

TOWN OF WINCHENDON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2015

TOWN OF WINCHENDON, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2015

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-11
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position – Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
Statement of Fiduciary Net Position	21
Statement of Changes in Fiduciary Net Position	22
Notes to Basic Financial Statements	23-51
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of Town's Proportionate Share of Net Pension Liability	52
Schedule of Town's Contributions to Pension Plan	52
Schedule of the Commonwealth's Collective Share of Net Pension Liability - Massachusetts' Teacher's Retirement System	53
Schedules of Funding Progress – Other Postemployment Benefits	54
Schedules of Contribution Funding – Other Postemployment Benefits	54
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	55
Notes to Required Supplementary Information	56-57



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, 2015, 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, 2015, 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. B., during the prior year the Town experienced aggregate operating deficits of approximately \$3.0 million and a cash overdraft of approximately \$1.9 million. As a result the Town was unable to balance its budget and set a tax rate for its June 30, 2015 fiscal year in a timely manner. 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. On March 1, 2015, the Town borrowed \$3.0 million of such deficit notes in order to balance its budget and set its tax rate for fiscal year 2015. These issues with operations continued into fiscal year 2015 with additional deficits approaching \$0.7 million. The Town anticipates a combination of further deficit borrowing and transfers from stabilization to satisfy these deficits. Our opinion was not modified with respect to this matter.

Change in Accounting Principle

As described in Note III. G., the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. 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 Town's proportionate share of net pension liability, the Town's contributions to pension plan, the Commonwealth's collective share of net pension liability – Massachusetts Teacher's Retirement System, the funding and contribution progress for 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 this 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 November 13, 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.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
November 13, 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, 2015.

Financial Highlights

- As described in detail in Note I, in the prior year, 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.

In response to this, on January 6, 2015, the Massachusetts State legislature approved a bill that allowed 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. As a result the Town borrowed \$3,000,000 on March 1, 2015; and shortly thereafter was able to set its tax rate for fiscal 2015. The Town also discontinued its health insurance trust account, effective March 1, 2015 and transitioned into a premium based plan.

While not at the same level, fiscal 2015 operating activity continued to result in deficits; more specifically, the insurance appropriation account experienced a deficit of \$128,587 and the Town's discontinued health insurance trust account ended the year with a statutory deficit of \$532,871, partly due to the run-off of the fund. It is the Town's intent to extend its borrowing under the deficit legislation to fund the health insurance trust deficit; and further, to use available amounts from general stabilization to fund the insurance appropriation deficit.

- During the year ended June 30, 2015, the Town implemented the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. The implementation of this accounting standard by the Town resulted in a restatement to reduce the prior year ending governmental statement of net position by \$16,015,224 and the prior year business-type statement of net position by \$289,000. In addition, the Town underwent a comprehensive inventory of fixed assets which resulted in adjustments requiring restatement to increase the governmental statement of net position by \$1,498,596.
- 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 \$13.2 million (*total net position*). The approximate \$3.3 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 governmental activities net position is primarily due to the use of various stabilization funds to subsidize the operating budget in the amount of approximately \$0.4 million, OPEB expenses recorded in accordance with GASB 45 of approximately \$1.7 million and deficits as discussed above of approximately \$0.7 million.

- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of nearly \$3.0 million which is \$2.2 million greater than the prior

year's balance. Contributing to this increase was the recognition of the deficit bond anticipation notes in the amount of \$2,971,036 (remainder recorded in transfer station fund) recorded as other financing sources. Because the deficit legislation in effect includes a ten-year financing arrangement mandated by law, despite the notes issued as short-term borrowings they have been reflected using the same treatment as a long-term issuance as this demonstrates intent.

Unassigned fund balance in the general fund was nearly \$1.7 million; an additional \$0.8 million is restricted and over \$0.1 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 deficit notes as discussed previously under the deficit legislation in the amount of \$3.0 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 used internal service funds to account for self-insured health insurance claims; *this fund was discontinued during the year*. 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 discontinued 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, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
				As Restated		As Restated
<u>Assets</u>						
Current and other assets	\$ 9,286,658	\$ 8,282,686	\$ 7,790,606	\$ 8,218,812	\$ 17,077,264	\$ 16,501,498
Capital assets, net	24,004,435	24,497,118	18,816,280	19,320,893	42,820,715	43,818,011
Total assets	33,291,093	32,779,804	26,606,886	27,539,705	59,897,979	60,319,509
<u>Deferred outflows of resources</u>	9,866	-	178	-	10,044	-
Total assets and deferred outflows of resources	33,300,959	32,779,804	26,607,064	27,539,705	59,908,023	60,319,509
<u>Liabilities</u>						
Long-term liabilities	29,985,015	28,186,631	8,837,936	9,719,379	38,822,951	37,906,010
Other liabilities	6,839,978	4,879,598	1,006,190	930,897	7,846,168	5,810,495
Total liabilities	36,824,993	33,066,229	9,844,126	10,650,276	46,669,119	43,716,505
<u>Net Position</u>						
Invested in capital assets	20,777,596	23,787,604	9,576,248	9,708,819	30,353,844	33,496,423
Restricted	2,201,986	2,465,280	5,275,212	5,275,212	7,477,198	7,740,492
Unrestricted	(26,503,616)	(26,539,309)	1,911,478	1,905,398	(24,592,138)	(24,633,911)
Total Net Position	\$ (3,524,034)	\$ (286,425)	\$ 16,762,938	\$ 16,889,429	\$ 13,238,904	\$ 16,603,004

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 \$13.2 million (*total net position*), which represents an approximate \$3.3 million decrease from the prior year’s balance.

The largest portion (approximately \$30.4 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 \$7.5 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 \$12.4 million and the recent implementation of GASB 68 related to pension which has over a \$16.0 million impact on net position.

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
				As Restated		As Restated
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,196,657	\$ 1,346,417	\$ 1,781,585	\$ 1,929,268	\$ 2,978,242	\$ 3,275,685
Operating grants and contributions	15,793,424	17,239,493	256,593	266,866	16,050,017	17,506,359
Capital grants and contributions	2,812,870	969,829	327	-	2,813,197	969,829
General revenues:						
Property taxes	10,199,192	9,739,422	-	-	10,199,192	9,739,422
Intergovernmental	1,685,157	1,825,514	-	-	1,685,157	1,825,514
Other	1,350,283	1,239,074	-	-	1,350,283	1,239,074
Total Revenues	33,037,583	32,359,749	2,038,505	2,196,134	35,076,088	34,555,883
<u>Expenses</u>						
General government	2,416,844	1,748,443	-	-	2,416,844	1,748,443
Public safety	3,878,179	3,725,490	-	-	3,878,179	3,725,490
Education	26,316,301	28,059,666	-	-	26,316,301	28,059,666
Public works	1,451,725	1,560,666	-	-	1,451,725	1,560,666
Health and human services	882,133	874,270	-	-	882,133	874,270
Culture and recreation	316,935	510,522	-	-	316,935	510,522
Community development	657,769	232,540	-	-	657,769	232,540
Debt service	122,202	66,552	-	-	122,202	66,552
Water	-	-	923,143	930,474	923,143	930,474
Sewer	-	-	1,295,470	1,221,941	1,295,470	1,221,941
Transfer station	-	-	179,487	160,918	179,487	160,918
Total Expenses	36,042,088	36,778,149	2,398,100	2,313,333	38,440,188	39,091,482
Change in net position before transfers	(3,004,505)	(4,418,400)	(359,595)	(117,199)	(3,364,100)	(4,535,599)
Transfers	(233,104)	(43,782)	233,104	43,782	-	-
Change in net position	(3,237,609)	(4,462,182)	(126,491)	(73,417)	(3,364,100)	(4,535,599)
Net position, beginning of year	(286,425)	18,692,385	16,889,429	17,252,010	16,603,004	35,944,395
Restatement	-	(14,516,628)	-	(289,164)	-	(14,805,792)
Net position, end of year	<u>\$ (3,524,034)</u>	<u>\$ (286,425)</u>	<u>\$ 16,762,938</u>	<u>\$ 16,889,429</u>	<u>\$ 13,238,904</u>	<u>\$ 16,603,004</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 (\$0.53 million).
2. Expenditures exceeding appropriations in the General Fund (\$0.15 million).
3. Current year provision for other postemployment costs (\$1.7 million).
4. Subsidies from stabilization (\$0.4 million).
5. Pension expense under GASB 68 (\$0.4 million)
6. Other miscellaneous items in aggregate (\$0.2 million)

During fiscal year 2015, property taxes made up approximately 31.1% of total revenues, consistent with the prior year amount of 30.1%. Operating grants and contributions represented approximately 47.4% and 53.3% of total revenues for fiscal years 2015 and 2014, respectively. This was caused by prior year Massachusetts Teachers Retirement data (MTRS) being overstated by the Commonwealth when reporting to the Town in the amount of \$1.4 million. This had the same impact on education expenses. No other revenues were greater than 10% of total revenues in fiscal years 2015 or 2014.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 73.0% and 76.3% of total fiscal year 2015 and 2014 expenses, respectively. The largest reason for the reduction, as noted above is incorrect data submitted to the Town by MTRS causing prior year expenses to be overstated by \$1.2 million. Public Safety expenses were 10.8% and 10.1% respectively for 2015 and 2014. No other expense categories were greater than 10% of total expenses in either 2015 or 2014.

Business-Type Activities – Major revenue sources consist of revenue from user charges, which represented approximately 87.4% and 87.8% of total fiscal year 2015 and 2014 revenues, respectively. . User charge revenue was down on a dollar basis due to seasonal conditions.

Water, sewer and transfer station expenses represented 38.3%, 54.2% and 7.5% of total fiscal year 2015 business-type activities expenses, respectively; consistent with 40.2%, 52.8% and 7.0% of total fiscal year 2014 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 reflected a combined ending fund balance of nearly \$3.0 million which is \$2.2 million greater than the prior year's balance.

This was primarily a result of the following net aggregate items:

1. The recognition of the deficit bond anticipation notes previously discussed in the amount of \$2,971,036 (remainder recorded in transfer station fund) recorded as other financing sources. Because the deficit legislation in effect includes a ten-year financing arrangement mandated by law, despite the notes issued as short-term borrowings they have been reflected using the same treatment as a long-term issuance as this demonstrates intent.
2. Health Claims and other operating expenses exceeding revenues in the Town's Health Insurance Fund (\$0.53 million).
3. Expenditures exceeding appropriations in the General Fund (\$0.15 million).
4. Grant and other special revenue fund deficits (\$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 was almost \$1.7 million, while total fund balance reached over \$2.6 million.

The capital projects major fund had a legal deficit balance of over \$1.9 million as a 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 \$2.2 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, 2015, net position of the water and sewer enterprise funds were approximately \$6.3 million and \$10.7 million, respectively and the transfer station enterprise fund had a deficit fund balance over \$0.1 million. The Town's Internal Service Fund had a zero balance due to a subsidy of almost \$0.6 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 continuing over from the prior year.

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 \$24.0 million and \$18.8 million, respectively. Governmental net capital assets remained flat with the prior year as new additions were offset by depreciation. Business-type net capital assets decreased by over \$0.5 million as fiscal year 2015 depreciation expense exceeded additions.

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, 2015, the Town had total debt outstanding of over \$9.6 million, which represents a decrease of approximately \$1.2 million from the prior year. At June 30, 2015, the Town had almost \$0.4 million in general obligation bonds of governmental activities and over \$9.2 million in general obligation bonds and notes of business-type activities.

The Town will receive reimbursements for a portion of any principal payback of debt issued through agreements with the Massachusetts Clean Water Trust (MCWT). The Town expects to receive approximately \$1.95 million of principal and approximately \$0.97 million of interest in aggregate over the next eleven years.

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, 2015 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 2015 represent approximately 89.8% 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. \$13.7 million is anticipated for fiscal 2016. 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 2016 or set a tax rate. The Town does not have sufficient resources to fund 2015 deficits of over \$0.6 million that are required to be funded by law as part of the 2016 budget. (Please refer to previous discussion in the Management Discussion and Analysis.) It is the Town’s intention to use \$0.5 million of the available deficit borrowing with the remainder from stabilization to balance the 2016 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 challenging.

The above items are being considered as the Town strives to balance its budget and set a tax rate for fiscal year 2016.

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, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Winchendon Redevelopment Authority
Assets:				
Cash and cash equivalents	\$ 2,248,092	\$ 1,681,931	\$ 3,930,023	\$ 72,879
Investments	3,269,654	-	3,269,654	-
Receivables, net:				
Property taxes	2,245,363	-	2,245,363	-
Motor vehicle excise	243,181	-	243,181	-
User fees	-	833,463	833,463	-
Betterments	-	3,421,913	3,421,913	-
Departmental and other	199,879	-	199,879	8,100
Intergovernmental	497,642	1,853,299	2,350,941	-
Internal balances	-	-	-	-
Deposit held by third party	582,847	-	582,847	-
Assets held for development	-	-	-	1,021,256
Capital assets not being depreciated	2,946,836	26,735	2,973,571	-
Capital assets, net of accumulated depreciation	21,057,599	18,789,545	39,847,144	-
Total Assets	33,291,093	26,606,886	59,897,979	1,102,235
Deferred Outflows of Resources:				
Net difference between projected and actual earnings on pension plan investments	9,866	178	10,044	-
Total Deferred Outflows of Resources	9,866	178	10,044	-
Total Assets and Deferred Outflows of Resources	33,300,959	26,607,064	59,908,023	1,102,235
Liabilities:				
Warrants and accounts payable	609,837	59,334	669,171	-
Health claims incurred but not reported	11,500	-	11,500	-
Other liabilities	62,958	-	62,958	-
Promissory note	-	-	-	162,593
Bond anticipation notes payable	5,821,036	28,964	5,850,000	-
Noncurrent liabilities:				
Due within one year	334,647	917,892	1,252,539	-
Due in more than one year	29,985,015	8,837,936	38,822,951	-
Total Liabilities	36,824,993	9,844,126	46,669,119	162,593
Net Position				
Invested in capital assets	20,777,596	9,576,248	30,353,844	-
Restricted for:				
Nonexpendable permanent funds	334,959	-	334,959	-
Expendable permanent funds	1,138,941	-	1,138,941	-
Federal and State grants	378,419	-	378,419	-
Debt service	98,337	5,275,212	5,373,549	-
Other purposes	251,330	-	251,330	939,642
Unrestricted	(26,503,616)	1,911,478	(24,592,138)	-
Total Net Position	\$ (3,524,034)	\$ 16,762,938	\$ 13,238,904	\$ 939,642

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015

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	\$ 2,416,844	\$ 244,745	\$ 22,113	\$ 80,880	\$ (2,069,106)		\$ (2,069,106)	
Public safety	3,878,179	179,198	101,093	176,593	(3,421,295)		(3,421,295)	
Education	26,316,301	689,285	15,211,579	1,081,479	(9,333,958)		(9,333,958)	
Public works	1,451,725	13,084	13,660	605,548	(819,433)		(819,433)	
Health and human services	882,133	63,024	403,954	62,389	(352,766)		(352,766)	
Culture and recreation	316,935	7,321	41,025	166,737	(101,852)		(101,852)	
Community development	657,769	-	-	639,244	(18,525)		(18,525)	
Interest expense	122,202	-	-	-	(122,202)		(122,202)	
Total governmental activities	36,042,088	1,196,657	15,793,424	2,812,870	(16,239,137)		(16,239,137)	
Business-type activities:								
Water	923,143	808,416	48,792	-		\$ (65,935)	(65,935)	
Sewer	1,295,470	797,998	207,801	327		(289,344)	(289,344)	
Transfer station	179,487	175,171	-	-		(4,316)	(4,316)	
Total business-type activities	2,398,100	1,781,585	256,593	327		(359,595)	(359,595)	
Total Primary Government	\$ 38,440,188	\$ 2,978,242	\$ 16,050,017	\$ 2,813,197	(16,239,137)	(359,595)	(16,598,732)	
Component unit:								
Winchendon Redevelopment Authority	\$ 218,161	\$ -	\$ 65,000	\$ 215,100				\$ 61,939
General Revenues:								
Property taxes					10,199,192	-	10,199,192	-
Motor vehicle and other excise					1,066,505	-	1,066,505	-
Intergovernmental					1,685,157	-	1,685,157	-
Penalties and interest on taxes					249,775	-	249,775	-
Interest income					34,003		34,003	47
Transfers (net)					(233,104)	233,104	-	-
Total general revenues and transfers					13,001,528	233,104	13,234,632	47
Change in Net Position					(3,237,609)	(126,491)	(3,364,100)	61,986
Net Position:								
Beginning of year, as restated					(286,425)	16,889,429	16,603,004	877,656
End of year					\$ (3,524,034)	\$ 16,762,938	\$ 13,238,904	\$ 939,642

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 730,087	\$ 932,962	\$ 585,043	\$ 2,248,092
Investments	1,795,408	-	1,474,246	3,269,654
Receivables, net of allowance for uncollectibles:				
Property taxes	2,245,363	-	-	2,245,363
Motor vehicle excise	243,181	-	-	243,181
Departmental and other	169,506	-	30,373	199,879
Intergovernmental	193,121	-	304,521	497,642
Due from other funds	571,347	-	-	571,347
Total Assets	<u>5,948,013</u>	<u>932,962</u>	<u>2,394,183</u>	<u>9,275,158</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 5,948,013</u></u>	<u><u>\$ 932,962</u></u>	<u><u>\$ 2,394,183</u></u>	<u><u>\$ 9,275,158</u></u>
Liabilities				
Warrants and accounts payable	\$ 526,993	\$ -	\$ 82,844	\$ 609,837
Other liabilities	62,958	-	-	62,958
Bond anticipation notes payable	-	2,850,000	-	2,850,000
Total Liabilities	<u>589,951</u>	<u>2,850,000</u>	<u>82,844</u>	<u>3,522,795</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	2,245,363	-	-	2,245,363
Unavailable revenue - excise taxes	243,181	-	-	243,181
Unavailable revenue - other	267,843	-	30,373	298,216
Total Deferred Inflows of Resources	<u>2,756,387</u>	<u>-</u>	<u>30,373</u>	<u>2,786,760</u>
Fund Balances				
Nonspendable	-	-	334,459	334,459
Restricted	803,733	-	2,252,474	3,056,207
Committed	-	-	-	-
Assigned	136,082	-	-	136,082
Unassigned:				
Operating deficits	(128,587)	-	-	(128,587)
Operating deficits - snow and ice	(27,443)	-	-	(27,443)
Self-insurance activities	(532,871)	-	-	(532,871)
Other	2,350,761	(1,917,038)	(305,967)	127,756
Total Fund Balances	<u>2,601,675</u>	<u>(1,917,038)</u>	<u>2,280,966</u>	<u>2,965,603</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$ 5,948,013</u></u>	<u><u>\$ 932,962</u></u>	<u><u>\$ 2,394,183</u></u>	<u><u>\$ 9,275,158</u></u>

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, 2015**

Total Governmental Fund Balances	\$ 2,965,603
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,004,435
Other long-term assets are unavailable to pay for current-period expenditures	2,786,760
Differences arising between the projected and actual earnings on pension investments are reported as deferred outflows of resources in the statement of net position	9,866
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Landfill monitoring	(432,000)
Notes payable - deficit legislation	(2,971,036)
Bonds and notes payable	(386,705)
Compensated absences	(939,351)
Net pension liability	(16,403,263)
Other postemployment benefits	(12,158,343)
Net Position of Governmental Activities	<u><u>\$ (3,524,034)</u></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, 2015**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 10,223,093	\$ -	\$ -	\$ 10,223,093
Intergovernmental	15,188,493	-	3,466,022	18,654,515
Motor vehicle and other excises	1,074,006	-	-	1,074,006
Departmental and other revenue	105,672	-	739,961	845,633
Licenses and permits	713,289	-	-	713,289
Penalties and interest on taxes	249,775	-	-	249,775
Fines and forfeitures	20,778	-	-	20,778
Investment income	21,636	1,850	10,003	33,489
Contributions and donations	-	-	737,873	737,873
Total Revenues	27,596,742	1,850	4,953,859	32,552,451
Expenditures				
Current:				
General government	1,611,365	-	58,266	1,669,631
Public safety	2,191,517	129,483	112,135	2,433,135
Education	16,906,449	-	3,320,485	20,226,934
Public works	990,270	-	561,262	1,551,532
Health and human services	685,342	-	65,453	750,795
Culture and recreation	162,178	-	61,892	224,070
Community development	-	-	657,769	657,769
Pension and fringe benefits	3,404,770	-	-	3,404,770
State and county assessments	1,183,716	-	-	1,183,716
Debt service:				
Principal	322,809	-	-	322,809
Interest	122,202	-	-	122,202
Health insurance deficit; subsidy	584,164	-	-	584,164
Total Expenditures	28,164,782	129,483	4,837,262	33,131,527
Excess (Deficiency) of Revenues Over Expenditures	(568,040)	(127,633)	116,597	(579,076)
Other Financing Sources (Uses)				
Proceeds from notes - deficit legislation	2,909,569	-	61,467	2,971,036
Transfers in	60,242	-	7,000	67,242
Transfers out	(240,104)	-	(60,242)	(300,346)
Total Other Financing (Uses) Sources	2,729,707	-	8,225	2,737,932
Net Change in Fund Balances	2,161,667	(127,633)	124,822	2,158,856
Fund Balances - Beginning	440,008	(1,789,405)	2,156,144	806,747
Fund Balances - Ending	\$ 2,601,675	\$ (1,917,038)	\$ 2,280,966	\$ 2,965,603

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, 2015**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 2,158,856**

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	1,278,422	
Loss on disposal	(128,543)	
Depreciation expense	<u>(1,642,562)</u>	
Net effect of reporting capital assets		(492,683)

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:

Proceeds from notes - deficit legislation	(2,971,036)	
Repayments of debt	<u>322,809</u>	
Net effect of reporting long-term debt		(2,648,227)

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 net difference between years. (432,899)

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	154,686	
Pension expenses	(378,173)	
Other postemployment benefits	<u>(1,626,169)</u>	
Net effect of reporting long-term liabilities		<u>(1,822,656)</u>

Change in Net Position of Governmental Activities **\$ (3,237,609)**

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015**

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Assets					
Current assets:					
Cash and cash equivalents	\$ 316,876	\$ 1,352,113	\$ 12,942	\$ 1,681,931	\$ -
Investments	-	-	-	-	-
Receivables (net):					
User charges	401,952	431,511	-	833,463	-
Betterments	-	45,384	-	45,384	-
Intergovernmental	46,405	161,919	-	208,324	-
Stop loss insurance reimbursements	-	-	-	-	-
Total current assets	<u>765,233</u>	<u>1,990,927</u>	<u>12,942</u>	<u>2,769,102</u>	<u>-</u>
Noncurrent assets:					
Receivables (net):					
Betterments	-	3,376,529	-	3,376,529	-
Intergovernmental	205,151	1,439,824	-	1,644,975	-
Deposit held by third party	-	-	-	-	582,847
Land	16,385	10,350	-	26,735	-
Depreciable capital assets (net of depreciation)	<u>8,044,746</u>	<u>10,744,799</u>	<u>-</u>	<u>18,789,545</u>	<u>-</u>
Total noncurrent assets	<u>8,266,282</u>	<u>15,571,502</u>	<u>-</u>	<u>23,837,784</u>	<u>582,847</u>
Total Assets	<u>9,031,515</u>	<u>17,562,429</u>	<u>12,942</u>	<u>26,606,886</u>	<u>582,847</u>
Deferred Outflows of Resources:					
Net difference between projected and actual earnings on pension plan investments	<u>22</u>	<u>116</u>	<u>40</u>	<u>178</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>22</u>	<u>116</u>	<u>40</u>	<u>178</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>9,031,537</u>	<u>17,562,545</u>	<u>12,982</u>	<u>26,607,064</u>	<u>582,847</u>
Current liabilities:					
Warrants and accounts payable	7,822	41,557	9,955	59,334	-
Health claims incurred but not reported	-	-	-	-	11,500
Bonds and notes payable	220,054	697,838	-	917,892	-
Due to other funds	-	-	-	-	571,347
Total current liabilities	<u>227,876</u>	<u>739,395</u>	<u>9,955</u>	<u>977,226</u>	<u>582,847</u>
Noncurrent liabilities:					
Other postemployment benefits	27,258	143,418	48,871	219,547	-
Net pension liability	36,739	193,547	65,963	296,249	-
Bonds anticipation notes payable - deficit legislation	-	-	28,964	28,964	-
Bonds and notes payable	<u>2,488,124</u>	<u>5,834,016</u>	<u>-</u>	<u>8,322,140</u>	<u>-</u>
Total noncurrent liabilities	<u>2,552,121</u>	<u>6,170,981</u>	<u>143,798</u>	<u>8,866,900</u>	<u>-</u>
Total Liabilities	<u>2,779,997</u>	<u>6,910,376</u>	<u>153,753</u>	<u>9,844,126</u>	<u>582,847</u>
Net Position					
Invested in capital assets	5,604,509	9,246,951	-	14,851,460	-
Unrestricted	<u>647,031</u>	<u>1,405,218</u>	<u>(140,771)</u>	<u>1,911,478</u>	<u>-</u>
Total Net Position	<u>\$ 6,251,540</u>	<u>\$ 10,652,169</u>	<u>\$ (140,771)</u>	<u>\$ 16,762,938</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, 2015

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Operating Revenues					
Charges for services	\$ 808,416	\$ 797,998	\$ 175,171	\$ 1,781,585	\$ -
Employee contributions	-	-	-	-	917,554
Employer contributions	-	-	-	-	922,734
Other	13,612	7,079	-	20,691	350,247
Total Operating Revenues	<u>822,028</u>	<u>805,077</u>	<u>175,171</u>	<u>1,802,276</u>	<u>2,190,535</u>
Operating Expenses					
Operating costs	613,208	696,430	179,487	1,489,125	-
Health claims	-	-	-	-	2,775,213
Depreciation	212,491	311,942	-	524,433	-
Total Operating Expenses	<u>825,699</u>	<u>1,008,372</u>	<u>179,487</u>	<u>2,013,558</u>	<u>2,775,213</u>
Operating Income (Loss)	<u>(3,671)</u>	<u>(203,295)</u>	<u>(4,316)</u>	<u>(211,282)</u>	<u>(584,678)</u>
Nonoperating Revenues (Expenses)					
Intergovernmental	35,180	200,722	-	235,902	-
Deficit subsidy from employer	-	-	-	-	584,164
Interest income	-	-	-	-	514
Interest expense	(97,444)	(287,098)	-	(384,542)	-
Total Nonoperating Revenues (Expenses)	<u>(62,264)</u>	<u>(86,376)</u>	<u>-</u>	<u>(148,640)</u>	<u>584,678</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(65,935)</u>	<u>(289,671)</u>	<u>(4,316)</u>	<u>(359,922)</u>	<u>-</u>
Capital Contributions					
Betterments	-	327	-	327	-
Transfers					
Transfers (net)	<u>18,845</u>	<u>214,259</u>	<u>-</u>	<u>233,104</u>	<u>-</u>
Change in Net Position	<u>(47,090)</u>	<u>(75,085)</u>	<u>(4,316)</u>	<u>(126,491)</u>	<u>-</u>
Total Net Position - Beginning, as restated	<u>6,298,630</u>	<u>10,727,254</u>	<u>(136,455)</u>	<u>16,889,429</u>	<u>-</u>
Total Net Position - Ending	<u>\$ 6,251,540</u>	<u>\$ 10,652,169</u>	<u>\$ (140,771)</u>	<u>\$ 16,762,938</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, 2015**

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health Claims
Cash Flows from Operating Activities:					
Receipts from users	\$ 851,863	\$ 886,889	\$ 175,171	\$ 1,913,923	\$ -
Employee contributions	-	-	-	-	917,554
Employer contributions	-	-	-	-	922,734
Other income	13,612	7,079	-	20,691	401,540
Payments to employees	(251,686)	(356,606)	(55,853)	(664,145)	-
Payments to vendors	(357,208)	(300,405)	(113,418)	(771,031)	-
Payments for interfund services used	-	-	-	-	(3,194,205)
Net Cash Provided by (Used in) Operating Activities	256,581	236,957	5,900	499,438	(952,377)
Cash Flows from Noncapital Financing Activities:					
Advances from (to) other funds	80,738	-	(21,922)	58,816	451,546
Subsidy from general fund for deficit	-	-	-	-	584,164
Working capital deposits	-	-	-	-	(83,847)
Transfers, net	18,845	214,259	-	233,104	-
Net Cash Provided by (Used in) Noncapital Financing Activities	99,583	214,259	(21,922)	291,920	951,863
Cash Flows from Capital and Related Financing Activities:					
Proceeds from capital betterments	-	319,619	-	319,619	-
Proceeds from capital grants	81,585	353,306	-	434,891	-
Acquisition and construction of capital assets	(20,902)	-	-	(20,902)	-
Principal payments on bonds and notes	(214,296)	(674,945)	28,964	(860,277)	-
Interest expense	(97,444)	(287,098)	-	(384,542)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(251,057)	(289,118)	28,964	(511,211)	-
Cash Flows from Investing Activities:					
Interest income	-	-	-	-	514
Net Cash Provided by (used in) Investing Activities	-	-	-	-	514
Net Change in Cash and Cash Equivalents	105,107	162,098	12,942	280,147	-
Cash and Cash Equivalents					
Beginning of the year	211,769	1,190,015	-	1,401,784	-
End of the year	<u>\$ 316,876</u>	<u>\$ 1,352,113</u>	<u>\$ 12,942</u>	<u>\$ 1,681,931</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ (3,671)	\$ (203,295)	\$ (4,316)	\$ (211,282)	\$ (584,678)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	212,491	311,942	-	524,433	-
Changes in assets and liabilities:					
Receivables	43,447	88,891	-	132,338	51,293
Working capital deposit	-	-	-	-	-
Accounts payable and accrued expenses	4,314	39,419	10,216	53,949	(418,992)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 256,581</u>	<u>\$ 236,957</u>	<u>\$ 5,900</u>	<u>\$ 499,438</u>	<u>\$ (952,377)</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 491,540
Investments	447,865	-
Total Assets	447,865	491,540
Liabilities		
Warrants payable	-	383,233
Agency liabilities	-	59,412
Performance bonds	-	48,895
Total Liabilities	-	491,540
Net Position		
Held in trust for other purposes	447,865	-
Total Net Position	\$ 447,865	\$ -

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Funds</u>
Additions	
Investment income	\$ 361
Contributions	<u>18,552</u>
Total Additions	<u>18,913</u>
Deductions	
Health and human services - public assistance	<u>12,555</u>
Total Deductions	<u>12,555</u>
Change in Net Position	6,358
Total Net Position - Beginning	<u>441,507</u>
Total Net Position - Ending	<u><u>\$ 447,865</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria including: being financially accountable, and able to impose its will; appointing a voting majority of the component units' governing body and if the potential for the component unit to provide specific financial benefits or to impose specific financial burdens on the Town.

Discretely Presented Component Unit – The Winchendon Redevelopment Authority ("WRA") is presented in a separate column to emphasize that it is legally separate from the Town, but is included because the Town is financially accountable for, and can impose its will on, the organization. The WRA is organized under Massachusetts state law with the authority to administer the Town's redevelopment activities. The WRA is managed by a five member board, of which four members are appointed by the Town Manager without restriction. The fifth member is appointed by the Governor of the Commonwealth of Massachusetts upon recommendation of the Town Manager. A stand-alone report has not been issued for the WRA as of and for the fiscal year ended June 30, 2015.

B. Deficits/Deficit Legislation

The Town experienced significant deficits during the prior year. Appropriation deficits were nearly \$1.2 million; health insurance claim 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 legislation 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. In response to this, on March 1, 2015 the Town issued notes in the amount of \$3,000,000 and thus was able to balance its budget and set its tax rate for fiscal year 2015. In addition, the Town discontinued the operations of its health insurance trust fund and transitioned into a premium based health insurance program.

Fiscal 2015 operating activity continued to result in deficits; more specifically, the insurance appropriation account experienced a deficit of \$128,587 and the Town's discontinued health insurance trust account ended the year with a statutory deficit of \$532,871, partly due to the run-off of the fund. It is the Town's intent to extend its borrowing under the deficit legislation to fund the health insurance trust deficit; and further, to use available amounts from general stabilization to fund the insurance appropriation deficit.

The deficit 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.

D. 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 expenditures of specific capital outlay activities. For the present fiscal year these activities were primarily comprised of police station construction.

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, 2015.

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. This activity was discontinued during the year.

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 \$1,248,614 at June 30, 2015, 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 \$136,082 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	-	-	60,924	60,924
Public safety	-	-	73,514	73,514
Education	-	-	267,058	267,058
Health and human services	-	-	251,096	251,096
Culture and recreation	-	-	269,371	269,371
Infrastructure improvements	803,733	-	13,114	816,847
Capital outlay	-	-	77,147	77,147
Other purposes	-	-	1,138,941	1,138,941
Assigned:				
Purchase orders	136,082	-	-	136,082
Unassigned:				
Appropriation deficits	(156,030)	-	-	(156,030)
Health insurance deficit	(532,871)	-	-	(532,871)
General stabilization	1,248,614	-	-	1,248,614
Other	1,102,147	(1,917,038)	(305,967)	(1,120,858)
	<u>\$ 2,601,675</u>	<u>\$ (1,917,038)</u>	<u>\$ 2,219,499</u>	<u>\$ 2,904,136</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, 2015 the Town experienced deficits in its operating accounts more commonly known as appropriation deficits; these include snow and ice deficits (\$27,443) to be raised from 2016 taxation, and health insurance appropriation deficits (\$128,587) to be transferred from stabilization. In addition the Town incurred deficits in other funds. The deficits related to construction projects (\$1,917,038) are legal deficits and will be funded through future issuance of long-term debt. The health insurance trust fund (\$532,871) will be raised through further deficit borrowing and the special revenue deficits (\$305,967) are expected to be funded from future grant reimbursements.

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 \$4,421,566 and the banks' balances totaled \$4,823,349. Of the amount held by banks (including deposits and certificates of deposit) \$2,372,010, was covered by either federal depository insurance or by the depositors' insurance fund, \$2,451,339 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, \$1,797,688 in U.S. government obligations; \$633,631 of corporate fixed income obligations, \$749,600 in certificates of deposit; \$322,009 in mutual funds; and \$195,836 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, 2015, 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 \$98,800, \$199,380 and \$335,451 were rated A2 A3 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, 2015, all of the WRA's bank deposits were covered by federal depository insurance.

Investment Maturities – The Town had the following investments at June 30, 2015:

		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	\$ 1,797,688	\$ -	\$ 1,797,688	\$ -
Corporate fixed income	633,631	200,856	432,775	-
Certificates of deposit	749,600	300,000	449,600	-
Total Investments with Maturities	3,180,919	\$ 500,856	\$ 2,680,063	\$ -
<u>Other Investments:</u>				
Equities	195,836			
State Treasurer investment pool	18,756			
Mutual funds	322,009			
Total Investments	\$ 3,717,520			

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	\$ 942,114	\$ -	\$ 942,114
Tax liens	1,303,248	-	1,303,248
Motor vehicle excise	243,181	-	243,181
Septic loans	29,837	-	29,837
Departmental and other	500,269	(384,462)	115,807
Tax foreclosures	54,236	-	54,236
Intergovernmental:			
Due from MCWT	98,337	-	98,337
Due from Commonwealth of MA	399,305	-	399,305
Total Governmental Receivables	\$ 3,570,527	\$ (384,462)	\$ 3,186,065

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	\$ 401,952	\$ -	\$ 401,952
User fees - sewer	431,511	-	431,511
Betterments - sewer	3,421,913	-	3,421,913
Intergovernmental:			
Due from MCWT - water	251,556	-	251,556
Due from MCWT - sewer	1,601,743	-	1,601,743
Total Enterprise Receivables	\$ 6,108,675	\$ -	\$ 6,108,675

Betterments – Unapportioned sewer betterments of \$3,290,303 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.

MCWT Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Clean Water Trust (“MCWT”). It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amount of \$1,951,636 and interest in the amount of \$966,853 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amounts of \$98,337; \$251,556 and \$1,601,743 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, 2015, represent interfund borrowings for cash flow purposes and are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Health Insurance Trust	\$ 571,347
	Total Due Between Funds	<u>\$ 571,347</u>

Interfund transfers for the fiscal year ended June 30, 2015, are summarized as follows:

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>	
	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Water Enterprise</u>	<u>Sewer Enterprise</u>		
General Fund	\$ -	\$ 7,000	\$ 18,845	\$ 214,259	\$ 240,104	(1)
Nonmajor Funds	60,242	-	-	-	60,242	(2)
	<u>\$ 60,242</u>	<u>\$ 7,000</u>	<u>\$ 18,845</u>	<u>\$ 214,259</u>	<u>\$ 300,346</u>	

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

(2) Transfers to general fund for budgetary purposes.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,982,304	\$ -	\$ (128,543)	\$ 1,853,761
Construction in progress	969,528	123,547	-	1,093,075
Total capital assets not being depreciated	2,951,832	123,547	(128,543)	2,946,836
Capital assets being depreciated:				
Buildings and improvements	28,089,571	-	-	28,089,571
Infrastructure	7,401,816	559,690	-	7,961,506
Machinery, equipment and vehicles	12,379,832	595,183	(1,489,556)	11,485,459
Artwork	100,000	-	-	100,000
Total capital assets being depreciated	47,971,219	1,154,873	(1,489,556)	47,636,536
Less accumulated depreciation for:				
Buildings and improvements	(15,914,330)	(749,726)	-	(16,664,056)
Infrastructure	(991,449)	(211,981)	-	(1,203,430)
Machinery, equipment and vehicles	(9,520,153)	(680,854)	1,489,556	(8,711,451)
Total accumulated depreciation	(26,425,932)	(1,642,561)	1,489,556	(26,578,937)
Total capital assets being depreciated, net	21,545,287	(487,688)	-	21,057,599
Governmental activities capital assets, net	<u>\$ 24,497,119</u>	<u>\$ (364,141)</u>	<u>\$ (128,543)</u>	<u>\$ 24,004,435</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	524,418	54,820	(51,000)	528,238
Total capital assets being depreciated	26,135,877	54,820	(51,000)	26,139,697
Less accumulated depreciation for:				
Buildings and improvements	(1,341,783)	(58,026)	-	(1,399,809)
Infrastructure	(5,282,826)	(464,362)	-	(5,747,188)
Machinery, equipment and vehicles	(217,109)	(37,046)	51,000	(203,155)
Total accumulated depreciation	(6,841,718)	(559,434)	51,000	(7,350,152)
Total capital assets being depreciated, net	19,294,159	(504,614)	-	18,789,545
Business activities capital assets, net	<u>\$ 19,320,894</u>	<u>\$ (504,614)</u>	<u>\$ -</u>	<u>\$ 18,816,280</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities - Water:</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	471,319	54,820	(35,000)	491,139
Total capital assets being depreciated	11,070,189	54,820	(35,000)	11,090,009
Less accumulated depreciation for:				
Buildings and improvements	(1,202,374)	(47,302)	-	(1,249,676)
Infrastructure	(1,462,206)	(164,189)	-	(1,626,395)
Machinery, equipment and vehicles	(168,192)	(36,000)	35,000	(169,192)
Total accumulated depreciation	(2,832,772)	(247,491)	35,000	(3,045,263)
Total capital assets being depreciated, net	8,237,417	(192,671)	-	8,044,746
Water activities capital assets, net	<u>\$ 8,253,802</u>	<u>\$ (192,671)</u>	<u>\$ -</u>	<u>\$ 8,061,131</u>
<u>Business-Type Activities - Sewer:</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	-	(16,000)	37,099
Total capital assets being depreciated	15,065,688	-	(16,000)	15,049,688
Less accumulated depreciation for:				
Buildings and improvements	(139,410)	(10,724)	-	(150,134)
Infrastructure	(3,820,620)	(300,172)	-	(4,120,792)
Machinery, equipment and vehicles	(48,917)	(1,046)	16,000	(33,963)
Total accumulated depreciation	(4,008,947)	(311,942)	16,000	(4,304,889)
Total capital assets being depreciated, net	11,056,741	(311,942)	-	10,744,799
Sewer activities capital assets, net	<u>\$ 11,067,091</u>	<u>\$ (311,942)</u>	<u>\$ -</u>	<u>\$ 10,755,149</u>
<u>Business-Type Activities - All:</u>				
Business-type activities capital assets, net	<u>\$ 19,320,893</u>	<u>\$ (504,613)</u>	<u>\$ -</u>	<u>\$ 18,816,280</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, 2015, are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	0.55%	Matured	\$ 2,850,000	\$ -	\$ (2,850,000)	\$ -
BAN	0.50%	12/01/15	-	2,850,000	-	2,850,000
SAN	0.60%	Matured	-	128,308	(128,308)	-
RAN	0.50%	03/01/16	-	3,000,000	-	3,000,000
			<u>\$ 2,850,000</u>	<u>\$ 5,978,308</u>	<u>\$ (2,978,308)</u>	<u>\$ 5,850,000</u>

The above temporary notes outstanding at year-end were issued for governmental capital projects relating to police station construction (\$2.0 million) and a fire department vehicle (\$0.85 million) as well as the deficit borrowing (\$3.0 million) described previously. The deficit notes have been given the same accounting treatment as a long-term issuance due to the deficit legislation including, in effect, a financing arrangement to extinguish this obligation over a ten-year period and therefore satisfying intent.

The deficit note activity is reflected below as a long-term obligation, under governmental activities and transfer station.

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, 2015, the interest rate in effect on the loan was 4.5%. The carrying value of this line of credit is \$162,593 at June 30, 2015. Additionally, assets consisting primarily of land and buildings recorded at a value of approximately \$303,900 at June 30, 2015, 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 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, 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	\$ 709,514	\$ -	\$ (322,809)	\$ 386,705	\$ 72,809
Deficit notes	-	2,971,036	-	2,971,036	2,971,036
Compensated absences	1,094,037	118,823	(273,509)	939,351	234,838
Landfill post-closure monitoring	459,000	-	(27,000)	432,000	27,000
Net pension liability	16,015,224	1,477,396	(1,089,357)	16,403,263	-
Other postemployment benefits	10,532,174	2,316,664	(690,495)	12,158,343	-
Total Governmental Activities	<u>\$ 28,809,949</u>	<u>\$ 6,883,919</u>	<u>\$ (2,403,170)</u>	<u>\$ 33,290,698</u>	<u>\$ 3,305,683</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds	\$ 2,922,474	\$ -	\$ (214,296)	\$ 2,708,178	\$ 220,054
Net pension liability	35,870	3,309	(2,440)	36,739	-
Other postemployment benefits	23,612	5,194	(1,548)	27,258	-
Total Water Enterprise	<u>2,981,956</u>	<u>8,503</u>	<u>(218,284)</u>	<u>2,772,175</u>	<u>220,054</u>
<u>Sewer</u>					
General obligation bonds	7,206,799	-	(674,945)	6,531,854	697,838
Net pension liability	188,969	17,432	(12,854)	193,547	-
Other postemployment benefits	124,236	27,327	(8,145)	143,418	-
Total Sewer Enterprise	<u>7,520,004</u>	<u>44,759</u>	<u>(695,944)</u>	<u>6,868,819</u>	<u>697,838</u>
<u>Transfer Station</u>					
Deficit notes	-	28,964	-	28,964	28,964
Net pension liability	64,325	5,941	(4,303)	65,963	-
Other postemployment benefits	42,335	9,312	(2,776)	48,871	-
Total Transfer Station Enterprise	<u>106,660</u>	<u>44,217</u>	<u>(7,079)</u>	<u>143,798</u>	<u>28,964</u>
Total Business-type Activities	<u>\$ 10,608,620</u>	<u>\$ 97,479</u>	<u>\$ (921,307)</u>	<u>\$ 9,784,792</u>	<u>\$ 946,856</u>
Total Long-term Obligations	<u>\$ 39,418,569</u>	<u>\$ 6,981,398</u>	<u>\$ (3,324,477)</u>	<u>\$ 43,075,490</u>	<u>\$ 4,252,539</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, 2015 are as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i><u>Governmental Activities:</u></i>					
General obligation bonds	3.125 - 4.25%	\$ 250,000	\$ -	\$ (250,000)	\$ -
MCWT notes	0.00 - 2.00%	459,515	-	(72,810)	386,705
Total Governmental Activities		<u>\$ 709,515</u>	<u>\$ -</u>	<u>\$ (322,810)</u>	<u>\$ 386,705</u>
<i><u>Business-type Activities - Water:</u></i>					
USDA bond notes	2.25 - 3.25%	\$ 1,815,149	\$ -	\$ (45,861)	\$ 1,769,288
MCWT notes	1.50 - 2.00%	1,107,325	-	(168,435)	938,890
Total Water		<u>2,922,474</u>	<u>-</u>	<u>(214,296)</u>	<u>2,708,178</u>
<i><u>Business-type Activities - Sewer:</u></i>					
USDA bond notes	4.75%	135,911	-	(5,377)	130,534
MCWT notes	1.50 - 2.00%	7,070,888	-	(669,568)	6,401,320
Total Sewer		<u>7,206,799</u>	<u>-</u>	<u>(674,945)</u>	<u>6,531,854</u>
Total Business-type Activities		<u>\$ 10,129,273</u>	<u>\$ -</u>	<u>\$ (889,241)</u>	<u>\$ 9,240,032</u>
Total Bond and Note Debt		<u>\$ 10,838,788</u>	<u>\$ -</u>	<u>\$ (1,212,051)</u>	<u>\$ 9,626,737</u>

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

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	77,809	(21,112)	56,697	2,532	(2,532)	-	56,697
2021	7,658	-	7,658	201	(201)	-	7,658
Totals	<u>\$ 386,705</u>	<u>\$ (98,337)</u>	<u>\$ 288,368</u>	<u>\$ 51,107</u>	<u>\$ (44,142)</u>	<u>\$ 6,965</u>	<u>\$ 295,333</u>

Bonded Debt - Business-Type Activities - Water:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	252,964	(55,432)	197,532	44,045	(4,964)	39,081	236,613
2021-2025	284,569	-	284,569	173,101	-	173,101	457,670
2026-2030	325,783	-	325,783	131,887	-	131,887	457,670
2031-2035	224,621	-	224,621	91,207	-	91,207	315,828
2036-2040	203,755	-	203,755	68,165	-	68,165	271,920
2041-2045	227,733	-	227,733	44,187	-	44,187	271,920
2046-2050	254,112	-	254,112	17,389	-	17,389	271,501
Totals	<u>\$ 2,708,178</u>	<u>\$ (251,556)</u>	<u>\$ 2,456,622</u>	<u>\$ 852,253</u>	<u>\$ (95,596)</u>	<u>\$ 756,657</u>	<u>\$ 3,213,279</u>

Bonded Debt - Business-Type Activities - Sewer:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
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	781,898	(199,770)	582,128	121,656	(85,165)	36,491	618,619
2021-2025	2,777,073	(706,914)	2,070,159	199,300	(148,136)	51,164	2,121,323
2026-2030	49,256	-	49,256	9,909	-	9,909	59,165
2031	11,253	-	11,253	534	-	534	11,787
Totals	<u>\$ 6,531,854</u>	<u>\$ (1,601,743)</u>	<u>\$ 4,930,111</u>	<u>\$ 1,173,192</u>	<u>\$ (827,115)</u>	<u>\$ 346,077</u>	<u>\$ 5,276,188</u>

MCWT Loan Subsidies – As previously noted in Note II. C., the Town has entered into loan agreements with the MCWT. It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amount of \$1,951,636 and interest in the amount of \$966,853 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2015, the Town had authorized and unissued debt for the following:

Project	Amount
<i>Governmental:</i>	
Chapter 90 highway	\$ 799,510
Route 140	675,000
Landfill	293,053
Equipment	284,500
Maintenance garage	25,000
Police station	750,000
School generator	75,000
Town Hall boiler	91,245
Library	496,000
<i>Business-Type:</i>	
Water	1,098,000
Sewer	1,905,865
Total authorized and unissued	<u>\$ 6,493,173</u>

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2014 were issued and

are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-five employers as of December 31, 2014 was as follows:

Active and inactive employees	8,550
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>3,253</u>
	<u>11,803</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

Contributions Requirements – The Town has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,109,031 to the Retirement System in fiscal year 2015, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 18.8% in fiscal year 2015.

Net Pension Liability – At June 30, 2015, the Town reported a liability of \$16,699,512 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 2.8% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2014, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$1,494,034 in pension expense in the statement of activities in fiscal year 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ —	\$ —
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	10,044	—
Changes in proportion and differences between Town contributions and proportionate share of contributions	—	—
Town contributions subsequent to the measurement date	<u>—</u>	<u>—</u>
Total	<u>\$ 10,044</u>	<u>\$ —</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows (dollar amounts are in thousands):

Year ended June 30,

2016	\$ 2,511
2017	2,511
2018	2,511
2019	<u>2,511</u>
Total	<u>\$ 10,044</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Inflation:	Not explicitly assumed for the update to December 31, 2014 (3.5% per year for the actuarial valuation as of January 1, 2014).
Salary increased:	3.0% per year, including longevity.
Investment rate of return:	8.0%, net of pension plan investment expense, including inflation.
Mortality rates:	Based on the RP-2000 Mortality Table projected to 2014 with Scale AA.
Disabled life mortality:	For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	43 %	8.23 %
Fixed income	23 %	5.05 %
Private equity	10 %	9.75 %
Real estate	10 %	6.50 %
Timber/natural resources	4 %	6.88 %
Hedge funds	10 %	7.00 %

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 8.0%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (7.0%) or one percentage point higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount (8.0%)	1% Increase (9.0%)
Town's proportionate share of the net pension liability	\$ 20,332,358	\$ 16,699,513	\$ 13,614,655

B. Massachusetts Teachers' Retirement System

Teachers and certain administrative employees of the Town's school department participate in the Massachusetts Teachers' Retirement System ("MTRS"), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth's legislature has the authority to amend or modify the MTRS's funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of

the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2015, the Commonwealth contributed \$1,410,781 to the MTRS on behalf of the Town. The Town's proportionate share of the collective MTRS net pension liability at this reporting date was 0.150503%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town's proportionate share of the following:

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 23,924,444	\$ (23,924,444)	\$ —
Pension expense	1,662,146	(1,662,146)	—

The Town recognized \$1,662,146 in intergovernmental revenue and pension expense relative to this arrangement.

MTRS issues certain financial information to the public on its website – www.mass.gov/mtrs. A more detailed discussion of its funding policies, actuarial assumptions and other inputs used to measure total pension liability may be found there.

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 273 active employees and 111 retired employees (includes 54 spouses), for a total of 384 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)	\$ 2,461,637
Interest on net OPEB obligation	428,895
Adjustment to ARC	<u>(532,035)</u>
Annual OPEB cost	2,358,497
Contributions made	<u>(702,963)</u>
Increase in net OPEB obligation	1,655,534
Net OPEB obligation at beginning of year	<u>10,722,357</u>
Net OPEB obligation at end of year	<u><u>\$ 12,377,891</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)*</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$2,358,497	29.8%	\$12,377,891
June 30, 2014	2,398,102	25.1%	10,722,356
June 30, 2013	2,287,327	24.5%	8,925,937

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

The AOPEBC was charged to the following functional programs: General Government \$124,461; Public Safety \$306,596; Education \$1,745,803; Public Works \$96,318; Health and Human Services \$21,794; Culture and Recreation \$21,692; Water \$5,194; Sewer \$27,327; and Transfer Station \$9,312.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2015, for the most recent actuarial valuation performed as of July 1, 2014, was as follows:

Actuarial value of plan assets	\$ -
Actuarial accrued liability (AAL)	\$ 28,059,612
Unfunded actuarial accrued liability (UAAL)	\$ 28,059,612
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (annually payroll of active employees covered by the plan)	\$ 17,978,454
UAAL as a percentage of covered payroll	156.1%

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, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	24 years as of June 30, 2015 (closed)
Interest discount rate	4%
Salary increases	2.5%
Inflation rate	2.5%
Healthcare/Medical cost trend rate	5%

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 – Until March 1, 2015, the Town maintained a "reinsured cost reimbursement program" that covered the group health insurance requirements of a majority of Town and WRA employees. *The Plan was discontinued in March, 2015.* The Plan was essentially a self-insurance program, except employee claims in excess of \$70,000, effective July 1, 2012 which were covered by reinsurance through the Plan. The Town, as employer, made health contributions of approximately 60% of the health costs. Employees contributed the remaining 40%. The Town still accrues an amount representing claims incurred but not reported ("IBNR"), which is based on a monthly claims paid average. This will continue in effect as the Plan runs off. At June 30, 2015, the amount of the liability for health claims IBNR totaled \$11,500.

In the fund-wide financial statements, the Town reports the activities of the Group Insurance Health Plan in the Internal Service Fund where revenues are recorded when earned and expenses

are recorded when the liability is incurred. Changes in the reported liability since July 1, 2012, are as follows:

<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, 2015	\$208,536	\$2,555,177	\$(2,775,213)	\$ 11,500	\$ 11,500
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

Additionally, please refer to previous discussions regarding significant deficits experienced by the Trust.

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, 2015, 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, 2015.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

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

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

Water Treatment Facility: Operating Agreement – The Ashburnham Winchendon Joint Water Authority has an extended agreement with an outside consultant to operate the water treatment facility until November 1, 2016. The total monthly contract amount for these services is approximately \$31,200, split 40% Ashburnham and 60% Winchendon thru an intermunicipal agreement based on actual metered rate of use. The Town of Winchendon's cost for the remaining years of the agreement is expected to approximate \$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 \$432,000 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementations

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement built upon the existing framework for financial reports of defined benefit pension plans, which included 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 enhanced note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also required 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 this Statement became effective for financial statements for periods beginning after June 15, 2013 and impacted the financial reports of the Retirement System and not the financial statements of the Town.

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 replaced 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 required 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 enhanced accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements and required a restatement of the prior period's reported net position. Refer to Note V.

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 GASB 69 became effective for the Town in fiscal 2015 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 was 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 2015 and did not have a material effect on its 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 was to address an issue regarding application of the transition provisions of GASB 68. The issue related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements. Refer to Note V.

Future Year Implementations

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting

and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles, or GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). 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, 2015, approximately 55% of revenues of the general fund were recognized from the Commonwealth of Massachusetts, as well as, the federal government.

V. Prior Period Restatement

During the year-ended June 30, 2015 the Town implemented the requirements of GASB 68 as discussed throughout this report; in addition the Town inventoried its capital assets for the first time in a number of years. Resultant of these events, a restatement was required to several beginning balance components as presented below:

Description	Governmental	Business Type	Water	Sewer	Transfer Station
As previously reported	\$ 14,230,203	\$ 17,178,593	\$ 6,334,500	\$ 10,916,223	\$ (72,130)
Impact of GASB 68	(16,015,224)	(289,164)	(35,870)	(188,969)	(64,325)
Capital asset restatements	1,498,596	-	-	-	-
As restated	<u>\$ (286,425)</u>	<u>\$ 16,889,429</u>	<u>\$ 6,298,630</u>	<u>\$ 10,727,254</u>	<u>\$ (136,455)</u>

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2015

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	Year Ended December 31, <u>2014</u>
Town's proportion of the net pension liability (asset)	2.806321%
Town's proportionate share of the net pension liability (asset)	\$ 16,700
Town's covered-employee payroll	\$ 5,909
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	282.6%
Plan fiduciary net position as a percentage of the total pension liability	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN
(dollar amounts are in thousands)

	Year Ended December 31, <u>2014</u>
Actuarially determined contribution	\$ 1,109
Contributions in relation to the actuarially determined contribution	<u>1,109</u>
Contribution deficiency (excess)	<u>\$ -</u>
Town's covered-employee payroll	\$ 5,909
Contributions as a percentage of covered-employee payroll	18.8%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

TOWN OF WINCHENDON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

**SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS' TEACHER'S RETIREMENT SYSTEM**

(dollar amounts are in thousands)

Year Ended December 31,
2014

Commonwealth's proportion of the collective net pension liability (asset)	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

This schedule is presented to illustrate the requirement to show information for ten years.
However, until a full ten-year trend is compiled, information is presented for those years
in which information is available.

See accompanying independent auditor's report.

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2015

SCHEDULES OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2014	\$ -	\$ 28,059,612	\$ 28,059,612	0.0%	\$ 17,978,454	156.1%
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

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2015	\$ 2,358,497	\$ 702,963	29.8%
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, 2015**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary		Budgetary	Postive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
Revenues:						
Property taxes	\$ 10,349,099	\$ 10,177,799	\$ 10,250,705		\$ 10,250,705	\$ 72,906
Intergovernmental	13,445,183	13,445,183	13,428,011		13,428,011	(17,172)
Motor vehicle and other excise	932,335	932,335	1,074,006		1,074,006	141,671
Departmental and other revenue	547,000	547,000	105,634		105,634	(441,366)
Licenses and permits	160,000	160,000	710,739		710,739	550,739
Fines and forfeitures	25,000	25,000	249,775		249,775	224,775
Penalties and interest on taxes	210,000	210,000	20,778		20,778	(189,222)
Investment income	3,000	3,000	3,343		3,343	343
Total Revenues	25,671,617	25,500,317	25,842,991		25,842,991	342,674
Expenditures:						
General government	1,527,909	1,805,302	1,709,381	\$ 79,136	1,788,517	16,785
Public safety	2,321,120	2,263,535	2,191,516	55,814	2,247,330	16,205
Education	15,249,896	15,249,971	15,244,304	-	15,244,304	5,667
Public works	903,389	978,027	990,270	1,132	991,402	(13,375)
Health and human services	592,457	690,889	685,342	-	685,342	5,547
Culture and recreation	173,468	170,968	162,178	-	162,178	8,790
Pension and fringe benefits	3,572,895	3,369,145	3,493,377	-	3,493,377	(124,232)
State and county tax assessments	1,093,478	1,093,478	1,183,716	-	1,183,716	(90,238)
Debt service	578,207	579,807	579,768	-	579,768	39
Total Expenditures	26,012,819	26,201,122	26,239,852	136,082	26,375,934	(174,812)
Other Financing Sources (Uses):						
Transfers in	110,810	470,413	470,413		470,413	-
Transfers out	(20,000)	(20,000)	(20,000)		(20,000)	-
Total Other Financing Sources (Uses)	90,810	450,413	450,413		450,413	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(250,392)	(250,392)	\$ 53,552		\$ (82,530)	\$ 167,862
Other Budgetary Items:						
Prior year encumbrances	79,308	79,308				
Deficit borrowing	3,000,000	3,000,000				
Prior year deficits	(3,163,862)	(3,163,862)				
Amortization of MSBA reserve	334,946	334,946				
Total other budgetary items	250,392	250,392				
NET BUDGET	\$ -	\$ -				

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, 2015

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. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. During fiscal year 2015, Town Meeting approved approximately \$188,303 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.

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, 2015, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 25,842,991
MTRS on-behalf payments	\$ 1,662,146	\$ -	1,662,146
MCWT debt subsidies	98,337	-	98,337
Revenue recognition	(25,063)	-	(25,063)
Stabilization investment income	-	18,293	18,293
Revenues on a GAAP basis	<u>\$ 1,735,420</u>	<u>\$ 18,293</u>	<u>\$ 27,596,704</u>
Expenditures on a budgetary basis			\$ 26,239,852
MTRS on-behalf payments	\$ 1,662,146	\$ -	1,662,146
MCWT debt subsidies	98,337	-	98,337
Health Insurance Subsidy	584,164	-	584,164
Debt payments transferred to water	-	(18,845)	(18,845)
Debt payments transferred to sewer	-	(214,249)	(214,249)
Indirect cost accounting treatment	(186,623)	-	(186,623)
Expenditures on a GAAP basis	<u>\$ 2,158,024</u>	<u>\$ (233,094)</u>	<u>\$ 28,164,782</u>
Net transfers on a budgetary basis			\$ 450,413
Stabilization transfers	\$ -	\$ (434,603)	(434,603)
Debt payments transferred to water	-	(18,845)	(18,845)
Debt payments transferred to sewer	-	(214,249)	(214,249)
Other transfer differences	37,422	-	37,422
Net transfers on a GAAP basis	<u>\$ 37,422</u>	<u>\$ (667,697)</u>	<u>\$ (179,862)</u>

Appropriation Deficits – During the fiscal year ended June 30, 2015, expenditures exceeded appropriations in the General Fund for health insurance (\$128,587) and snow and ice (\$27,443). These are expected to be subsidized through stabilization transfers and taxation.