

TOWN OF WALPOLE, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2010

TOWN OF WALPOLE, MASSACHUSETTS

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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Walpole, Massachusetts, (the "Town") as of and for the year ended June 30, 2010 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town. Our responsibility is to express an opinion on these basic 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10, the funding and contribution progress for pension benefits and other post employment benefits on page 41 and budgetary comparison information on pages 42-43, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found on pages 11 - 43.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$142.9 million (*total net assets*). This was down \$4.4 million from the preceding year, caused by a reduction of approximately \$3.8 million in *governmental type activities* and a reduction of approximately \$0.6 million in *business type activities*. The reduction in governmental type activities was primarily the result of an increase of approximately \$2.7 million in accrued post employment health benefits and the net capital asset activity of the Town, where depreciation exceeded capital outlays and capital grants received by approximately \$0.5 million. The decrease in business type activities was due to a decrease of approximately \$1.0 million in the net capital assets of water and sewer activities offset by \$0.3 million in capital grant revenue.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$19.0 million. This represents an increase of approximately \$7.3 million due to the permanent financing of several capital projects with the issuance of approximately \$7.7 million of debt.
- The accounting treatment for certain items vary greatly between the Statement of Net Assets and the Governmental Fund Balance Sheet thus the significant differences in equity and fund balance amounts between the two statements noted above. A reconciliation has been provided on page 14 of the accompanying basic financial statements to assist the reader to understand these differences.
- The Town's total debt is approximately \$35.0 million. The total long-term debt increased by a net amount of approximately \$6.4 million due to the issuance of new debt offset by regularly scheduled maturities. During the year the Town issued approximately \$9.1 million of general obligation bonds as well as refinancing approximately \$6.4 million in existing debt in a current refunding transaction.

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, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing 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, education, public works, health and human services, culture and recreation and debt service. The business-type activities of the Town include water and sewer enterprise funds. The government-wide financial statements can be found on pages 11-12 of this report.

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 Fund *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 on pages 14 and 16 to facilitate this comparison.

The Town maintains many individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and stabilization fund. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 13-16 of this report.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget on page 42.

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 enterprise funds to account for its water and sewer enterprise activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 17-19 of this report.

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. The basic fiduciary fund financial statements can be found on pages 20 - 21 of this report.

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. The notes to the financial statements can be found on pages 22-40 of this report.

Government-wide Financial Analysis (see Exhibit I and Exhibit II on pages 9 and 10)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case, the Town's assets exceeded liabilities by approximately \$142.9 million at the close of the most recent fiscal year.

By far the largest portion (approximately 88.2%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (approximately 2.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 9.0%), may be used to meet the government's ongoing obligations.

The government's net assets decreased by \$4.4 million from the preceding year, caused by a reduction of approximately \$3.8 million in *governmental type activities* and a reduction of approximately \$0.6 million in *business type activities*. The reduction in governmental type activities was primarily the result of an increase of approximately \$2.7 million in accrued post employment health benefits and the net capital asset activity of the Town, where depreciation exceeded capital outlays and capital grants received by approximately \$0.5 million. The decrease in business type activities was due to a decrease of approximately \$1.0 million in the net capital assets of water and sewer activities offset by \$0.3 million in capital grant revenue.

Governmental Activities During 2010 Town property taxes made up approximately 60.9% of total revenues, up from 59.1% in the comparable prior year period. Operating and capital grants made up 23.7% of total revenues, down from 25.1% in the comparable prior year period. No other revenues were greater than 10% of total revenues in 2010 or 2009. The largest expense by far is education which made up approximately 68.0% of total expenses, consistent with approximately 68.1% in the prior year. Public Safety expenses made up approximately 12.3% of total expenses, up from approximately 11.9% in the prior year. Public works expenses made up approximately 9.1% of total expenses, down from approximately 10.9% in the prior year. No other expense types were greater than 10% of total expenses.

Business-type Activities Major revenue sources consist of revenue from user charges which represented approximately 96.3% of total revenues. The remaining revenue represents amounts received from Capital Grants and Contributions and investment income. Water and sewer operating expenses represented 92.3% of total business type expenses, with the remaining expenses consisting of debt service interest costs.

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$19.0 million. This represents an increase of approximately \$7.3 million due to the permanent financing of several capital projects with the issuance of approximately \$7.7 million of debt.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was approximately \$4.5 million or approximately 6.3% of total general fund expenditures, while total fund balance reached approximately \$5.5 million or approximately 7.7% of total general fund expenditures.

The fund balance of the Town's general fund decreased from the previous year by approximately \$0.5 million during the current fiscal year as operating results met expectations.

The fund balance of the stabilization major fund of approximately \$1.4 million was consistent with the previous year.

Nonmajor governmental funds comprise the remaining governmental funds and consist of funds like capital projects, grant and revolving accounts, trust funds, recreation funds and other funds where revenues are primarily derived from user charges and grants. At June 30, 2010, the fund balance in the nonmajor governmental funds was approximately \$12.1 million or approximately \$7.7 million greater than the previous year. This was due to the issuance of approximately \$7.7 million in debt.

Proprietary Fund The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Fiduciary Fund The Town reports funds it possesses that are legally held in trust for use in scholarships and the economically disadvantaged as private purpose funds and deposits with the Town's planning board and other activities as agency funds.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget totaled approximately \$2.1 million. Supplemental appropriations were approved at Special Town Meetings that increased the public safety (\$0.5 million), education (\$1.2 million), public works (\$0.3 million) and culture and recreation (\$0.1 million) budgets. The appropriations were funded with approximately \$0.3 million of property tax revenues, approximately \$1.7 million from undesignated fund balance and approximately \$0.1 million of other available funds.

Capital Asset and Debt Administration

Capital Assets As of June 30, 2010, the Town's investment in capital assets for its governmental activities approximate \$98.9 million and for its business type activities approximate \$53.8 million. Governmental fixed assets decreased as depreciation exceeds additions by approximately \$2.4 million, and business type fixed assets decreased by approximately \$1.0 million as depreciation exceeded additions.

The Town has undergone significant capital improvements over the past decade. These include additions to its educational facilities, roads, streets, highway, and its water and sewer distribution systems. A significant amount of these improvements were funded with reimbursements from the Commonwealth of Massachusetts and subsidies from the Massachusetts Water Pollution Abatement Trust ("MWPAT").

Additional information on the Town capital assets can be found in note III.D. on pages 30 and 31 of this report.

Long-term Debt The Town's total debt is approximately \$35.0 million. The total long-term debt increased by approximately \$6.4 million due to the issuance of new debt offset by regularly scheduled maturities. During the year the Town issued approximately \$9.1 million of general obligation bonds as well as refinancing approximately \$6.4 million in existing debt in a current refunding transaction.

The Town anticipates subsidies totaling approximately \$2.4 million from the MWPAT for business-type debt principal over the next thirteen years. In addition, the MWPAT will also provide subsidies totaling approximately \$1.7 million for business-type debt interest.

The Town will also receive state reimbursements for a portion of any principal pay back related to debt issued for school construction. The remaining expected reimbursement of principal is approximately \$0.6 million and will be received ratably over the next four years.

The Town maintained a bond rating of "Aa2" as set by Moody's for general obligation debt.

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

Additional information on the Town's debt can be found in note III.E and F on pages 32 - 35 of this report.

Economic Factors and Next Year's Budgets and Rates

- Consistent with both State and National work force trends, the Town's unemployment rates have begun to stabilize over the past twelve months. They still however remain near record highs. When the economy rebounds, the Town expects to participate in the rebound and ultimately experience an improvement in unemployment. However, the extent, timing or certainty of any economic rebound cannot be reasonably estimated at this time.
- The Town's real estate tax base is made up of approximately 82.7% of residential taxes. The Town also relies to a lesser extent, but still moderate, on its commercial, industrial and personnel property real estate tax base which comprise the remainder of the levy or approximately 17.3%. 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 tax levy.
- The Town's housing market has stabilized from the downward trend experienced in 2005 to 2009. Housing prices still remain approximately 25% lower than their 2005 peaks. As the economy rebounds, the Town expects its housing market to participate ratably in the rebound. However, the extent, timing or certainty of any housing rebound can not be reasonably estimated at this time.
- During 2010, the Town like many other communities was faced with many consequences of the adverse economy as state aid, local receipts and investment income were lower than in the previous year. The Town, however, responded well to reductions in State Aid and other local non-property tax receipts with conservative revenue budgeting and limiting appropriation growth in ways that preserved local service levels and substantially maintained strategic reserves. The Town expects the trend of lower state aid and sluggish local receipts to continue into 2011 and 2012.
- The Town expects to set its tax rate for 2011 prior to December 31, 2010.

The above items were considered when the Town developed its budget for fiscal year 2011.

Requests for Information

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

Government-Wide Financial Analysis
Exhibit I

<u>Net Assets</u>						
	<u>Governmental activities</u>		<u>Business activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Assets</u>						
Current and other assets	\$ 27,093	\$ 19,950	\$ 12,165	\$ 10,405	\$ 39,258	\$ 30,355
Capital assets, net	98,862	101,211	53,828	54,803	152,690	156,014
Total assets	125,955	121,161	65,994	65,208	191,949	186,369
<u>Liabilities</u>						
Long term liabilities	25,392	15,130	12,353	12,923	37,745	28,053
Other liabilities	7,778	9,441	3,504	1,525	11,282	10,966
Total liabilities	33,170	24,571	15,857	14,448	49,027	39,019
<u>Net Assets</u>						
Invested in capital assets, net of related debt	83,407	85,052	44,096	44,449	127,502	129,501
Restricted	3,994	3,672	-	-	3,994	3,672
Unrestricted	5,384	7,866	6,042	6,311	11,425	14,177
Net Assets	<u>\$ 92,784</u> A	<u>\$ 96,590</u>	<u>\$ 50,137</u> A	<u>\$ 50,760</u>	<u>\$ 142,921</u> A	<u>\$ 147,350</u>

A - See note VII.

Government-Wide Financial Analysis
Exhibit II

Changes in Net Assets

	Governmental activities		Business activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 5,789	\$ 6,622	\$ 7,889	\$ 7,900	\$ 13,677	\$ 14,522
Operating grants and contributions	16,939	17,646	-	1	16,939	17,647
Capital grants and contributions	1,877	2,039	295	318	2,171	2,357
General revenues:						
Property taxes	48,241	46,333	-	-	48,241	46,333
Intergovernmental	2,508	2,987	-	-	2,508	2,987
Other	3,905	2,803	11	20	3,916	2,823
Total revenues	79,258	78,430	8,194	8,239	87,452	86,669
Expenditures						
General government	4,533	3,526	-	-	4,533	3,526
Public safety	10,286	9,827	-	-	10,286	9,827
Education	57,065	56,067	-	-	57,065	56,067
Public works	7,675	8,940	-	-	7,675	8,940
Human services	866	758	-	-	866	758
Culture and recreation	2,992	2,453	-	-	2,992	2,453
Debt service	510	746	575	665	1,084	1,411
Water	-	-	3,313	3,609	3,313	3,609
Sewer	-	-	4,066	4,154	4,066	4,154
Total expenses	83,926	82,317	7,954	8,428	91,881	90,745
Excess (deficiency) of revenues over expenditures	(4,669)	(3,887)	240	(189)	(4,429)	(4,076)
Transfers	863	887	(863)	(887)	-	-
(Decrease) in net assets	(3,806)	(3,000)	(623)	(1,076)	(4,429)	(4,076)
Net assets, beginning of year, as restated	A 96,590	99,590	A 50,760	51,836	A 147,350	151,426
Net assets, end of year	\$ 92,784	A \$ 96,590	\$ 50,137	A \$ 50,760	\$ 142,921	A \$ 147,350

A - See note VII.

TOWN OF WALPOLE, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 20,764,823	\$ 5,796,524	\$ 26,561,347
Restricted cash and cash equivalents	1,127,950	-	1,127,950
Restricted investments	1,519,779	-	1,519,779
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	222,825	-	222,825
Tax liens and foreclosures	1,706,070	21,798	1,727,868
Excise Taxes	378,593	-	378,593
User charges	-	3,739,267	3,739,267
Departmental and other	248,577	-	248,577
Betterments	-	222,096	222,096
Intergovernmental	1,124,167	2,385,812	3,509,979
Land	26,922,603	2,703,108	29,625,711
Construction in Process	-	346,000	346,000
Depreciable Capital Assets, net of accumulated depreciation	71,939,334	50,779,207	122,718,541
TOTAL ASSETS	125,954,721	65,993,812	191,948,533
LIABILITIES			
Warrants and accounts payable	1,359,027	535,238	1,894,265
Accrued payroll	1,638,670	-	1,638,670
Other liabilities	451,800	-	451,800
Bond anticipation notes payable	1,540,000	1,492,500	3,032,500
Noncurrent liabilities:			
Due within one year	2,788,453	1,475,913	4,264,366
Due in more than one year	25,392,353	12,353,080	37,745,433
TOTAL LIABILITIES	33,170,303	15,856,731	49,027,034
NET ASSETS			
Invested in capital assets, net of related debt	83,406,640	44,095,524	127,502,164
Restricted for:			
Perpetual funds	2,137,041	-	2,137,041
Stabilization fund	1,353,634	-	1,353,634
Fringe benefits	503,552	-	503,552
Unrestricted	5,383,551	6,041,557	11,425,108
NET ASSETS	\$ 92,784,418	\$ 50,137,081	\$ 142,921,499

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS						
Governmental Activities:						
General government	\$ 4,532,956	\$ 11,648	\$ -	\$ (4,007,163)		\$ (4,007,163)
Public safety	10,286,016	158,728	-	(8,711,044)		(8,711,044)
Education	57,064,808	16,586,407	-	(37,119,996)		(37,119,996)
Public works	7,674,873	25,507	557,772	(7,055,256)		(7,055,256)
Health and human services	865,730	96,058	-	(681,696)		(681,696)
Culture and recreation	2,992,220	52,408	1,318,855	(1,245,450)		(1,245,450)
Debt service	509,863	8,032	-	(501,831)		(501,831)
Total Governmental Activities	83,926,466	16,938,788	1,876,627	(59,322,436)		(59,322,436)
Business-Type Activities:						
Water service	3,818,625	-	247,146		287,642	287,642
Sewer service	4,136,046	-	47,496		(58,916)	(58,916)
Total Business-Type Activities	7,954,671	-	294,642		228,726	228,726
Total Primary Government	\$ 91,881,137	\$ 16,938,788	\$ 2,171,269	(59,322,436)	228,726	(59,093,710)
General Revenues:						
Real and personal property taxes				48,240,587	-	48,240,587
Motor vehicle and other excise				2,971,584	-	2,971,584
Penalties and interest on taxes				195,914	-	195,914
Intergovernmental				2,507,842	-	2,507,842
Investment income				869,193	10,717	879,910
Loss on disposal of fixed assets				(131,305)	-	(131,305)
Transfers (net)				862,734	(862,734)	-
Total general revenues and transfers				55,516,549	(852,017)	54,664,532
Change in Net Assets				(3,805,887)	(623,291)	(4,429,178)
Net Assets:						
Beginning of year, as restated (see note VII)				96,590,305	50,760,372	147,350,677
End of year				\$ 92,784,418	\$ 50,137,081	\$ 142,921,499

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 8,592,956	\$ 1,353,634	\$ 10,818,233	\$ 20,764,823
Receivables, net of allowance for uncollectibles				
Real estate and personal property taxes	222,825	-	-	222,825
Excise Taxes	378,593	-	-	378,593
Tax liens and foreclosures	1,706,070	-	-	1,706,070
Departmental and other	2,070	-	246,507	248,577
Intergovernmental	664,398	-	459,769	1,124,167
Cash - restricted	-	-	1,127,950	1,127,950
Investments - restricted	-	-	1,519,779	1,519,779
Total Assets	<u>\$ 11,566,912</u>	<u>\$ 1,353,634</u>	<u>\$ 14,172,238</u>	<u>\$ 27,092,784</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants and accounts payable	\$ 1,106,724	\$ -	\$ 252,303	\$ 1,359,027
Accrued payroll	1,638,670	-	-	1,638,670
Other liabilities	451,800	-	-	451,800
Bond anticipation note payable	-	-	1,540,000	1,540,000
Deferred revenues	2,875,522	-	246,507	3,122,029
Total Liabilities	6,072,716	-	2,038,810	8,111,526
FUND BALANCES:				
Reserved for:				
Encumbrances	1,042,502	-	-	1,042,502
Stabilization	-	1,353,634	-	1,353,634
Unreserved:				
Undesignated, reported in:				
General fund	4,451,694	-	-	4,451,694
Capital projects funds	-	-	6,904,738	6,904,738
Special revenue funds	-	-	2,588,097	2,588,097
Permanent funds	-	-	2,640,593	2,640,593
Total Fund Balances	5,494,196	1,353,634	12,133,428	18,981,258
Total Liabilities and Fund Balances	<u>\$ 11,566,912</u>	<u>\$ 1,353,634</u>	<u>\$ 14,172,238</u>	<u>\$ 27,092,784</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Governmental Fund Balances	\$ 18,981,258
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	98,861,937
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	3,122,029
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(21,435,079)
Compensated absences	(1,531,907)
Other post-employment benefits	<u>(5,213,820)</u>
Net Assets of Governmental Activities	<u><u>\$ 92,784,418</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
JUNE 30, 2010

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes, net	\$ 48,092,921	\$ -	\$ -	\$ 48,092,921
Intergovernmental	16,258,927	-	4,963,458	21,222,385
Motor vehicle and other excises	2,942,110	-	-	2,942,110
Departmental and other revenue	503,822	-	4,517,138	5,020,960
Licenses and permits	686,831	-	-	686,831
Penalties and interest on taxes	195,914	-	-	195,914
Fines and forfeits	57,100	-	-	57,100
Investment income	53,304	5,914	809,975	869,193
Contributions and donations	-	-	356,037	356,037
Total Revenues	<u>68,790,929</u>	<u>5,914</u>	<u>10,646,608</u>	<u>79,443,451</u>
EXPENDITURES				
General government	2,632,753	-	294,157	2,926,910
Public safety	7,413,782	-	208,176	7,621,958
Education	32,972,054	-	7,154,484	40,126,538
Public works	5,497,721	-	783,481	6,281,202
Health and human services	476,753	-	104,238	580,991
Culture and recreation	1,348,475	-	1,142,116	2,490,591
Pensions and fringe benefits	17,481,652	-	47,282	17,528,934
State and county tax assessments	1,033,649	-	-	1,033,649
Debt service	2,184,022	-	-	2,184,022
Total Expenditures	<u>71,040,861</u>	<u>-</u>	<u>9,733,934</u>	<u>80,774,795</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from refunding bonds	3,770,000	-	-	3,770,000
Proceeds from debt	-	-	7,687,000	7,687,000
Payments of refunded bonds	(3,715,000)	-	-	(3,715,000)
Transfers in	1,846,783	-	65,408	1,912,191
Transfers out	(97,597)	-	(951,860)	(1,049,457)
Total Expenditures and Other Financing Uses	<u>1,804,186</u>	<u>-</u>	<u>6,800,548</u>	<u>8,604,734</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(445,746)	5,914	7,713,222	7,273,390
FUND BALANCES, July 1, 2009	<u>5,939,942</u>	<u>1,347,720</u>	<u>4,420,206</u>	<u>11,707,868</u>
FUND BALANCES, June 30, 2010	<u>\$ 5,494,196</u>	<u>\$ 1,353,634</u>	<u>\$ 12,133,428</u>	<u>\$ 18,981,258</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2010**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 7,273,390**

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. Capital outlays amounted to \$1,226,766, and depreciation expense totaled \$3,575,745. The net amount is reflected here as a reconciling item. (2,348,979)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Debt payments were \$1,581,124 and net proceeds were \$7,742,000. (6,160,876)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference based on the two methodologies. (54,301)

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This represents the difference between the accruals between this year and the prior year. 93,035

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Compensated absences	52,803
Other post-employment benefits	(2,660,959)
	<hr/>

Change in Net Assets of Governmental Activities **\$ (3,805,887)**

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Business-type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 4,273,060	\$ 1,523,464	\$ 5,796,524
Receivables:			
User charges	1,748,865	1,990,402	3,739,267
Utility liens	10,923	10,875	21,798
Betterments	-	1,868	1,868
Intergovernmental	103,358	37,385	140,743
Total Current Assets	<u>6,136,206</u>	<u>3,563,994</u>	<u>9,700,200</u>
NONCURRENT:			
Receivables:			
Betterments	-	220,228	220,228
Intergovernmental	1,971,014	274,055	2,245,069
Land	2,604,452	98,656	2,703,108
Construction in process	346,000	-	346,000
Capital assets, net of accumulated depreciation	<u>33,436,764</u>	<u>17,342,443</u>	<u>50,779,207</u>
TOTAL ASSETS	<u>44,494,436</u>	<u>21,499,376</u>	<u>65,993,812</u>
LIABILITIES			
CURRENT:			
Warrants and accounts payable	508,664	26,574	535,238
Bond anticipation notes payable	1,492,500	-	1,492,500
Bond and notes payable	1,136,669	263,974	1,400,643
Compensated absences	60,881	14,389	75,270
Total Current Liabilities	<u>3,198,714</u>	<u>304,937</u>	<u>3,503,651</u>
NONCURRENT:			
Bond and notes payable	10,827,780	1,386,945	12,214,725
Compensated absences	14,849	3,150	17,999
Other post employment benefits	100,546	19,810	120,356
TOTAL LIABILITIES	<u>14,141,889</u>	<u>1,714,842</u>	<u>15,856,731</u>
NET ASSETS			
Invested in capital assets, net of related debt	26,951,947	17,143,577	44,095,524
Unrestricted	3,400,600	2,640,957	6,041,557
NET ASSETS	<u>\$ 30,352,547</u>	<u>\$ 19,784,534</u>	<u>\$ 50,137,081</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2010**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 3,551,774	\$ 3,857,693	\$ 7,409,467
Other	307,347	171,941	479,288
Total Operating Revenues	<u>3,859,121</u>	<u>4,029,634</u>	<u>7,888,755</u>
OPERATING EXPENSES			
Operating costs	2,309,491	3,613,454	5,922,945
Depreciation	1,003,934	453,191	1,457,125
Total Operating Expenses	<u>3,313,425</u>	<u>4,066,645</u>	<u>7,380,070</u>
OPERATING INCOME	<u>545,696</u>	<u>(37,011)</u>	<u>508,685</u>
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental	247,146	47,496	294,642
Interest income	7,271	3,446	10,717
Interest expense	(505,200)	(69,401)	(574,601)
Transfers in	32,597	10,000	42,597
Transfers out	(631,855)	(273,476)	(905,331)
Total Nonoperating Revenues (Expenses), net	<u>(850,041)</u>	<u>(281,935)</u>	<u>(1,131,976)</u>
CHANGE IN NET ASSETS	<u>(304,345)</u>	<u>(318,946)</u>	<u>(623,291)</u>
NET ASSETS AT BEGINNING OF YEAR, as restated (see note VII)	30,656,892	20,103,480	50,760,372
NET ASSETS AT END OF YEAR	<u><u>\$ 30,352,547</u></u>	<u><u>\$ 19,784,534</u></u>	<u><u>\$ 50,137,081</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS -
YEAR ENDED JUNE 30, 2010**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from users	\$ 3,493,699	\$ 3,374,529	\$ 6,868,228
Other receipts	307,347	205,833	513,180
Payments to vendors and employees	<u>(1,746,776)</u>	<u>(3,575,797)</u>	<u>(5,322,573)</u>
Net Cash Provided by (Used for) Operating Activities	<u>2,054,270</u>	<u>4,565</u>	<u>2,058,835</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	32,597	10,000	42,597
Transfers out	<u>(631,855)</u>	<u>(273,476)</u>	<u>(905,331)</u>
Net Cash Used for Noncapital Related Financing Activities	<u>(599,258)</u>	<u>(263,476)</u>	<u>(862,734)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(482,000)	-	(482,000)
Government subsidy	334,702	96,337	431,039
Interest income	7,271	3,446	10,717
Proceeds from issuance of bonds and notes	4,718,000	-	4,718,000
Payment of bond anticipation notes	(5,000)	-	(5,000)
Principal payments on bonds and notes	<u>(3,611,408)</u>	<u>(259,964)</u>	<u>(3,871,372)</u>
Interest expense	<u>(528,123)</u>	<u>(79,449)</u>	<u>(607,572)</u>
Net Cash Used for Capital and Related Financing Activities	<u>433,442</u>	<u>(239,630)</u>	<u>193,812</u>
NET CHANGE IN CASH AND EQUIVALENTS	1,888,454	(498,541)	1,389,913
CASH AND EQUIVALENTS:			
July 1, 2009, as restated	<u>2,384,606</u>	<u>2,022,005</u>	<u>4,406,611</u>
June 30, 2010	<u>\$ 4,273,060</u>	<u>\$ 1,523,464</u>	<u>\$ 5,796,524</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ 545,696</u>	<u>\$ (37,011)</u>	<u>\$ 508,685</u>
Depreciation	1,003,934	453,191	1,457,125
Changes in assets and liabilities:			
Receivables (net)	(58,075)	(449,272)	(507,347)
Accounts payable	508,664	26,574	535,238
Compensated absences	2,736	973	3,709
Other post employment benefits	<u>51,315</u>	<u>10,110</u>	<u>61,425</u>
Net Cash Provided From Operating Activities	<u>\$ 2,054,270</u>	<u>\$ 4,565</u>	<u>\$ 2,058,835</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WALPOLE, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2010

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 522,697
Investments (at fair value)	2,876,763	-
Receivables, net of allowance for uncollectables		
Departmental and other	-	120,906
Total Assets	2,876,763	643,603
Liabilities		
Other liabilities	-	84,670
Deposits held	-	438,027
Deferred revenue	-	120,906
Total Liabilities	-	643,603
Net Assets		
Held in trust for other purposes	2,876,763	-
Total Net Assets	\$ 2,876,763	\$ -

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment income	\$ 129,248
Total Additions	<u>129,248</u>
Deductions:	
Scholarships and assistance	50,312
Health and human services	<u>1,800</u>
Total Deductions	<u>52,112</u>
Change in Net Assets	77,136
Net Assets - Beginning of the Year	<u>2,799,627</u>
Net Assets - End of the Year	<u><u>\$ 2,876,763</u></u>

See accompanying notes to basic financial statements.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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 of Walpole is located in Norfolk County and was incorporated as a town in 1724. The governing structure utilizes an open town meeting form, with an elected five-member Board of Selectmen, and an appointed Town Administrator who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, disposal of rubbish and recycling, public education in grades K-12, water and sewer services, street maintenance, parks and recreational facilities, library and elderly services and inspectional services. The water and sewer services, funded almost entirely with user charges, are provided via connections installed and maintained by the Town directly.
- B. Individual Component Unit Disclosures** – Component units, while separate entities, are in substance part of the governmental operations of the Town due to the significance of their operations and financial relationship with the Town. Pursuant to this criteria there are no entities classified as component units in this report.
- C. Government-Wide and Fund Financial Statements** – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. 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 or 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*. Separate financial statements are provided for Governmental Funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

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*, as are proprietary funds and fiduciary fund financial statements. 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 year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both 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. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However expenditures related to debt service, compensated absences, and risk financing, are recorded only when payment is due. Interest and unrealized gains associated with the current fiscal period are considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

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.

Stabilization Fund – is used to account for certain unencumbered accumulated financial resources that are subject to appropriation as directed by the Town’s legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature or unexpected items that may arise during the year.

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

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

The government reports the following major proprietary funds:

Enterprise Fund – uses the “economic resources” measurement focus to account for the following specific operations in a manner similar to private business enterprises:

Water – 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 – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

Additionally, the government reports the following fund types:

Private-Purpose Trust Fund – is used to account for resources legally held in trust for use in funding scholarships and other support for qualified citizens. There is a requirement that a portion of these resources be preserved as capital.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected to follow private-sector guidance. As a general rule the *effect* of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the Town’s water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise general revenues include all taxes. 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 of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources, as they are needed.

E. Assets, Liabilities, and Net Assets 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.

State statutes authorize the Town to invest in obligations of the United States Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Investments for the Town are reported at fair value. The State Treasurer's Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Inter fund 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*.

Receivables – All property tax and trade receivables are shown net of an allowance for doubtful collections comprised of those outstanding amounts greater than five years old. Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the rate of 14% per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes.

Governmental receivables are recorded at the time an award is made or, for expenditure driven grants, at the time the expenditure has been incurred.

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.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government as well as the component units is depreciated using the straight line method over the following estimated useful lives:

Structures and improvements	40 years
Infrastructure	40 years
Equipment, furniture, fixtures and vehicles	5 years

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Amounts related to these benefits are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – The government-wide statement of net assets and proprietary statement of net assets reflect long-term debt and other long-term obligations as liabilities. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds. Bond anticipation notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts as other financing uses. Issuance costs are exclusively reported as debt service expenditures regardless of whether they are withheld from the actual proceeds.

Risk Financing – The Town participates in a premium based self-insurance group and premium based coverage through conventional carriers to insure for workers’ compensation, health, unemployment benefits, and general and personal liability. Uninsured losses are recorded as expenditures when incurred.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as a significant aspect of budgetary control in the Governmental Fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

Fund Equity – In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

Reclassifications – Certain reclassifications have been made to the 2009 amounts to conform to the 2010 presentation.

II. Stewardship, Compliance and Accountability

- A. Budgetary Information** – An annual budget is legally adopted for the General Fund and the Enterprise Fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by Town Meeting at the Town’s annual meeting in April or May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Meeting and the department head however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.
- B. Excess of Expenditures Over Appropriations** – During the fiscal year ended, the Town did not exceed any of its legal appropriations.

III. Detailed Notes to All Funds

- A. Deposits and Investments** - Cash and cash equivalents include cash on hand and certificates of deposit with maturities of three months or less.

The Town maintains a separate cash account for all funds. In addition, investments are held separately by the Permanent Funds.

GAAP requires disclosure for any investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty’s trust department or agent but not in the government’s name. The Town does not maintain any investments subject to these classifications.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2010, the carrying amount of the Town’s deposits was \$17,350,172 and the Town’s bank balance was \$17,761,864. \$2,063,896 of the bank balance was covered by depository insurance while \$15,697,968 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Town does not have a formal policy for custodial credit risk.

Custodial Credit Risk: Investments – Massachusetts General Laws, Chapter 44, Sections 55, 55A and 55B and any other applicable statutes require the Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including certain U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements, and the State Treasurer’s investment pool.

In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a U.S. obligation. During the fiscal year, the Town did enter into a repurchase agreement.

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

Concentration of Credit Risk - The Town has 71% of its investments invested in the State Treasurer's investment pool. The Town does not limit the amount that may be invested in any one issuer, but follows the guidelines of Massachusetts General Law for the administration of cash and investments.

As of June 30, 2010, the Town had the following investments:

Investments	Fair Value	Maturity in Years			
		<1 Year	1 - 5 Years	6 - 10 Years	>10 Years
<u>Debt securities:</u>					
U.S. Government obligations	\$ 546,102	\$ 44,928	\$ 364,983	\$ 136,191	\$ -
Corporate bonds	1,482,318	127,074	585,420	282,506	487,318
Total debt securities	<u>2,028,420</u>	<u>\$ 172,002</u>	<u>\$ 950,403</u>	<u>\$ 418,697</u>	<u>\$ 487,318</u>
<u>Other investments:</u>					
Preferred securities	102,930				
Equities	2,196,042				
Mutual funds	69,150				
State Treasurer's investment pool	<u>10,861,822</u>				
Total Investments	<u>\$ 15,258,364</u>				
Cash deposits held	<u>\$ 17,350,172</u>				

Following is a reconciliation of investments and cash and equivalents as summarized above to the balance as recorded in the combined balance sheet:

	Investments	Cash and Cash Equivalents
As presented above	\$ 15,258,364	\$ 17,350,172

Reclass: Short-term investments reported in the combined balance sheet as cash and short-term investments; as follows:

State Treasurer's investment pool	<u>(10,861,822)</u>	<u>10,861,822</u>
Totals	<u>\$ 4,396,542</u>	<u>\$ 28,211,994</u>

As of June 30, 2010, the credit quality ratings of the Town's debt securities were as follows:

Quality Ratings	Investment Type		
	U.S. Government Obligations	Corporate Bonds	Fair Value
Aaa	\$ 546,102	\$ -	\$ 546,102
Aa1	-	64,630	64,630
Aa2	-	183,435	183,435
A1	-	88,746	88,746
A2	-	311,987	311,987
A3	-	203,212	203,212
Baa1	-	283,743	283,743
Ba1	-	130,053	130,053
B2	-	110,600	110,600
Not Rated	-	105,912	105,912
Totals	<u>\$ 546,102</u>	<u>\$ 1,482,318</u>	<u>\$ 2,028,420</u>

B. Receivables

Presentation Breakdown – Receivables at year-end for the government’s individual major, proprietary and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

Receivables as of year-end for the individual major governmental and non major funds are as follows:

Property taxes	\$ 253,498
Excise	471,222
Tax liens and foreclosures	1,802,736
Ambulance	232,911
Departmental and other	15,666
Due from Commonwealth	<u>1,124,167</u>
Gross receivables	3,900,200
Allowance for uncollectible accounts	<u>(219,968)</u>
Net receivables	<u>\$ 3,680,232</u>

Receivables as of year-end for the enterprise funds are as follows:

Water user charges	\$ 1,748,865
Sewer user charges	1,990,402
Utility liens	21,798
Betterments	222,096
Due from MWPAT	<u>2,385,812</u>
Gross receivables	6,368,973
Allowance for uncollectible accounts	<u>—</u>
Net receivables	<u>\$ 6,368,973</u>

Receivables as of year-end for the agency fund are as follows:

Public safety details	\$ 120,906
Allowance for uncollectible accounts	<u>—</u>
Net receivables	<u>\$ 120,906</u>

Governmental Funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue reported in Governmental Funds amounted to \$3,122,029.

D. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 26,857,003	\$ 65,600	\$ -	\$ 26,922,603
Total capital assets not being depreciated	<u>26,857,003</u>	<u>65,600</u>	<u>-</u>	<u>26,922,603</u>
Capital assets being depreciated:				
Buildings and improvements	74,231,664	9,950	-	74,241,614
Infrastructure	51,031,342	728,151	(269,846)	51,489,647
Machinery and equipment	5,246,431	71,370	(67,000)	5,250,801
Vehicles	6,106,889	483,000	(252,195)	6,337,694
Total capital assets being depreciated	<u>136,616,326</u>	<u>1,292,471</u>	<u>(589,041)</u>	<u>137,319,756</u>
Less accumulated depreciation for:				
Buildings and improvements	(21,790,698)	(1,548,616)	-	(23,339,314)
Infrastructure	(34,092,545)	(1,266,539)	238,402	(35,120,682)
Machinery and equipment	(3,491,052)	(286,841)	57,356	(3,720,537)
Vehicles	(2,888,118)	(473,749)	161,978	(3,199,889)
Total accumulated depreciation	<u>(62,262,413)</u>	<u>(3,575,745)</u>	<u>457,736</u>	<u>(65,380,422)</u>
Total capital assets being depreciated, net	<u>74,353,913</u>	<u>(2,283,274)</u>	<u>(131,305)</u>	<u>71,939,334</u>
Governmental activities capital assets, net	<u>\$ 101,210,916</u>	<u>\$ (2,217,674)</u>	<u>\$ (131,305)</u>	<u>\$ 98,861,937</u>
<i>Business Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 2,703,108	\$ -	\$ -	\$ 2,703,108
Construction in process	-	346,000	-	346,000
Total capital assets not being depreciated	<u>2,703,108</u>	<u>346,000</u>	<u>-</u>	<u>3,049,108</u>
Capital assets being depreciated:				
Buildings and improvements	19,880,461	-	-	19,880,461
Infrastructure	49,587,496	-	-	49,587,496
Machinery and equipment	8,041,850	-	-	8,041,850
Vehicles	720,653	136,000	(183,305)	673,348
Total capital assets being depreciated	<u>78,230,460</u>	<u>136,000</u>	<u>(183,305)</u>	<u>78,183,155</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,626,718)	(397,389)	-	(6,024,107)
Infrastructure	(17,500,752)	(721,297)	-	(18,222,049)
Machinery and equipment	(2,603,088)	(266,999)	-	(2,870,087)
Vehicles	(399,570)	(71,440)	183,305	(287,705)
Total accumulated depreciation	<u>(26,130,128)</u>	<u>(1,457,125)</u>	<u>183,305</u>	<u>(27,403,948)</u>
Total capital assets being depreciated, net	<u>52,100,332</u>	<u>(1,321,125)</u>	<u>-</u>	<u>50,779,207</u>
Business activities capital assets, net	<u>\$ 54,803,440</u>	<u>\$ (975,125)</u>	<u>\$ -</u>	<u>\$ 53,828,315</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities - Water:</i>				
Capital assets not being depreciated:				
Land	\$ 2,604,452	\$ -	\$ -	\$ 2,604,452
Construction in Process	-	346,000	-	346,000
Total capital assets not being depreciated	2,604,452	346,000	-	2,950,452
Capital assets being depreciated:				
Buildings and improvements	17,870,083	-	-	17,870,083
Infrastructure	26,360,456	-	-	26,360,456
Machinery and equipment	7,398,986	-	-	7,398,986
Vehicles	365,153	136,000	(183,305)	317,848
Total capital assets being depreciated	51,994,678	136,000	(183,305)	51,947,373
Less accumulated depreciation for:				
Buildings and improvements	(4,996,497)	(354,959)	-	(5,351,456)
Infrastructure	(10,162,210)	(372,466)	-	(10,534,676)
Machinery and equipment	(2,282,539)	(244,006)	-	(2,526,545)
Vehicles	(248,734)	(32,503)	183,305	(97,932)
Total accumulated depreciation	(17,689,980)	(1,003,934)	183,305	(18,510,609)
Total capital assets being depreciated, net	34,304,698	(867,934)	-	33,436,764
Water activities capital assets, net	\$ 36,909,150	\$ (521,934)	\$ -	\$ 36,387,216
<i>Business-Type Activities - Sewer:</i>				
Capital assets not being depreciated:				
Land	\$ 98,656	\$ -	\$ -	\$ 98,656
Total capital assets not being depreciated	98,656	-	-	98,656
Capital assets being depreciated:				
Buildings and improvements	2,010,378	-	-	2,010,378
Infrastructure	23,227,040	-	-	23,227,040
Machinery and equipment	642,864	-	-	642,864
Vehicles	355,500	-	-	355,500
Total capital assets being depreciated	26,235,782	-	-	26,235,782
Less accumulated depreciation for:				
Buildings and improvements	(630,221)	(42,430)	-	(672,651)
Infrastructure	(7,338,542)	(348,831)	-	(7,687,373)
Machinery and equipment	(320,549)	(22,993)	-	(343,542)
Vehicles	(150,836)	(38,937)	-	(189,773)
Total accumulated depreciation	(8,440,148)	(453,191)	-	(8,893,339)
Total capital assets being depreciated, net	17,795,634	(453,191)	-	17,342,443
Sewer activities capital assets, net	\$ 17,894,290	\$ (453,191)	\$ -	\$ 17,441,099
<i>Business-Type Activities - All:</i>				
Business-type activities capital assets, net	\$ 54,803,440	\$ (975,125)	\$ -	\$ 53,828,315

For the year ended June 30, 2010, depreciation expense was charged to functions/programs as follows:

<i>Governmental Activities:</i>		<i>Business-Type Activities:</i>	
General government	\$ 208,678	Water	\$ 1,003,934
Public safety	363,163	Sewer	453,191
Education	1,452,608	Total Business-Type Activities	\$ 1,457,125
Public works	1,456,790		
Health and human services	13,500		
Culture and recreation	81,006		
Total Governmental Activities	\$ 3,575,745		

D. Inter fund transfers during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,846,783	\$ 97,597
Non-major Governmental Funds	65,408	951,860
Water Enterprise Fund	32,597	631,855
Sewer Enterprise Fund	<u>10,000</u>	<u>273,476</u>
Totals	<u>\$ 1,954,788</u>	<u>\$ 1,954,788</u>

The majority of the transfers were made to supplement the General Fund operating budget and account for debt service and indirect costs of the Water and Sewer Enterprise Funds.

E. Temporary Debt

The Town 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 or tax anticipation notes (RANS or TANS).

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

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

<u>Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
BAN	3.09%	Matured	\$ 1,257,500	\$ –	\$(1,257,500)	\$ –
BAN	2.60%	Matured	1,000,000	–	(1,000,000)	–
BAN	2.00%	7/7/10	<u>–</u>	<u>3,032,500</u>	<u>–</u>	<u>3,032,500</u>
			<u>\$ 2,257,500</u>	<u>\$3,032,500</u>	<u>\$(2,257,500)</u>	<u>\$3,032,500</u>

The temporary note outstanding relates to general capital projects of \$1,540,000 and water enterprise capital projects of \$1,492,500.

The \$3,032,500 temporary note outstanding was retired on July 7, 2010, using \$2,885,500 from the proceeds of a general obligation bond issuance on June 1, 2010 with the remaining \$147,000 paid from other available funds.

F. Long-Term Obligations

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

Current Refunding – On October 15, 2009, the Town issued general obligation bonds of \$6,455,000 (par value) with variable interest rates of between 3.0% - 4.0% to refund term bonds with variable interest rates between 4.0% - 6.5% and total values of \$6,370,000. The term bonds had maturity dates of May 15, 2018 and callable on November 16, 2009.

General obligation bonds were issued at par value with a reoffering premium of \$216,999; and after issuance costs of \$152,380, the net proceeds were \$6,519,619. The net proceeds from the issuance of the general obligation bonds were used to retire term bonds that were callable on November 16, 2009. The refunding met the requirements of an in-substance defeasance, and term bonds were removed from the Town's government-wide financial statements.

As a result of the current refunding, the Town reduced its total debt service requirements by \$579,227. This defeasance resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$540,468.

Legal Debt Margin – 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, 2010 was approximately \$196.6 million based on an equalized valuation of approximately \$4.0 billion, which is well in excess of the Town's current outstanding debt balance.

School Building Assistance Reimbursement – As of June 30, 2010, the Town expects to receive as the balance of grants from the Commonwealth of Massachusetts under School Construction reimbursement regulations, \$566,280 applicable to approved school construction costs which includes both principal and interest. Such costs are reimbursed to the Town in four remaining installments over the life of the related bond issues and are subject to appropriation only by the State Legislature; In the Governmental funds, the General Fund include a receivable of \$565,965 under the caption Intergovernmental which represents the reimbursable portion of the principal as of June 30, 2010.

MWPAT Loan Subsidies – The Town has entered into a number of loan agreements since February 1997 with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$2,385,812 and interest costs of \$1,743,013 until the maturity of these agreements. In the business-type funds, the intergovernmental receivables include a receivable for the principal portion of the subsidy.

The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2010:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.75%	\$ 15,221,000	\$ 11,457,000	\$ (5,292,000)	\$ 21,386,000
MWPAT notes - Title V	2.50 - 5.25%	53,201	-	(4,124)	49,077
Total Governmental Activities		<u>\$ 15,274,201</u>	<u>\$ 11,457,000</u>	<u>\$ (5,296,124)</u>	<u>\$ 21,435,077</u>
<i>Business-type Activities - Water</i>					
General obligation bonds	2.00 - 5.00%	\$ 3,649,000	\$ 4,083,000	\$ (3,148,000)	\$ 4,584,000
MWPAT notes	2.50 - 5.25%	7,843,857	-	(463,408)	7,380,449
Total Water		<u>11,492,857</u>	<u>4,083,000</u>	<u>(3,611,408)</u>	<u>11,964,449</u>
<i>Business-type Activities - Sewer</i>					
General obligation bonds	2.00 - 6.90%	365,000	-	(55,000)	310,000
MWPAT note	0 - 5.45%	1,306,963	-	(136,764)	1,170,199
MWRA loans	0%	238,920	-	(68,200)	170,720
Total Sewer		<u>1,910,883</u>	<u>-</u>	<u>(259,964)</u>	<u>1,650,919</u>
Total Business-type Activities		<u>\$ 13,403,740</u>	<u>\$ 4,083,000</u>	<u>\$ (3,871,372)</u>	<u>\$ 13,615,368</u>
Total Bond and Note Debt					<u>\$ 35,050,445</u>

During the year ended June 30, 2010, the following reflects the activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note debt	\$ 15,274,201	\$ 11,457,000	\$ (5,296,124)	\$ 21,435,077	\$ 2,047,124
Compensated absences	1,584,710	630,958	(683,761)	1,531,907	741,329
Other post employment benefits	2,552,861	4,164,403	(1,503,444)	5,213,820	-
Total Governmental Activities	<u>\$ 19,411,772</u>	<u>\$ 16,252,361</u>	<u>\$ (7,483,329)</u>	<u>\$ 28,180,804</u>	<u>\$ 2,788,453</u>
<i>Business-type Activities: Water</i>					
Bond and note debt	\$ 11,492,857	\$ 4,083,000	\$ (3,611,408)	\$ 11,964,449	\$ 1,136,669
Compensated absences	72,994	60,881	(58,145)	75,730	60,881
Other post employment benefits	49,231	80,308	(28,993)	100,546	-
Total Business-type Activities: Water	<u>11,615,082</u>	<u>4,224,189</u>	<u>(3,698,546)</u>	<u>12,140,725</u>	<u>1,197,550</u>
<i>Business-type Activities: Sewer</i>					
Bond and note debt	1,910,883	-	(259,964)	1,650,919	263,974
Compensated absences	16,566	14,389	(13,416)	17,539	14,389
Other post employment benefits	9,700	15,822	(5,712)	19,810	-
Total Business-type Activities: Sewer	<u>1,937,149</u>	<u>30,211</u>	<u>(279,092)</u>	<u>1,688,268</u>	<u>278,363</u>
Total Business-type Activities: All	<u>\$ 13,552,231</u>	<u>\$ 4,254,400</u>	<u>\$ (3,977,638)</u>	<u>\$ 13,828,993</u>	<u>\$ 1,475,913</u>
Total Long-term Obligations	<u>\$ 32,964,003</u>	<u>\$ 20,506,761</u>	<u>\$ (11,460,967)</u>	<u>\$ 42,009,797</u>	<u>\$ 4,264,366</u>

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

Year Ending June 30,	Governmental Activities							Total
	Principal			Interest				
	Gross	Subsidized	Net	Gross	Subsidized	Net		
2011	\$ 2,047,124	\$ -	\$ 2,047,124	\$ 732,623	\$ (2,359)	\$ 730,264	\$ 2,777,388	
2012	1,931,123	-	1,931,123	667,325	(2,167)	665,158	2,596,281	
2013	1,906,124	-	1,906,124	606,590	(1,973)	604,617	2,510,741	
2014	1,651,124	-	1,651,124	545,878	(4,023)	541,855	2,192,979	
2015	1,581,123	-	1,581,123	494,772	(1,676)	493,096	2,074,219	
2016 - 2020	5,663,742	-	5,663,742	1,768,465	(5,116)	1,763,349	7,427,091	
2021 - 2025	4,884,717	-	4,884,717	829,737	(1,305)	828,432	5,713,149	
2026 - 2030	1,770,000	-	1,770,000	183,838	-	183,838	1,953,838	
Total	\$ 21,435,077	\$ -	\$ 21,435,077	\$ 5,829,228	\$ (18,619)	\$ 5,810,609	\$ 27,245,686	

Year Ending June 30,	Business-Type Activities: Water							Total
	Principal			Interest				
	Gross	Subsidized	Net	Gross	Subsidized	Net		
2011	\$ 1,136,669	\$ (103,358)	\$ 1,033,311	\$ 476,958	\$ (235,399)	\$ 241,559	\$ 1,274,870	
2012	1,123,122	(110,794)	1,012,328	437,771	(219,699)	218,072	1,230,400	
2013	1,136,168	(118,551)	1,017,617	407,036	(206,751)	200,285	1,217,902	
2014	1,147,623	(139,780)	1,007,843	324,895	(157,174)	167,721	1,175,564	
2015	1,137,600	(150,083)	987,517	277,111	(136,703)	140,408	1,127,925	
2016 - 2020	4,350,421	(858,382)	3,492,039	788,779	(453,661)	335,118	3,827,157	
2021 - 2024	1,932,846	(593,424)	1,339,422	129,394	(97,860)	31,534	1,370,956	
	\$ 11,964,449	\$ (2,074,372)	\$ 9,890,077	\$ 2,841,944	\$ (1,507,247)	\$ 1,334,697	\$ 11,224,774	

Year Ending June 30,	Business-Type Activities: Sewer							Total
	Principal			Interest				
	Gross	Subsidized	Net	Gross	Subsidized	Net		
2011	\$ 263,974	\$ (37,385)	\$ 226,589	\$ 73,554	\$ (44,104)	\$ 29,450	\$ 256,039	
2012	268,057	(40,311)	227,746	61,030	(36,197)	24,833	252,579	
2013	212,825	(25,879)	186,946	79,415	(48,655)	30,760	217,706	
2014	207,435	(41,808)	165,627	44,694	(28,582)	16,112	181,739	
2015	202,148	(42,893)	159,255	35,048	(24,085)	10,963	170,218	
2016 - 2020	496,480	(123,164)	373,316	42,132	(35,524)	6,608	379,924	
	\$ 1,650,919	\$ (311,440)	\$ 1,339,479	\$ 335,873	\$ (217,147)	\$ 118,726	\$ 1,458,205	

Authorized and Unissued Debt - At June 30, 2010, the Town had authorized and unissued debt as follows:

Project	Amount
<i>Governmental Activities:</i>	
School construction	\$ 719,100
Street improvements	200,000
Septic loan program	115,058
Total Governmental Activities	1,034,158
<i>Business-Type Activities:</i>	
Water - System improvements	542,834
Water - Treatment plant improvements	750,000
Sewer - System improvements	189,950
Total Business-Type Activities	1,482,784
Total Authorized and Unissued Debt	\$ 2,516,942

IV. Other Information

A. Retirement System

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

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

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town’s contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,810,876; \$2,638,256 and \$2,254,346, respectively. These contributions were equal to the required contribution for each year as set by the Board. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$5,583,286 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Post Employment Benefits –

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the “Plan”) in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s 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 consists of 720 active employees and 445 retired employees for a total of 1,165 participants.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 25% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town.

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

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

OPEB obligation at beginning of year	\$ 2,611,792
Annual required contribution (ARC)	4,260,533
Contributions made	<u>(1,538,149)</u>
OPEB obligation at end of year	<u>\$ 5,334,176</u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2010	\$ 4,260,533**	36.1%	\$ 2,722,384
June 30, 2009*	\$ 4,044,061	35.4%	\$ 2,611,792

* Transition year

** The AOPEBC was charged to the following functional programs: General Government \$187,463; Public Safety \$583,693; Education \$3,084,626; Public Works \$174,682; Health and Human Services \$42,605; Culture and Recreation \$89,471; Water Enterprise Fund \$85,211; and Sewer Enterprise Fund \$12,782.

Funding Status and Funding Progress - The funded status of the Plan at July 1, 2008 for the most recent actuarial valuation performed as of July 1, 2008, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 49,374,785	\$ 49,374,785	0.00%	\$ 40,394,469	122.2%

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.

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, 2008
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level percent of pay
Remaining amortization period:	28 years as of June 30, 2010
Interest discount rate:	3.5%
Healthcare/Medical cost trend rate:	7.5% grading down to 5% in 2013 and thereafter

D. Risk Financing –

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation. The Town is a part of a premium-based self-insurance group which insures for worker's compensation, and general and personal liability, through the Massachusetts Inter-Local Insurance Association (MILA). The Town essentially transfers its risk through payment of its annual assessment which is adjusted according to the Town's experience history. All other insurance is carried through conventional carriers.

E. Commitments and Contingencies –

The Town has pending cases filed with the Appellate Tax Board in which the centrally valued telephone and telegraph companies have challenged their assessed valuations. Although the ultimate liability to the Town if any can not be reasonably estimated, the maximum exposure of these cases amounts to approximately \$795,000.

The Town is party to other certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2010, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2010.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

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

The Town has entered into contracts for the construction of a new library. The cost of construction is estimated to be \$7,082,500, with work beginning in early fiscal year 2011. The Town has also contracted for upgrades to its Delaney Water Treatment Plant and several Town wells. The total costs of these upgrades total approximately \$1,010,000 and will be funded from water user charges. As of June 30, 2010, \$626,990 has been expended on these water construction projects.

F. Subsequent Events –

The Town did not have any other subsequent events through the date the financial statements were issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2010.

V. Implementation of New GASB Pronouncements

In June 2007, the GASB issued GASB No. 51, *Accounting and Financial Reporting for Intangible Assets*, which was effective for the Town beginning on July 1, 2009. The objective of GASB 51 was to establish accounting and financial reporting requirements for intangible assets such as easements, water rights, timber rights, patents, trademarks and computer software, and reduce inconsistencies in current reporting practices, thereby enhancing the comparability of the accounting and reporting of such assets among state and local governments. The adoption of GASB 51 did not have a material impact on the Town's financial position or its results from operations.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which was effective for the Town beginning on July 1, 2009. GASB 53 was intended to improve how state and local governments report information about derivative instruments (financial arrangements used by governments to manage specific risks or make investments) in their financial statements. GASB 53 specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The adoption of GASB 53 did not have a material impact on the Town's financial position or its results from operations.

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to alter the focus to bring greater clarity and consistency to fund balance reporting and terminology used to report fund balance in governmental funds. GASB 54 is effective for periods beginning after June 15, 2010. The Town will adopt GASB 54 for the fiscal year ended June 30, 2011. The Town is currently evaluating whether the adoption of GASB 54 will have a material impact on its financial statements.

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of GASB 59 is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of GASB 59 are effective for financial statements for periods beginning after June 15, 2010. The Town does not expect that the adoption of GASB 59 will have a material effect on its financial statements.

VI. Economic Dependence

During the year ended June 30, 2010, approximately 23.6% of revenues of the general fund were recognized from the Commonwealth of Massachusetts.

VII. Restatement of Prior Year Balance

The following restatements were made to the beginning balances as of July 1, 2009:

Government-Wide Financial Statements

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Prior year net assets as presented	\$ 96,531,376	\$ 48,609,304
Other post employment benefit liability reclassification	58,931	(58,931)
Receivable accrual for unbilled usage	-	2,209,999
As restated	<u>\$ 96,590,307</u>	<u>\$ 50,760,372</u>

Fund Financial Statements

	<u>Water and Sewer</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Prior year net assets as presented	\$ 48,609,304	\$ -	\$ -
Segregate water and sewer activity	(48,609,304)	29,558,975	19,050,329
Other post employment benefit liability reclassification	-	(49,231)	(9,700)
Receivable accrual for unbilled usage	-	1,147,148	1,062,851
As restated	<u>\$ -</u>	<u>\$ 30,656,892</u>	<u>\$ 20,103,480</u>

TOWN OF WALPOLE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

SCHEDULES OF FUNDING PROGRESS

Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2008	\$ 596,157,147	\$ 907,719,124	\$ 311,561,977	65.7%	\$ 223,814,977	139.2%
1/1/2007	\$ 533,077,948	\$ 855,677,413	\$ 322,599,465	62.3%	\$ 219,620,865	146.9%
1/1/2005	\$ 467,186,566	\$ 762,900,650	\$ 295,714,084	61.2%	\$ 196,639,163	150.4%
1/1/2003	\$ 415,150,776	\$ 675,275,257	\$ 260,124,481	61.5%	\$ 185,281,985	140.4%

Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
7/1/2008	\$ -	\$ 49,374,785	\$ 49,374,785	0.0%	\$ 40,394,469	122.2%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended December 31,	Norfolk County Retirement System			Town	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Town's Percentage of System Wide Actual Contributions
2009	\$ 41,242,373	\$ 41,242,373	100.0%	\$ 2,810,876	6.8%
2008	\$ 38,920,499	\$ 38,920,499	100.0%	\$ 2,638,256	6.8%
2007	\$ 33,104,903	\$ 33,104,903	100.0%	\$ 2,254,346	6.8%

Other Post Employment Benefits

Year Ended June 30,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2010	\$ 4,260,533	\$ 1,538,149	36.1%
2009	\$ 4,044,061	\$ 1,432,269	35.4%

See accompanying independent auditor's report.

TOWN OF WALPOLE, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 47,460,721	\$ 47,778,136	\$ 48,092,921	\$ -	\$ 48,092,921	\$ 314,785
Intergovernmental	10,131,615	10,131,615	10,675,641	-	10,675,641	544,026
Motor vehicle and other excises	2,950,000	2,950,000	2,942,110	-	2,942,110	(7,890)
Departmental and other revenue	318,000	318,000	503,822	-	503,822	185,822
License and permits	600,000	600,000	686,831	-	686,831	86,831
Penalties and interest on taxes	145,000	145,000	195,914	-	195,914	50,914
Fines and forfeitures	60,000	60,000	57,100	-	57,100	(2,900)
Investment income	135,000	135,000	53,304	-	53,304	(81,696)
Total Revenues	61,800,336	62,117,751	63,207,643	-	63,207,643	1,089,892
EXPENDITURES						
General government	2,942,815	3,017,511	2,632,753	113,479	2,746,232	271,279
Public safety	7,191,268	7,669,720	7,413,781	140,848	7,554,629	115,091
Education	31,972,519	33,203,891	32,972,046	231,033	33,203,079	812
Public works	6,608,691	6,869,645	5,497,718	406,564	5,904,282	965,363
Health and human services	461,850	485,850	476,753	-	476,753	9,097
Culture and recreation	1,354,805	1,498,522	1,348,482	125,578	1,474,060	24,462
Pension and fringe benefits	12,358,023	12,334,694	11,898,366	25,000	11,923,366	411,328
State and county tax assessments	1,021,896	1,021,896	1,033,649	-	1,033,649	(11,753)
Debt service	2,261,707	2,206,707	2,190,722	-	2,190,722	15,985
Total Expenditures	66,173,574	68,308,436	65,464,270	1,042,502	66,506,771	1,801,665
OTHER FINANCING SOURCES (USES)						
Transfers in	1,658,331	1,733,331	1,753,985	-	1,753,985	20,654
Transfers out	-	(55,000)	(55,000)	-	(55,000)	-
Total Other Financing Sources (Uses)	1,658,331	1,678,331	1,698,985	-	1,698,985	20,654
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(2,714,907)	(4,512,354)	(557,642)	\$ (1,042,502)	\$ (1,600,143)	\$ 2,912,211
Budgetary deficit funded from:						
Overlay surplus	\$ 50,000	\$ 270,510				
Free Cash	-	1,505,554				
Prior year encumbrances	1,846,907	1,846,907				
Encumbrance reversions	818,000	889,383				
	\$ 2,714,907	\$ 4,512,354				

See accompanying notes to required supplementary information.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2010

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town's annual meeting in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town made approximately \$2,100,000 of supplemental budgetary appropriations during the year. Supplemental appropriations were approved at Special Town Meetings that increased the public safety (\$0.5 million), education (\$1.2 million), public works (\$0.3 million) and culture and recreation (\$0.1 million) budgets. The appropriations were funded with approximately \$0.3 million of property tax revenues, approximately \$1.7 from undesignated fund balance and approximately \$0.1 of other available funds.

The Town's general fund is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide a meaningful comparison with the budget. Primary differences include the recognition of grossing up revenues and expenditures to reflect On Behalf Teacher's Retirement paid by the Commonwealth and debt service activity in the General Fund that has been included as part of the Enterprise Fund on a GAAP basis. A reconciliation is provided as follows:

Revenues on a GAAP basis	\$ 68,790,929
On-behalf teacher's receipts	<u>(5,583,286)</u>
Revenues on a Budgetary basis	<u>\$ 63,207,643</u>
Expenditures on a GAAP basis	\$ 71,040,861
Debt service expenditures	6,695
On-behalf teacher's expenditures	<u>(5,583,286)</u>
Expenditures on a Budgetary basis	<u>\$ 65,464,270</u>
Transfers in on a GAAP basis	\$ 1,846,783
Debt service expenditures	<u>(92,798)</u>
Transfers in on a Budgetary basis	<u>\$ 1,753,985</u>
Transfers out on a GAAP basis	\$ (97,597)
Debt service expenditures	<u>42,597</u>
Transfers out on a Budgetary basis	<u>\$ (55,000)</u>