2014; An Act relative To The Financial Condition Of The Town Of Winchendon*.

The Act allows the Town cash relief in the form of deficit borrowing for an amount up to \$5,700,000 and an additional \$300,000 at the Department of Revenue, Director of Account's discretion. Relative to this, the Town will issue notes in the amount of \$3,000,000 in order to balance its budget and set its tax rate for fiscal year 2015.

The notes are required to be paid back within 10 years, with early payoffs permissible. The deficit legislation carries with it many covenants that the Town must adhere to including timely audits, balance sheets, quarterly oversight and the creation of an annual reserve for extraordinary and unforeseen expenditures.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government 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 and deferred outflow of resources, liabilities and deferred inflow of resources, 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, and
- 2) The total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. 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 government reports the following major governmental funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Capital Projects Fund – is used to account for the funding and expenditure of specific capital outlay activities. For the present fiscal year these activities were primarily comprised of police station construction and fire apparatus purchases.

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 Project Funds – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays. All such activities were reported as a major fund for the year ended June 30, 2014.

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 enterprise 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 Enterprise Fund – accounts for user charges collected to finance costs associated with operating facilities for the disposal of household waste and recycling.

Additionally, the following governmental, proprietary fund type is reported:

Internal Service Fund – is used to account for the Town's self-insured health insurance related activities. 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 may not be used to support the governmental programs.

The government reports the following fiduciary funds:

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

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for monies held on behalf of parties other than the Town, such as employee

payroll withholdings, police off-duty activity, student activities, and planning deposits. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

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

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

Investments for the Town are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. 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.

Motor vehicle excise taxes are primarily assessed in January every year and are due 30 days thereafter; subsequent vehicle transaction and catch-up billings are assessed periodically throughout the remaining calendar year. Excise tax billings are based on motor vehicle records and amounts as determined by the Commonwealth of Massachusetts; the timing of the Town’s billings is additionally predicated on when such records are received from the Commonwealth.

User fees consist of water and sewer fees. Water and sewer user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date.

Real estate taxes, water and sewer user fees, and special assessments/betterments 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 and in the proprietary fund financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated 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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net

position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any items that qualify for reporting as a deferred outflow.

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

Net Position – In the government-wide financial statements, net position reported as “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 amounts that have restrictions placed on them from federal and state granting agencies.

Other Purposes – represent amounts that are restricted by donors and state laws for specific governmental programs and uses.

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily 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.

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$1,591,279 at June 30, 2014, and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town’s encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately.

The Town reports \$69,974 of encumbrances from Town Meeting article votes in the general fund as assigned.

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

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Nonexpendable permanent funds	\$ -	\$ -	\$ 334,409	\$ 334,409
Restricted:				
General government	-	-	500,363	500,363
Public safety	-	-	68,620	68,620
Education	-	-	412,430	412,430
Health and human services	-	-	92,559	92,559
Culture and recreation	-	-	805,321	805,321
Infrastructure improvements	877,378	-	-	877,378
Other purposes	-	-	183,084	183,084
Assigned:				
Purchase orders	404,920	-	-	404,920
Unassigned:				
Appropriation deficits	(1,161,682)	-	-	(1,161,682)
Health insurance deficit	(1,851,793)	-	-	(1,851,793)
General stabilization	1,591,279	-	-	1,591,279
Other	579,906	(1,789,505)	(280,534)	(1,490,133)
	<u>\$ 440,008</u>	<u>\$ (1,789,505)</u>	<u>\$ 2,156,144</u>	<u>\$ 806,647</u>

E. 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.

F. Excess of Expenditures Over Appropriations and Deficits

As previously discussed, during the fiscal year ended June 30, 2014 the Town experienced deficits in its operating accounts more commonly known as appropriation deficits. In addition the Town incurred deficits in other funds. The deficits related to construction projects are legal deficits and will be funded through future issuance of long-term debt. The Town intends on raising all other deficits with the deficit legislation bonds discussed in Note I. B. or through future grant reimbursements and user charges.

The listing of deficits is as follows:

	Raised From				
	Deficit Legislation	Taxation	Bond Proceeds	Grant Proceeds	User Charges
<u>General Fund</u>					
Administration, Finance and Benefits	\$ 114,779	\$ -	\$ -	\$ -	\$ -
Public Safety	125,882	-	-	-	-
Public Works (less snow and ice)	92,845	-	-	-	-
Snow and Ice	-	191,527	-	-	-
Human Services	77,072	-	-	-	-
School	559,578	-	-	-	-
<u>Special Revenue Funds</u>					
CDBG 2010	14,984	-	-	-	-
Coordinated Family and Community - 2012	29	-	-	-	-
Coordinated Family and Community - 2013	279	-	-	-	-
Coordinated Family and Community - 2014	5,711	-	-	-	-
Early Childhood - 2014	94	-	-	-	-
District & School Assistance - 2014	5,773	-	-	-	-
Inclusive Preschool Grant - 2014	18,480	-	-	-	-
Race to the Top Early Literacy - 2014	39	-	-	-	-
School Lunch Program	37,487	-	-	-	-
Chapter 90 Highway Funds	3,264	-	-	-	-
SETB Training	165	-	-	-	-
911 Dept Support & Incentive	-	-	-	132,543	-
USDA Police Cruiser	15,226	-	-	-	-
Police Bullet Proof Vest	799	-	-	-	-
Mass CEC Wind Grant	11,309	-	-	-	-
Urban Self-Help Grant	23,980	-	-	-	-
Senior Center Renovations	1,710	-	-	-	-
Town Hall Roof	4,316	-	-	-	-
Senior Center Director Wages	4,346	-	-	-	-
<u>Capital Projects Fund</u>					
Ongoing capital projects funded from BANs	-	-	1,789,405	-	-
<u>Trust Funds</u>					
Health Insurance Trust Fund	1,851,793	-	-	-	-
<u>Enterprise Funds</u>					
Transfer Station	-	-	-	-	72,130
	<u>\$ 2,969,940</u>	<u>\$ 191,527</u>	<u>\$ 1,789,405</u>	<u>\$ 132,543</u>	<u>\$ 72,130</u>

II. Detailed Notes to All Funds

A. Deposits and Investments

Each fund type's cash 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.

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 year-end, the carrying amount of the Town's deposits was \$1,401,784 and the banks' balances totaled \$2,041,880. Of the amount held by banks (including deposits and certificates of deposit) \$2,710,007, was covered by either federal depository insurance or by the depositors' insurance fund, \$859,090 of non-invested deposits were 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, \$1,926,581 in U.S. government obligations; \$483,640 of corporate fixed income obligations, \$1,563,217 in certificates of deposit; \$600,285 in mutual funds; and \$9,152 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.

Interest Rate Risk – The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising 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.

Credit Risk – Statutes require the Town Treasurer to invest Town government funds in bank deposit, money market, certificate of deposit, repurchase agreements and the State Treasurer's investment pool accounts. Relative to trust funds, certain additional, and in some instances statutorily, pre-approved investment instruments such as corporate bonds, stock equity, mutual funds, and other pooled investment funds may be invested in. 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, 2014, 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 \$277,186 and \$206,454 were rated A1 and Baa1 by Moody's, respectively. No other investment types were rated by Moody's or any other recognizable credit rating agency.

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, 2014, all of the WRA's bank deposits were covered by federal depository insurance.

Investment Maturities – The Town had the following investments at June 30, 2014:

		Maturity in Years		
	Fair Value	Less than Year	1 to 5 Years	Greater than 5 Years
<u>Investments with Maturities:</u>				
U.S. Government obligations	\$ 1,926,581	\$ -	\$ 1,826,486	\$ 100,095
Corporate fixed income	483,640	-	483,640	-
Certificates of deposit	1,563,217	466,439	1,096,778	-
Total Investments with Maturities	3,973,438	\$ 466,439	\$ 3,406,904	\$ 100,095
<u>Other Investments:</u>				
Equities	9,152			
State Treasurer investment pool	32,268			
Mutual funds	600,286			
Money market mutual funds	166,894			
Total Investments	\$ 4,782,038			

B. Receivables

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

Receivables	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 984,605	\$ -	\$ 984,605
Tax liens	1,284,659	-	1,284,659
Motor vehicle excise	250,682	-	250,682
Betterments	29,837	-	29,837
Departmental and other	486,126	(301,431)	184,695
Tax foreclosures	368,352	-	368,352
Intergovernmental:			
Due from MWPAT	116,829	-	116,829
Due from Commonwealth of MA	430,181	-	430,181
Total Governmental Receivables	<u>\$ 3,951,271</u>	<u>\$ (301,431)</u>	<u>\$ 3,649,840</u>

Receivables as of year-end for the Town's proprietary funds, including any applicable allowances for uncollectible accounts, are as follows:

Receivables	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees - water	\$ 445,399	\$ -	\$ 445,399
User fees - sewer	520,402	-	520,402
Betterments - sewer	3,741,205	-	3,741,205
Intergovernmental:			
Due from MWPAT - water	296,879	-	296,879
Due from MWPAT - sewer	1,754,327	-	1,754,327
Total Enterprise Receivables	<u>\$ 6,758,212</u>	<u>\$ -</u>	<u>\$ 6,758,212</u>

Betterments – Unapportioned sewer betterments of \$3,600,833 are included in the betterments receivable amount above within the sewer enterprise fund and represent amounts that are expected to be billed in future years for sewer projects that have been funded through long-term bond or note issuances.

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 \$2,168,035 and interest in the amount of \$1,219,241 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amounts of \$116,829; \$296,879 and \$1,754,327 are reported as receivables in the general fund, water enterprise fund and sewer enterprise fund, respectively.

C. Interfund Receivables, Payables and Transfers

Interfund receivables and payables for the fiscal year ended June 30, 2014, represent interfund borrowings for cash flow purposes and are summarized as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects Fund	General Fund	\$ 1,118,225
Nonmajor Fund	General Fund	384,316
Nonmajor Fund	Health Claims Fund	119,801
Water Fund	General Fund	58,816
Water Fund	Transfer Station Fund	21,922
Agency Fund	General Fund	316,820
Total Due Between Funds		<u>\$ 2,019,900</u>

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

Transfers Out	Transfers In				Total	
	General Fund	Nonmajor Funds	Water Enterprise	Sewer Enterprise		
General Fund	\$ -	\$ 312,000	\$ 18,575	\$ 213,774	\$ 544,349	(1)
Nonmajor Funds	35,810	-	15,485	10,687	61,982	(2)
Water Enterprise	100,733	-	-	-	100,733	(3)
Sewer Enterprise	80,270	-	-	-	80,270	(3)
Transfer Station Enterprise	33,736	-	-	-	33,736	(3)
	<u>\$ 250,549</u>	<u>\$ 312,000</u>	<u>\$ 34,060</u>	<u>\$ 224,461</u>	<u>\$ 821,070</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.

(3) Transfers to general fund for indirect costs.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,982,304	\$ -	\$ -	\$ 1,982,304
Construction in progress	-	969,528	-	969,528
Total capital assets not being depreciated	1,982,304	969,528	-	2,951,832
Capital assets being depreciated:				
Buildings and improvements	28,046,940	-	-	28,046,940
Infrastructure	5,807,391	748,757	-	6,556,148
Machinery, equipment and vehicles	10,507,325	1,104,641	(147,200)	11,464,766
Total capital assets being depreciated	44,361,656	1,853,398	(147,200)	46,067,854
Less accumulated depreciation for:				
Buildings and improvements	(15,153,465)	(748,635)	-	(15,902,100)
Infrastructure	(810,138)	(165,832)	-	(975,970)
Machinery, equipment and vehicles	(8,848,701)	(441,593)	147,200	(9,143,094)
Total accumulated depreciation	(24,812,304)	(1,356,060)	147,200	(26,021,164)
Total capital assets being depreciated, net	19,549,352	497,338	-	20,046,690
Governmental activities capital assets, net	<u>\$ 21,531,656</u>	<u>\$ 1,466,866</u>	<u>\$ -</u>	<u>\$ 22,998,522</u>
<u><i>Business Activities:</i></u>				
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	23,079,019	-	-	23,079,019
Machinery, equipment and vehicles	469,598	54,820	-	524,418
Total capital assets being depreciated	26,081,057	54,820	-	26,135,877
Less accumulated depreciation for:				
Buildings and improvements	(1,283,758)	(58,026)	-	(1,341,784)
Infrastructure	(4,817,492)	(465,334)	-	(5,282,826)
Machinery, equipment and vehicles	(191,365)	(25,744)	-	(217,109)
Total accumulated depreciation	(6,292,615)	(549,104)	-	(6,841,719)
Total capital assets being depreciated, net	19,788,442	(494,284)	-	19,294,158
Business activities capital assets, net	<u>\$ 19,815,177</u>	<u>\$ (494,284)</u>	<u>\$ -</u>	<u>\$ 19,320,893</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities - Water:</i></u>				
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	8,388,144	-	-	8,388,144
Machinery, equipment and vehicles	416,499	54,820	-	471,319
Total capital assets being depreciated	11,015,369	54,820	-	11,070,189
Less accumulated depreciation for:				
Buildings and improvements	(1,155,072)	(47,302)	-	(1,202,374)
Infrastructure	(1,297,155)	(165,051)	-	(1,462,206)
Machinery, equipment and vehicles	(146,158)	(22,034)	-	(168,192)
Total accumulated depreciation	(2,598,385)	(234,387)	-	(2,832,772)
Total capital assets being depreciated, net	8,416,984	(179,567)	-	8,237,417
Water activities capital assets, net	<u>\$ 8,433,369</u>	<u>\$ (179,567)</u>	<u>\$ -</u>	<u>\$ 8,253,802</u>
<u><i>Business-Type Activities - Sewer:</i></u>				
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	14,690,875	-	-	14,690,875
Machinery, equipment and vehicles	53,099	-	-	53,099
Total capital assets being depreciated	15,065,688	-	-	15,065,688
Less accumulated depreciation for:				
Buildings and improvements	(128,686)	(10,724)	-	(139,410)
Infrastructure	(3,520,337)	(300,283)	-	(3,820,620)
Machinery, equipment and vehicles	(45,207)	(3,710)	-	(48,917)
Total accumulated depreciation	(3,694,230)	(314,717)	-	(4,008,947)
Total capital assets being depreciated, net	11,371,458	(314,717)	-	11,056,741
Sewer activities capital assets, net	<u>\$ 11,381,808</u>	<u>\$ (314,717)</u>	<u>\$ -</u>	<u>\$ 11,067,091</u>
<u><i>Business-Type Activities - All:</i></u>				
Business-type activities capital assets, net	<u>\$ 19,815,177</u>	<u>\$ (494,284)</u>	<u>\$ -</u>	<u>\$ 19,320,893</u>

For the year ended June 30, 2014, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 75,947
Public safety	181,900
Education	850,966
Public works	163,506
Health and human services	45,607
Culture and recreation	38,134
Total Governmental Activities	<u>\$ 1,356,060</u>

Business-Type Activities:

Water	\$ 234,387
Sewer	314,717
Total Business-Type Activities	<u>\$ 549,104</u>

The following schedule represents the calculation of net investment in capital assets:

Description	Governmental Activities	Business-Type Activities
Fixed assets	\$ 49,019,686	\$ 26,162,612
Accumulated depreciation	(26,021,164)	(6,841,719)
Outstanding debt related to fixed assets	(709,514)	(10,129,273)
Betterments receivable	-	3,741,205
Future grants reimbursing debt	-	2,051,206
Invested in capital, net of related debt	<u>\$ 22,289,008</u>	<u>\$ 14,984,031</u>

E. Temporary and Line of Credit 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 revenue anticipation notes (RANs) 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, 2014, are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	0.55%	Matured	\$ 255,000	\$ -	\$ (255,000)	\$ -
BAN	0.55%	04/01/15	-	2,850,000	-	2,850,000
RAN	0.55%	Matured	-	2,000,000	(2,000,000)	-
RAN	0.55%	Matured	-	1,000,000	(1,000,000)	-
			<u>\$ 255,000</u>	<u>\$ 5,850,000</u>	<u>\$ (3,255,000)</u>	<u>\$ 2,850,000</u>

The above temporary notes outstanding at year-end were issued for governmental capital projects relating to police station construction (\$2,000,000) and a fire department vehicle (\$850,000).

Line of Credit – WRA

On August 10, 2010, the WRA entered into a line of credit 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; at June 30, 2014, the interest rate in effect on the loan was 4.5%. The carrying value of this line of credit is \$193,008 at June 30, 2014. Additionally, assets consisting primarily of land and buildings recorded at a value of approximately \$303,900 at June 30, 2014, 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. There is no established date by which the outstanding balance on the line of credit must be paid off.

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	\$ 1,032,323	\$ -	\$ (322,808)	\$ 709,515	\$ 322,809
Compensated absences	1,318,177	105,404	(329,545)	1,094,036	273,509
Landfill post-closure monitoring	486,000	-	(27,000)	459,000	27,000
Other postemployment benefits	8,767,618	2,355,567	(591,011)	10,532,174	-
Total Governmental Activities	<u>\$ 11,604,118</u>	<u>\$ 2,460,971</u>	<u>\$ (1,270,364)</u>	<u>\$ 12,794,725</u>	<u>\$ 623,318</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds	\$ 3,131,044	\$ -	\$ (208,570)	\$ 2,922,474	\$ 214,296
Other postemployment benefits	19,656	5,281	(1,325)	23,612	-
Total Water Enterprise	<u>3,150,700</u>	<u>5,281</u>	<u>(209,895)</u>	<u>2,946,086</u>	<u>214,296</u>
<u>Sewer</u>					
General obligation bonds	7,859,757	-	(652,958)	7,206,799	674,945
Other postemployment benefits	103,421	27,786	(6,971)	124,236	-
Total Sewer Enterprise	<u>7,963,178</u>	<u>27,786</u>	<u>(659,929)</u>	<u>7,331,035</u>	<u>674,945</u>
<u>Transfer Station</u>					
Compensated absences	5,457	-	(4,626)	831	831
Other postemployment benefits	35,242	9,468	(2,375)	42,335	-
Total Transfer Station Enterprise	<u>40,699</u>	<u>9,468</u>	<u>(7,001)</u>	<u>43,166</u>	<u>831</u>
Total Business-type Activities	<u>\$ 11,154,577</u>	<u>\$ 42,535</u>	<u>\$ (876,825)</u>	<u>\$ 10,320,287</u>	<u>\$ 890,072</u>
Total Long-term Obligations	<u>\$ 22,758,695</u>	<u>\$ 2,503,506</u>	<u>\$ (2,147,189)</u>	<u>\$ 23,115,012</u>	<u>\$ 1,513,390</u>

The governmental activities liabilities 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, 2014 are as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities:</u>					
General obligation bonds	3.125 - 4.25%	\$ 505,000	\$ -	\$ (255,000)	\$ 250,000
MWPAT notes	0.00 - 2.00%	527,323	-	(67,808)	459,515
Total Governmental Activities		<u>\$ 1,032,323</u>	<u>\$ -</u>	<u>\$ (322,808)</u>	<u>\$ 709,515</u>
<u>Business-type Activities - Water:</u>					
USDA bond notes	2.25 - 3.25%	\$ 1,859,797	\$ -	\$ (44,648)	\$ 1,815,149
MWPAT notes	1.50 - 2.00%	1,271,247	-	(163,922)	1,107,325
Total Water		<u>3,131,044</u>	<u>-</u>	<u>(208,570)</u>	<u>2,922,474</u>
<u>Business-type Activities - Sewer:</u>					
USDA bond notes	4.75%	141,045	-	(5,134)	135,911
MWPAT notes	1.50 - 2.00%	7,718,712	-	(647,824)	7,070,888
Total Sewer		<u>7,859,757</u>	<u>-</u>	<u>(652,958)</u>	<u>7,206,799</u>
Total Business-type Activities		<u>\$ 10,990,801</u>	<u>\$ -</u>	<u>\$ (861,528)</u>	<u>\$ 10,129,273</u>
Total Bond and Note Debt		<u>\$ 12,023,124</u>	<u>\$ -</u>	<u>\$ (1,184,336)</u>	<u>\$ 10,838,788</u>

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

<u>Bonded Debt - Governmental Activities:</u>							
Year Ending	Principal			Interest			Total
June 30,	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	72,810	(18,796)	54,014	14,199	(11,931)	2,268	56,282
2018	77,810	(19,420)	58,390	9,898	(9,079)	819	59,209
2019	77,809	(20,355)	57,454	6,248	(6,248)	-	57,454
2020-2021	85,468	(21,112)	64,356	2,733	(2,733)	-	64,356
Totals	<u>\$ 709,515</u>	<u>\$ (116,829)</u>	<u>\$ 592,686</u>	<u>\$ 78,389</u>	<u>\$ (60,628)</u>	<u>\$ 17,761</u>	<u>\$ 610,447</u>

<u>Bonded Debt - Business-Type Activities - Water:</u>							
Year Ending	Principal			Interest			Total
June 30,	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	247,059	(52,407)	194,652	55,031	(14,557)	40,474	235,126
2020-2024	477,505	(55,432)	422,073	185,640	(4,964)	180,676	602,749
2025-2029	317,073	-	317,073	140,597	-	140,597	457,670
2030-2034	255,258	-	255,258	97,720	-	97,720	352,978
2035-2039	199,272	-	199,272	72,648	-	72,648	271,920
2040-2044	222,721	-	222,721	49,199	-	49,199	271,920
2045-2049	248,931	-	248,931	22,990	-	22,990	271,921
2050	52,777	-	52,777	1,187	-	1,187	53,964
Totals	<u>\$ 2,922,474</u>	<u>\$ (296,879)</u>	<u>\$ 2,625,595</u>	<u>\$ 949,428</u>	<u>\$ (130,776)</u>	<u>\$ 818,652</u>	<u>\$ 3,444,247</u>

Bonded Debt - Business-Type Activities - Sewer:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	757,771	(182,056)	575,715	171,976	(125,196)	46,780	622,495
2020-2024	3,550,418	(906,684)	2,643,734	317,676	(233,301)	84,375	2,728,109
2025-2029	47,023	-	47,023	12,142	-	12,142	59,165
2030-2031	22,039	-	22,039	1,581	-	1,581	23,620
Totals	<u>\$ 7,206,799</u>	<u>\$ (1,754,327)</u>	<u>\$ 5,452,472</u>	<u>\$ 1,460,550</u>	<u>\$ (1,027,837)</u>	<u>\$ 432,713</u>	<u>\$ 5,885,185</u>

MWPAT Loan Subsidies – As previously noted in Note II. C., 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 \$2,168,035 and interest in the amount of \$1,219,241 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2014, the Town had authorized and unissued debt for the following:

Project	Amount
<i>Governmental:</i>	
Chapter 90 highway	\$ 799,510
Landfill	293,053
Equipment	284,500
Maintenance garage	25,000
Police station	750,000
<i>Business-Type:</i>	
Water	1,773,000
Sewer	1,905,865
Total authorized and unissued	<u>\$ 5,830,928</u>

III. Other Information

A. Retirement System

Retirement System Description – The Town contributes to the Worcester Regional Retirement System (the “System”), a cost-sharing, 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, 2014, 2013, and 2012 were \$981,368; \$850,908 and \$717,245 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.

Funding Status and Funding Progress – The schedules of funding progress and contribution funding are presented as required supplementary information following the notes to the basic financial statements, and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, also presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information for required and actual contributions relating the cost sharing plan as a whole, of which the Town is one participating employer, as well as, the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

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 this system totaled \$2,598,410 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a single-employer defined benefit healthcare plan (the "Plan"). The Plan provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with 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)	\$ 2,474,625
Interest on net OPEB obligation	357,038
Adjustment to ARC	<u>(433,561)</u>
Annual OPEB cost	2,398,102
Contributions made	<u>(601,682)</u>
Increase in net OPEB obligation	1,796,420
Net OPEB obligation at beginning of year	<u>8,925,937</u>
Net OPEB obligation at end of year	<u>\$ 10,722,357</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, 2014	\$2,398,102	25.1%	\$10,722,356
June 30, 2013	2,287,327	24.5%	8,925,937
June 30, 2012	2,449,703	24.4%	7,199,528

* The current year period is reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$126,551; Public Safety \$311,745; Education \$1,775,120; Public Works \$97,935; Health and Human Services \$22,160; Culture and Recreation \$22,057; Water \$5,281; Sewer \$27,786; and Transfer Station \$9,467.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2014, for the most recent actuarial valuation performed as of July 1, 2012, was as follows:

Actuarial value of plan assets	\$ -
Actuarial accrued liability (AAL)	\$ 24,874,256
Unfunded actuarial accrued liability (UAAL)	\$ 24,874,256
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (annually payroll of active employees covered by the plan)	\$ 14,084,035
UAAL as a percentage of covered payroll	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, 2014, the

amount of the liability for health claims IBNR totaled \$208,536. 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, 2011, are as follows:

<u>Fiscal Year Ending</u>	<u>Balance at Beginning of Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>	<u>Current Portion</u>
June 30, 2014	\$231,237	\$5,014,978	\$(5,037,679)	\$208,536	\$208,536
June 30, 2013	347,220	4,688,742	(4,804,725)	231,237	231,237
June 30, 2012	434,051	3,611,565	(3,698,396)	347,220	347,220

During the year ended June 30, 2014 the Town also reported a significant deficit in the Health Insurance Trust due to employee withholding rates and the Town contribution not being sufficient to cover claims that were exasperated by an above average volume of catastrophic medical events. This deficit has been subsidized by the general fund and will be funded through the deficit legislation previously discussed.

E. 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, 2014, 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, 2014.

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 presently 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.

F. 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 monitoring cost of \$459,000 has been recorded as a governmental activities liability; actual costs may be amended periodically due to changes in technology, or changes in regulations. The Town is currently reviewing the calculation.

G. Implementation of New GASB Pronouncements

Current Year Implementation

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

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

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

Future Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 become effective for the System for the year ended December 31, 2014 the impact of which will affect the Town for the fiscal year ended June 30, 2015 through the implementation of GASB 68 (see below). The Town anticipates the adoption of this standard to have a material effect on the financial statements.

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

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

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

IV. Economic Dependence

During the year ended June 30, 2014, approximately 58% of revenues of the general fund were recognized from the Commonwealth of Massachusetts, as well as, the federal government.

V. Prior Period Restatement

The prior period ending nonmajor fund balance has been increased by \$225,038 from \$2,990,951 to \$3,215,989. This is the result of the Town determining that the capital projects fund should be reported as a major fund in fiscal year 2014 given its financial activities meeting the criteria for such reporting. As such, the prior year ending capital projects fund balance deficit of \$225,038 has been reflected as that major fund's beginning fund balance. There is no impact to the statement of net position as the capital projects fund and nonmajor funds are combined for reporting purposes thereon.

The prior period ending net position of the water enterprise fund has been decreased by \$141,125 from \$6,545,111 to \$6,334,500. This is the result of the Town not having properly reduced the water user charges receivable by an amount equal to those placed into lien during the previous fiscal year.

The prior period ending net position of the sewer enterprise fund has been decreased by \$159,377 from \$11,057,811 to \$10,898,434. This is the result of the Town not having properly reduced the sewer user charges receivable by an amount equal to those placed into lien during the previous fiscal year.

As a result of these restatements, the prior period ending net position of the business-type activities has been decreased from \$17,552,512 to \$17,252,010.

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2014

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 Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2012	\$ -	\$ 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)
2014	\$ 37,510,266	\$ 37,510,266	100%	\$ 981,368	2.6%
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
2014	\$ 2,398,102	\$ 601,683	25.1%
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, 2014**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Postive
	Budget	Budget	Amounts		Adjusted	(Negative)
Revenues:						
Property taxes	\$ 9,929,645	\$ 9,797,747	\$ 9,643,425		\$ 9,643,425	\$ (154,322)
Intergovernmental	13,239,685	13,239,685	13,328,698		13,328,698	89,013
Motor vehicle and other excise	989,174	989,174	1,002,597		1,002,597	13,423
Departmental and other revenue	907,044	907,044	944,936		944,936	37,892
Licenses and permits	180,000	180,000	158,012		158,012	(21,988)
Fines and forfeitures	20,000	20,000	21,158		21,158	1,158
Penalties and interest on taxes	150,000	150,000	216,007		216,007	66,007
Investment income	6,000	6,000	3,244		3,244	(2,756)
Total Revenues	25,421,548	25,289,650	25,318,077		25,318,077	28,427
Expenditures:						
General government	1,403,061	1,392,284	1,346,156	\$ 21,089	1,367,245	25,039
Public safety	2,101,531	2,101,531	2,229,405	-	2,229,405	(127,874)
Education	15,108,489	14,998,591	15,511,662	47,724	15,559,386	(560,795)
Public works	920,240	920,240	1,203,480	1,132	1,204,612	(284,372)
Health and human services	537,182	582,182	656,375	29	656,404	(74,222)
Culture and recreation	168,501	168,501	166,769	-	166,769	1,732
Pension and fringe benefits	3,121,737	3,065,514	3,432,977	-	3,432,977	(367,463)
State and county tax assessments	1,115,467	1,115,467	1,051,178	-	1,051,178	64,289
Debt service	847,074	847,074	839,063	-	839,063	8,011
Total Expenditures	25,323,282	25,191,384	26,437,065	69,974	26,507,039	(1,315,655)
Other Financing Sources (Uses):						
Transfers in	108,110	108,110	108,110		108,110	-
Transfers out	(57,000)	(57,000)	(57,000)		(57,000)	-
Total Other Financing Sources (Uses)	51,110	51,110	51,110		51,110	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	149,376	149,376	<u>\$ (1,067,878)</u>		<u>\$ (1,137,852)</u>	<u>\$ (1,287,228)</u>
Other Budgetary Items:						
Prior year encumbrances	87,715	87,715				
Prior year deficits	(246,091)	(246,091)				
From overlay surplus	9,000	9,000				
Total other budgetary items	(149,376)	(149,376)				
NET BUDGET	<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 YEAR ENDED JUNE 30, 2014

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and the Enterprise Fund. 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 adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2014, Town Meeting approved approximately \$132,000 in net reductions for departmental appropriations from the original approved budget.

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

Appropriation Deficits – During the fiscal year ended June 30, 2014, expenditures exceeded appropriations in the General Fund for the following departments:

<u>Function</u>	<u>Amount</u>
Administration, Finance and Benefits	\$ 114,779
Public Safety	125,882
Public Works (less snow and ice)	92,845
Snow and Ice	191,527
Human Services	77,072
Education	559,578
	<u>\$ 1,161,683</u>

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, 2014, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 25,318,077
Stabilization investment income	\$ -	\$ 21,604	21,604
MTRS on-behalf payments	2,598,410	-	2,598,410
MWPAT subsidy	37,617	-	37,617
MSBA school construction reimbursement	(271,044)	-	(271,044)
Revenues on a GAAP basis	<u>\$ 2,364,983</u>	<u>\$ 21,604</u>	<u>\$ 27,704,664</u>
Expenditures on a budgetary basis			\$ 26,437,065
MTRS on-behalf payments	\$ 2,598,410	\$ -	2,598,410
MWPAT debt subsidy	37,617	-	37,617
Capital projects debt service reported in capital project funds	-	(255,000)	(255,000)
Water debt service reported in water fund	-	(18,575)	(18,575)
Sewer debt service reported in sewer fund	-	(213,774)	(213,774)
Expenditures on a GAAP basis	<u>\$ 2,636,027</u>	<u>\$ (487,349)</u>	<u>\$ 28,585,743</u>
Net transfers on a budgetary basis			\$ 51,110
Capital projects debt service reported in capital project funds	\$ -	\$ (255,000)	(255,000)
Water debt service reported in water fund	-	(18,575)	(18,575)
Sewer debt service reported in sewer fund	-	(213,774)	(213,774)
Water and sewer indirect costs budgeted as revenue	-	214,739	214,739
Stabilization transfers	-	(72,300)	(72,300)
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ (89,910)</u>	<u>\$ (293,800)</u>