

TOWN OF WALPOLE, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2008

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, as of and for the year ended June 30, 2008 which collectively comprise the Town of Walpole, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Walpole, Massachusetts. 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 of Walpole, Massachusetts, as of June 30, 2008, 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.

The Management's Discussion and Analysis on pages 2 – 10 and the required supplementary information on pages 40 - 41 as listed in the table of contents, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2008 on our consideration of the Town of Walpole, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 27, 2008

Management's Discussion and Analysis

As the management of the Town of Walpole, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008. 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 - 41. All amounts, unless otherwise indicated in the Management Discussion and Analysis, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$149.4 million (*total net assets*). Of this amount, approximately \$15.0 million is considered unrestricted (*unrestricted net assets*). The unrestricted net assets of the Town's governmental activities are approximately \$10.8 million and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net assets of the Town's business-type activities are approximately \$4.1 million and may be used to meet the ongoing obligations of the Town's water and sewer business-type activities.
- The government's total net assets increased by approximately \$2.6million. All of this increase was due to business-type activity operations, as the Town received significant funds for sewer and water connections during the year. Governmental operations on a government-wide basis met expectations and caused no increase or decrease to net assets.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$14.8 million, a decrease of approximately \$1.5 million over the previous year. The decrease is mainly attributable to the need to use prior year surplus (free cash) for capital improvements. Approximately \$4.8 million of the ending fund balance is *available for spending* at the government's discretion either as *unreserved fund balance* or *stabilization*. The remainder is earmarked for specific expenditures.
- 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 15 of the accompanying basic financial statements to assist the reader to understand these differences.
- At the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$3.5 million or 5.0% percent of total general fund expenditures; this represents a decrease of approximately \$3.1 million over the previous year (see above).
- The Town's total long-term debt decreased by \$2.7 million during the year. This was due to regularly scheduled maturities of debt of approximately \$2.9 million offset by bond issuances of approximately \$0.2 million.

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, highways and streets, sanitation, education, economic development, debt service, fringe benefits and culture and recreation. The business-type activities of the Town include a water and sewer enterprise.

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 Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided on pages 15-16 to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains 5 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 both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found on page 40 of this report. The basic governmental fund financial statements can be found on pages 13-14 of this report.

Proprietary Funds. The Town maintains one type of proprietary fund. *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 proprietary fund financial statements provide information for the water and sewer enterprise. 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 of 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 of pages 22-39 of this report.

Government-wide Financial Analysis

Net Assets (See Exhibit I; page 5) As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by approximately \$149.4 million at the close of the most recent fiscal year.

By far the largest portion approximately (86.0%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets approximately (4.0%) represents resources that are subject to external restriction on how they may be used. The remaining balance of *unrestricted net assets*, approximately (10.0%) may be used to meet the government's ongoing obligations to citizens and creditors.

Change in Net Assets (See Exhibit II; page 6) The government's total net assets increased by approximately \$2.6 million. All of this increase was due to business-type activity operations, as the Town received significant funds for sewer and water connections during the year. Governmental operations on a government-wide basis met expectations and caused no increase or decrease to net assets.

Property taxes represented approximately 58.5% of total revenues while operating grants represented 23.2% of total revenues. Educational expenditures were the largest expenditure representing approximately 50.3% of total expenditures.

Government-Wide Financial Analysis
Exhibit I

Net Assets

	<u>Governmental activities</u>		<u>Business activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Assets</u>						
Current and other assets	\$ 22,854	\$ 24,341	\$ 9,210	\$ 6,856	\$ 32,065	\$ 31,197
Capital assets, net	<u>99,947</u>	<u>100,123</u>	<u>56,171</u>	<u>56,381</u>	<u>156,118</u>	<u>156,504</u>
Total assets	122,802	124,464	65,381	63,237	188,183	187,701
<u>Liabilities</u>						
Long term liabilities	16,690	18,238	13,951	14,847	30,641	33,085
Other liabilities	<u>6,520</u>	<u>6,644</u>	<u>1,594</u>	<u>1,098</u>	<u>8,114</u>	<u>7,742</u>
Total liabilities	23,210	24,882	15,545	15,945	38,755	40,827
<u>Net Assets</u>						
Invested in capital assets, net of related debt	83,326	82,466	45,698	43,869	129,024	126,335
Restricted	5,433	3,724	-	-	5,433	3,724
Unrestricted	<u>10,832</u>	<u>13,392</u>	<u>4,139</u>	<u>3,423</u>	<u>14,971</u>	<u>16,815</u>
Net Assets	<u>\$ 99,591</u>	<u>\$ 99,582</u>	<u>\$ 49,837</u>	<u>\$ 47,292</u>	<u>\$ 149,428</u>	<u>\$ 146,874</u>

Government-Wide Financial Analysis
Exhibit II

Changes in Net Assets

	Governmental activities		Business activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 4,253	\$ 6,398	\$ 6,700	\$ 6,280	\$ 10,953	\$ 12,678
Operating grants and contributions	17,643	15,178	1,589	1,097	19,233	16,275
Capital grants and contributions	1,832	1,550	1,149	549	2,981	2,099
General revenues:						
Property taxes	44,468	43,664			44,468	43,664
Intergovernmental	4,083	3,199	358		4,441	3,199
Other	3,778	4,288	1	22	3,779	4,310
Total revenues	<u>76,057</u>	<u>74,277</u>	<u>9,797</u>	<u>7,948</u>	<u>85,854</u>	<u>82,225</u>
Expenses						
General government	1,939	2,490			1,939	2,490
Public safety	7,417	7,718			7,417	7,718
Education	38,586	36,052			38,586	36,052
Public works	8,439	8,303			8,439	8,303
Human services and culture	2,468	2,442			2,468	2,442
Pension and other fringe benefits	15,993	14,856			15,993	14,856
State and county	1,098	1,067			1,098	1,067
Debt service	781	965	708	775	1,489	1,740
Water and sewer			5,870	5,960	5,870	5,960
Total expenses	<u>76,722</u>	<u>73,893</u>	<u>6,578</u>	<u>6,735</u>	<u>83,300</u>	<u>80,628</u>
Increase (deficiency) in net assets before transfers	(665)	384	3,220	1,213	2,554	1,597
Transfers	674	786	(674)	(786)	-	-
Increase in net assets	9	1,170	2,545	427	2,554	1,597
Net assets, beginning of year	<u>99,582</u>	<u>98,412</u>	<u>47,292</u>	<u>46,865</u>	<u>146,874</u>	<u>145,277</u>
Net assets, end of year	<u>\$ 99,591</u>	<u>\$ 99,582</u>	<u>\$ 49,837</u>	<u>\$ 47,292</u>	<u>\$ 149,428</u>	<u>\$ 146,874</u>

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 \$14.8 million, a decrease of approximately \$1.5 million over the previous year. The decrease is mainly attributable to the need to use prior year surplus (free cash) for capital improvements. Approximately \$4.8 million of the ending fund balance is *available for spending* at the government's discretion either as *unreserved fund balance* or *stabilization*. The remainder is earmarked for specific expenditures.

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 \$3.5 million, while total fund balance reached approximately \$7.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 5.0% of total general fund expenditures, while total fund balance represents approximately 10.1% of that same amount.

The stabilization fund has a total fund balance of approximately \$2.1 million. Approximately \$0.8 million is reserved for future debt payments and approximately \$1.3 is general 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. Stabilization balances increased by approximately \$0.8 million during the year due to transfers from general fund and investment income.

Non-major Governmental Funds realized a decrease over the prior year due to continued capital improvements.

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

Net assets of the water and sewer fund at the end of the year amounted to approximately \$49.8 million.

General Fund Budgetary Highlights

Differences between the original budget of \$64.7 million and the final amended budget of \$67.2 million amount to 4.0% and can be briefly summarized as follows:

- \$0.7 million in Public Safety revisions and;
- \$0.9 million in Education revisions and;
- \$0.7 million in Public Works revisions; and
- \$0.2 million in other various line items.

The increase in the amount of \$2.5 million related primarily to capital items funded principally from prior year available surplus (free cash). Operating items were funded from additional local aid.

Capital Asset and Debt Administration

Capital Assets. The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to approximately \$156.1 million (net of accumulated depreciation of approximately \$84.2 million). This investment in capital assets includes land, buildings and system improvements, machinery and equipment. Fixed asset balances decreased by approximately \$0.4 million as annual depreciation exceeded additions.

Capital Assets

	Governmental	Business-type	Total
Land	\$ 26,620	\$ 2,872	\$ 29,492
Buildings and improvements	72,175	19,712	91,887
Infrastructure	50,812	49,588	100,400
Machinery and equipment	4,861	8,042	12,903
Vehicles	5,078	641	5,719
	<u>159,546</u>	<u>80,855</u>	<u>240,401</u>
Less: Accumulated depreciation	<u>(59,599)</u>	<u>(24,684)</u>	<u>(84,283)</u>
Total capital assets	<u>\$ 99,947</u>	<u>\$ 56,171</u>	<u>\$ 156,118</u>

The Town recently completed major renovations and building of its educational facilities. Final costs approximated \$45 million. This is reflected in the numbers set out above. Under various School Building Assistance Reimbursement regulations of the Massachusetts General Laws the Town is allowed to recoup a percentage of the construction costs including interest over the life of the related debt service. The Town has qualified to receive 63% reimbursements for such costs (see long –term debt section on page 9)

Additional information on the Town capital assets can be found in note III. E on pages 32-33 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$31.4 million. The entire amount comprises debt backed by the full faith and credit of the government. Of this amount approximately \$16.9 million represented General obligation bonds of governmental activities and approximately \$14.5 million represented General obligation bonds of business type activities. The Town's total long-term debt decreased by \$2.7 million during the year. This was due to regularly scheduled maturities of debt of approximately \$2.9 million offset by bond issuances of approximately \$0.2 million.

The Town anticipates being reimbursed approximately \$2.7 million of the business – type debt principal over the life of the loan from the MWPAT. In addition, the MWPAT will also reimburse the Town approximately \$2.4 million for interest over the life of the loan. The Town also anticipates being reimbursed approximately \$1.1 million of governmental – type debt principal and approximately \$0.5 million of interest from the Massachusetts School Building Authority as previously discussed under the Capital Asset section.

The Town maintained a bond rating of “Aa3” as set by Moodys’ for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$199 million based on an equalized valuation of approximately \$4.0 billion. This is significantly in excess of the Town's outstanding general obligation debt inside the limit. 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.D and F on pages 34-37 of this report.

Economic Factors and Next Year's Budgets and Rates

- Unemployment rates for the Town as listed by *Massachusetts Executive Office of Labor and Workforce Development Division of Unemployment Assistance* have been consistently more favorable than State averages. The latest unemployment rate figures available are for August 2008 and are 4.1% for the Town as compared to 5.1% for the State.
- The Town's real estate tax base is made up predominantly of personal property and residential taxes, which represent approximately 86.5 % of the Town's real estate tax base. The Town also relies heavily on its commercial and industrial real estate tax base, which is anticipated to provide approximately \$6.0 million to the 2009 budget. 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 plus new growth.
- Consistent with both State and National indices, the Town's housing market is in a downward trend. Housing prices are approximately 20% lower than their 2005 peaks.

These factors amongst others were considered in preparing the Town's budget for the 2009 fiscal year.

In the current fiscal year, unreserved fund balance in the general fund decreased to approximately \$3.5 million as compared to approximately \$6.3 million in the prior year. As a result, as of July 1, 2008, the Town's certified 'free cash' available for expenditure was reduced to approximately \$2.7 million. Due to reductions in anticipated State Aid of approximately \$0.9 million, the Town appropriated approximately \$0.5 million of free cash for the Education budget and approximately \$0.4 million to supplement the general operating budget. In addition, approximately \$0.6 million has been appropriated for capital projects unless State Aid is further reduced by year end.

The Town used all its levy capacity in the 2009 budget process but did not rely on a Proposition 2 ½ override. The Town was able to balance its 2009 budget through a reduction in expenditures, a slight increase in State Aid as well as better than expected new growth. Within the enterprise funds, water and sewer rates for 2009 increased by approximately 7.9% and 3.0% respectively.

In the Town's General Operating fund for 2009, property taxes represent approximately 70.9% of the annual operating budget and local-aid from the Commonwealth represents approximately 17.4% of the budget. The percentage of property tax used to fund the previous year's budget was approximately 68.0%, and local aid was approximately 16.0%. Other revenue generated by the Town increased from approximately 9.0% in 2008 to approximately 12.0% in 2009. Property taxes continued to generate a majority of the revenue (see above) and state aid increased by approximately \$1.0 million over the prior year however this was less than expected. The Town also experienced a reduction in prison mitigation funds and as previously discussed was forced to appropriate from free cash to make up the difference.

The Town expects State Aid to be level funded at best into 2010 with reductions a distinct possibility. In addition, growth in real estate is expected to decline in the near term, putting pressure on Town to find other sources of revenue to meet accelerating expenditures.

The Town's tax rate is scheduled to be set in November, 2008 and approved by the Department of Revenue.

Requests for Information

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

TOWN OF WALPOLE, MASSACHUSETTS

STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 14,244,336	\$ 5,297,212	\$ 19,541,548
Investments	2,090,485		2,090,485
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	589,013		589,013
Departmental and other	344,964		344,964
User fees		972,949	972,949
Intergovernmental - Educational grants			-
Intergovernmental - MWPAT subsidy		126,293	126,293
Intergovernmental - School construction	239,697		239,697
Total Current Assets	17,508,495	6,396,454	23,904,949
NONCURRENT:			
Restricted:			
Cash	1,857,907		1,857,907
Investments	1,210,901		1,210,901
Receivables, net of allowance for uncollectibles:			
Department and other	1,464,422		1,464,422
Intergovernmental - School construction	812,685		812,685
Intergovernmental - MWPAT subsidy		2,522,208	2,522,208
Apportioned assessments		291,667	291,667
Land	26,620,203	2,871,735	29,491,938
Depreciable capital assets, net of accumulated depreciation	73,326,896	53,299,379	126,626,275
TOTAL ASSETS	122,801,509	65,381,443	188,182,952
LIABILITIES			
CURRENT:			
Accounts payable and accrued expenses	3,299,845		3,299,845
Interest expense	100,720	37,715	138,435
Other payables	137,151		137,151
Deposits and agency liabilities	293,865		293,865
Bond anticipation notes payable	920,000	862,500	1,782,500
Compensated absences	157,342	8,645	165,987
Current portion of debt	1,611,124	684,673	2,295,797
Total Current Liabilities	6,520,047	1,593,533	8,113,580
NONCURRENT:			
Bond and note indebtedness	15,274,201	13,873,258	29,147,459
Compensated absences	1,416,079	77,803	1,493,882
TOTAL LIABILITIES	23,210,327	15,544,594	38,754,921
NET ASSETS			
Invested in capital assets, net of related debt	83,326,203	45,697,799	129,024,002
Restricted for			
Capital projects	273,272		273,272
Permanent funds	2,226,405		2,226,405
Stabilization fund	2,090,485		2,090,485
Fringe benefits	842,403		842,403
Unrestricted	10,832,414	4,139,050	14,971,464
NET ASSETS	\$ 99,591,182	\$ 49,836,849	\$ 149,428,031

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, 2008

	Expenses	Indirect Expenses Allocation	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
FUNCTIONS/PROGRAMS							
Governmental Activities:							
General government	\$ 1,939,043		\$ 477,807	\$ 7,385		\$ (1,453,851)	\$ (1,453,851)
Public safety	7,417,389		1,390,762	464,258		(5,562,369)	(5,562,369)
Education	38,586,028		1,791,864	11,621,697		(25,172,467)	(25,172,467)
Public works	8,439,273		84,133		\$ 1,831,847	(6,523,293)	(6,523,293)
Culture recreation and human services	2,468,027		508,101	350,317		(1,609,609)	(1,609,609)
Pension and fringe benefits	15,993,206			5,171,519		(10,821,687)	(10,821,687)
State and County charges	1,097,971					(1,097,971)	(1,097,971)
Debt service	781,322			28,178		(753,144)	(753,144)
Total Governmental Activities	76,722,259	\$ -	4,252,667	17,643,354	1,831,847	(52,994,391)	(52,994,391)
Business-Type Activities:							
Water and sewer services	6,577,672		6,700,204	1,589,171	1,148,743		2,860,446
Total Primary Government	\$ 83,299,931		\$ 10,952,871	\$ 19,232,525	\$ 2,980,590	\$ (52,994,391)	\$ (50,133,945)
General Revenues:							
Real and personal property taxes						44,468,104	44,468,104
Motor vehicle and other excise						3,360,867	3,360,867
Penalties and interest on taxes						183,048	183,048
Intergovernmental						4,083,168	4,441,332
Investment income						493,718	510,403
Loss/Gain on disposal of fixed assets						(259,800)	(275,341)
Transfers (Inst)						674,437	-
Total general revenues and transfers						53,003,542	52,688,413
Change in Net Assets						9,151	2,554,468
Net Assets:							
Beginning of year						99,582,031	146,873,563
End of year						\$ 99,591,182	\$ 149,428,031

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

TOWN OF WALPOLE, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 10,706,955		\$ 3,537,381	\$ 14,244,336
Investments		\$ 2,090,485		2,090,485
Receivables, net of allowance for uncollectibles				
Real estate and personal property taxes	589,013			589,013
Other	1,792,391		16,995	1,809,386
Due from government - MSBA	1,052,382			1,052,382
Cash - restricted			1,857,907	1,857,907
Investments - restricted			1,210,901	1,210,901
Total Assets	\$ 14,140,741	\$ 2,090,485	\$ 6,623,184	\$ 22,854,410
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants and accounts payable	\$ 3,299,845			\$ 3,299,845
Other payables	137,151			137,151
Deposits and agency liabilities	293,865			293,865
Deferred revenues	3,433,787		\$ 16,995	3,450,782
Bond anticipation notes payable			920,000	920,000
Total Liabilities	7,164,648	\$ -	936,995	8,101,643
FUND BALANCES:				
Reserved for:				
Encumbrances	3,491,368			3,491,368
Debt service		773,446		773,446
Stabilization		1,317,039		1,317,039
Unreserved:				
Undesignated, reported in:				
General fund	3,484,725			3,484,725
Special revenue funds			3,264,109	3,264,109
Capital projects funds			(646,728)	(646,728)
Permanent funds			3,068,808	3,068,808
Total Fund Balances	6,976,093	2,090,485	5,686,189	14,752,767
Total Liabilities and Fund Balances	\$ 14,140,741	\$ 2,090,485	\$ 6,623,184	\$ 22,854,410

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, 2008**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes, net	\$ 44,235,676			\$ 44,235,676
Intergovernmental	16,365,739		\$ 6,241,413	22,607,152
Motor vehicle and other excises	3,316,716			3,316,716
Departmental and other revenue	957,756		2,516,635	3,474,391
License and permits	743,965			743,965
Penalties and interest on taxes	183,048			183,048
Fines and forfeitures	62,805			62,805
Investment income	577,997	\$ 75,631	114,113	767,741
Unrealized losses on investments			(274,023)	(274,023)
Contributions and donations			1,186,828	1,186,828
Total Revenues	<u>66,443,702</u>	<u>75,631</u>	<u>9,784,966</u>	<u>76,304,299</u>
OTHER FINANCING SOURCES				
Transfers in	881,959	754,329		1,636,288
Total Other Financing Sources	<u>881,959</u>	<u>754,329</u>	<u>-</u>	<u>1,636,288</u>
Total Revenues and Other Financing Sources	<u>67,325,661</u>	<u>829,960</u>	<u>9,784,966</u>	<u>77,940,587</u>
EXPENDITURES				
General government	2,521,495		75,011	2,596,506
Public safety	7,400,236		394,613	7,794,849
Education	31,394,775		6,173,971	37,568,746
Public works	6,710,728		1,784,656	8,495,384
Culture, recreation, health and human services	1,761,196		738,812	2,500,008
Pension and other fringe Benefits	15,819,421		102,967	15,922,388
State and county tax assessments	1,076,379			1,076,379
Debt service	2,483,603			2,483,603
Total Expenditures	<u>69,167,833</u>	<u>-</u>	<u>9,270,030</u>	<u>78,437,863</u>
OTHER FINANCING USES				
Transfers out			(961,851)	(961,851)
Total Expenditures and Other Financing Uses	<u>69,167,833</u>	<u>-</u>	<u>8,308,179</u>	<u>77,476,012</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(1,842,172)	829,960	1,476,787	464,575
FUND BALANCES, JULY 1, 2007	8,818,265	1,260,525	6,133,104	16,211,894
FUND BALANCES, JUNE 30, 2008	<u>\$ 6,976,093</u>	<u>\$ 2,090,485</u>	<u>\$ 7,609,891</u>	<u>\$ 16,676,469</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, 2008

Total Governmental Fund Balances	\$ 14,752,767
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	99,947,099
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	3,450,782
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(100,720)
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	(16,885,325)
Compensated absences	<u>(1,573,421)</u>
Net Assets of Governmental Activities	<u><u>\$ 99,591,182</u></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, 2008

Net Change in Fund Balances - Total Governmental Fund Balances \$ (1,459,127)

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. Net capital outlays amounted to \$2,445,791, net depreciation expense totaled \$2,621,450. The net is represented here as a reconciling item. In addition, disposals of (175,659)

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 repayments were \$1,690,124 and net proceeds were \$0. The net amount is reflected as a reconciling item. 1,690,124

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in deferred revenue between this year and the prior year. 12,475

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. 12,157

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 (70,819)

Change in Net Assets of Governmental Activities \$ 9,151

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, 2008

	Business - type Activities - Enterprise Funds
	<u>Totals</u>
ASSETS	
CURRENT:	
Cash and cash equivalents	\$ 5,297,212
User fees, net of allowance for uncollectibles	972,949
Intergovernmental	<u>126,293</u>
Total Current Assets	6,396,454
NONCURRENT:	
Land	2,871,735
Depreciable assets, net of accumulated depreciation	53,299,379
Intergovernmental	2,522,208
Apportioned assessments	<u>291,667</u>
TOTAL ASSETS	<u>65,381,443</u>
LIABILITIES	
CURRENT:	
Warrants and accounts payable	-
Accrued interest	37,715
Notes payable	862,500
Compensated absences	8,645
Current portion of debt	<u>684,673</u>
Total Current Liabilities	<u>1,593,533</u>
NONCURRENT:	
Compensated absences	77,803
Long term portion of debt	<u>13,873,258</u>
TOTAL LIABILITIES	<u>15,544,594</u>
NET ASSETS	
Invested in capital assets, net of related debt	45,697,799
Unrestricted	<u>4,139,050</u>
NET ASSETS	<u>\$ 49,836,849</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, 2008

	Business - type Activities - Enterprise Funds Water and Sewer
OPERATING REVENUES	
Charges for services	\$ 6,700,201
Other	1,589,171
Total Operating Revenues	8,289,372
OPERATING EXPENSES	
Operating costs	4,425,131
Depreciation	1,444,893
Total Operating Expenses	5,870,024
OPERATING INCOME	2,419,348
NONOPERATING REVENUES (EXPENSES):	
Contributions and donations	1,148,743
Intergovernmental	358,164
Disposal of assets	(15,541)
Interest income	16,688
Interest expense	(707,648)
Transfers out	(674,437)
Total Nonoperating Revenues (Expenses), net	125,969
CHANGE IN NET ASSETS	2,545,317
NET ASSETS AT BEGINNING OF YEAR	47,291,532
NET ASSETS AT END OF YEAR	\$ 49,836,849

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, 2008

	Business - type Activities - Enterprise Funds Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from users	\$ 6,757,589
Other operating receipts	1,589,171
Payments to vendors and employees	<u>(4,531,693)</u>
Net Cash Provided by (Used for) Operating Activities	<u>3,815,067</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers out	<u>(674,437)</u>
Net Cash Used for Noncapital Related Financing Activities	<u>(674,437)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributions and donations	1,148,743
Government subsidy	476,285
Apportioned assessments	42,640
Acquisition and construction of capital assets	(1,251,000)
Interest expense	(711,485)
Principal payments on bonds and notes	(1,148,785)
Bond anticipation note proceeds	687,500
Bond proceeds	<u>171,600</u>
Net Cash Used for Capital and Related Financing Activities	<u>(584,502)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	<u>16,688</u>
Net Cash Provided by Investing Activities	<u>16,688</u>
NET CHANGE IN CASH AND EQUIVALENTS	2,572,816
CASH AND EQUIVALENTS:	
July 1, 2007	<u>2,724,396</u>
June 30, 2008	<u>\$ 5,297,212</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Operating income (loss)	\$ 2,419,348
Depreciation	1,444,893
Changes in assets and liabilities:	
Receivables (net)	57,388
Accounts payable	(125,004)
Other	<u>18,442</u>
Net Cash Provided From Operating Activities	<u>\$ 3,815,067</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Borrowing under capital leases	-
Contributions of capital assets from General Fund	-
Purchase of equipment on account	-
Increase in fair value of investments	-
Capital asset trade-ins	-

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

TOWN OF WALPOLE, MASSACHUSETTS

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	Private Purpose Trust Funds
ASSETS	
CURRENT:	
Cash and Cash Equivalents	<hr/>
Investments (at fair value):	\$ 2,658,138
Total Assets	\$ 2,658,138
LIABILITIES	
CURRENT:	
Accounts payable and accrued expenses	
Due to other government	<hr/>
Total Liabilities	-
NET ASSETS	
Held in trust for private purposes	2,658,138
Net Assets	\$ 2,658,138

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

TOWN OF WALPOLE, MASSACHUSETTS

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Funds
ADDITIONS:	
Investment Income	\$ 59,597
Total Additions	<u>59,597</u>
EXPENDITURES:	
Scholarships and private assistance	<u>121,549</u>
Total Deductions	<u>121,549</u>
CHANGE IN NET ASSETS	(61,952)
NET ASSETS AT BEGINNING OF YEAR	<u>2,720,090</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,658,138</u>

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

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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

- A. Reporting Entity** - The Town of Walpole is located in Norfolk County, and was incorporated as a town in 1724. An elected five-member Board of Selectmen governs the Town, and a Town Administrator 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, public education in grades K-12, water and sewer services, street maintenance, parks and recreational facilities. 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 its operations and financial relationship with the Town. Pursuant to this criteria, the following entities has been excluded from the financial statements:
- Walpole Housing Authority
 - Norfolk County Retirement System
- 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 and its component units. 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. Likewise, the *primary government* is reported separately from certain legal *component units* if they exist for which the primary government is financially accountable. 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.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

I. Summary of Significant Accounting Policies (continued)

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, claims and judgments, and risk financing, are recorded only when payment is due. Interest associated with the current fiscal period are all considered being 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 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 and Sewer – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water and sewer is processed.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

I. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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 energy 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 not 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.

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.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

I. Summary of Significant Accounting Policies (continued)

E. **Assets, Liabilities, and Net Assets or Equity**

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

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

Receivables – All property tax, trade, and intergovernmental receivables are shown net of an allowance for doubtful collections. 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 up to the statutory percentage rate 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.

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 in excess of two 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.

Property, plant and equipment of the Town is depreciated using the straight line method over the following estimated useful lives:

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

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

I. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, and Net Assets or Equity (continued)

Compensated Absences – It is the Town’s policy to allow employees to accumulate all earned but unused vacation time and to allow sick pay benefits in accordance with union contracts and personnel bylaws which limit the amount of payback upon an employee’s termination. The estimated obligation as of June 30, 2008 is recorded as a liability in the Statement of Net Assets. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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 or 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.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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 annually in April. 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 revert to unreserved fund balance. The Town made several supplemental budgetary appropriations throughout the year approximating \$3.3 million. The majority of these were to supplement the Town's individual appropriations.
- B. Excess of Expenditures Over Appropriations** – During the fiscal year ended, the Town's line item expenditures did not exceed any line item appropriations.
- C. Deficit Fund Balances** – The Town has legal deficit fund balances in its Capital Projects' Fund. These deficits are expected to be raised through future bond issuances.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds

- A. **Deposits and Investments** – Cash and 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, certificates of deposit and 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. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2008, the Town's carrying amount of deposits was \$3,709,976 and the bank balance was \$4,642,777. \$3,828,741 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Credit Risk - Statutes require the Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

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

Concentration of credit risk - The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total investments.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

A. Deposits and Investments (continued)

	Fair Value	Maturity Years			
		< 1	1 - 5	5 - 10	> 10
As of June 30, 2007, the Town had the following investments:					
Government obligations	\$ 1,980,562	\$ 190,811	\$ 587,955	\$ 262,146	\$ 554,433
Fixed income securities	1,595,345	1,561,069	360,217	59,277	
Total Fair Value	3,575,907	\$ 1,751,880	\$ 948,172	\$ 321,423	\$ 554,433
Other investments:					
Money Markets	7,863,456				
State Treasurer's Investment Pool	9,826,023				
Preferred securities	91,415				
Equity securities	2,292,202				
Total Investments	\$ 23,649,003				
Total deposits	\$ 3,709,976				

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 Equivalents
As presented above	\$ 23,649,003	\$ 3,709,976
Reclass: Short-term investments reported in the combined balance sheet as cash and short-term investments; As follows:		
Money Market investments	(7,863,456)	7,863,456
State Treasurer's Investment Pool	(9,826,023)	9,826,023
Totals	\$ 5,959,524	\$ 21,399,455

<u>Investments with credit ratings</u>	
Aaa	\$ 3,023,728
Aa1	98,460
Aa2	124,098
Aa3	344,620
A1	197,939
A2	323,690
A3	32,407
Baa1	123,254
Ba1	105,937
Baa2	93,140
Baa3	26,872
Caa1	18,000
Not rated	101,324
	<u>\$ 4,613,469</u>

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

B. Receivables

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

	General	Stabilization	Non major	Total Governmental	Water and Sewer	Total all funds
Property taxes	\$ 565,960			\$ 565,960		\$ 565,960
Tax liens / foreclosures	1,464,423			1,464,423		1,464,423
Excise	525,799			525,799		525,799
Betterments					\$ 291,667	291,667
User fees					972,949	972,949
Intergovernmental	1,052,382			1,052,382	2,648,501	3,700,883
Other	106,883		\$ 16,955	123,838		123,838
Gross receivables	3,715,447		16,955	3,732,402	3,913,117	7,645,519
Allowance for Uncollectible accounts	(281,661)			(281,661)		(281,661)
Net receivables	<u>\$ 3,433,786</u>	<u>\$ -</u>	<u>\$ 16,955</u>	<u>\$ 3,450,741</u>	<u>\$ 3,913,117</u>	<u>\$ 7,363,858</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 \$3,450,782.

Massachusetts School Building Authority – As of June 30, 2008, the Town expects to receive as the balance of grants from the Commonwealth of Massachusetts under previous school construction reimbursement general laws, approximately \$1,528,512 applicable to approved school construction costs which includes both principal and interest. Such costs are reimbursed to the Town in equal installments over the life (seven years) of the related bond issues and are subject to appropriation only by the State Legislature. In the Governmental funds, the General Fund includes a receivable of \$1,052,382 under the caption Intergovernmental; this includes the reimbursable portion of the principal balance and the reimbursable portion of the accrued interest expense as of June 30, 2008.

MWPAT Loan Subsidies – The Town has entered into a number of loan agreements since February 1997 with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$2,648,502 and interest costs of \$2,329,677 until maturity of these agreements. In the Business Type Funds, the intergovernmental receivables include a receivable for the principal portion.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

C. **Interfund Receivables, Payables and Transfers** – Interfund transfers made to supplement appropriation balances during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 881,959	
Stabilization	754,329	
Nonmajor Governmental		961,851
Business-Type		<u>674,437</u>
Totals	<u>\$ 1,636,288</u>	<u>\$ 1,636,288</u>

D. **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 a revenue or tax anticipation notes (RAN or TAN).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of a bond anticipation note (BAN), state aid anticipation note (SAAN) or grant anticipation note (GAN). 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. Temporary notes outstanding at June 30, 2008, recorded in the Governmental and Proprietary Funds are payable as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>July 1, 2007</u>	<u>Additions</u>	<u>Retirement</u>	<u>June 30, 2008</u>
BAN	4.25%		\$920,000		\$ (920,000)	\$ -
BAN	4.25%		175,000		(175,000)	-
BAN	3.89%	10/16/08		\$ 687,500		687,500
BAN	3.50%	10/16/08		1,095,000		1,095,000
			<u>\$7,680,280</u>	<u>\$1,782,500</u>	<u>(\$1,095,000)</u>	<u>\$ 1,782,500</u>

The temporary notes outstanding relate to general capital projects for \$920,000 and water and sewer for \$687,500.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

E. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 26,741,883	\$ 8,700	\$ (130,380)	\$ 26,620,203
Construction in process	-			-
Total capital assets not being depreciated	26,741,883	8,700	\$ (130,380)	26,620,203
Capital assets being depreciated:				
Buildings and improvements	71,444,565	744,550	(13,951)	72,175,164
Infrastructure	49,648,731	1,187,205	(23,798)	50,812,138
Machinery and equipment	4,566,858	481,499	(187,668)	4,860,689
Vehicles	4,700,290	1,123,125	(745,891)	5,077,524
Total capital assets being depreciated	130,360,444	3,536,379	(971,308)	132,925,515
Less accumulated depreciation for:				
Buildings and improvements	(18,851,987)	(1,439,153)	13,951	(20,277,189)
Infrastructure	(32,012,806)	(1,300,334)	20,724	(33,292,416)
Machinery and equipment	(3,307,251)	(257,919)	187,668	(3,377,502)
Vehicles	(2,807,525)	(463,532)	619,545	(2,651,512)
Total accumulated depreciation	(56,979,569)	(3,460,938)	841,888	(59,598,619)
Total capital assets being depreciated, net	73,380,875	75,441	(129,420)	73,326,896
Governmental activities capital assets, net	<u>\$ 100,122,758</u>	<u>\$ 84,141</u>	<u>\$ (259,800)</u>	<u>\$ 99,947,099</u>

Depreciation expense was charged to functions/programs as follows:

General government	\$ 166,418
Public safety	361,625
Education	1,361,607
Public works	1,472,642
Culture and recreation	98,646
	<u>\$ 3,460,938</u>

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

E. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business Activities:</i>				
Capital assets not being depreciated:				
Land and improvements	\$ 2,871,735			\$ 2,871,735
Construction in process	-			-
	<u>2,871,735</u>			<u>2,871,735</u>
Capital assets being depreciated:				
Buildings and improvements	19,618,834	\$ 93,000		19,711,834
Infrastructure	48,547,494	1,040,002		49,587,496
Machinery and equipment	8,020,256	45,200	\$ (23,606)	8,041,850
Vehicles	594,732	83,000	(37,000)	640,732
	<u>76,781,316</u>	<u>1,261,202</u>	<u>(60,606)</u>	<u>77,981,912</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(4,831,796)	(397,183)		(5,228,979)
Infrastructure	(16,063,134)	(713,179)		(16,776,313)
Machinery and equipment	(2,079,810)	(260,620)	8,065	(2,332,365)
Vehicles	(297,763)	(84,113)	37,000	(344,876)
	<u>(23,272,503)</u>	<u>(1,455,095)</u>	<u>45,065</u>	<u>(24,682,533)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>53,508,813</u>	<u>(193,893)</u>	<u>(15,541)</u>	<u>53,299,379</u>
Business activities capital assets, net	<u>\$ 56,380,548</u>	<u>\$ (193,893)</u>	<u>\$ (15,541)</u>	<u>\$ 56,171,114</u>

Depreciation expense was charged to functions/programs as follows:

Water	\$ 1,013,439
Sewer	441,656
	<u>\$ 1,455,095</u>

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

F. Long-Term Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs. During the year ended June 30, 2008, the following reflects the activity in the long-term liability accounts:

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2008</u>
<i>Governmental Activities:</i>				
Compensated absences, net	\$ 1,502,602	\$ 70,819		\$ 1,573,421
Bond indebtedness	18,575,449		\$ (1,690,124)	16,885,325
Total Governmental	<u>\$ 20,078,051</u>	<u>\$ 70,819</u>	<u>\$ (1,690,124)</u>	<u>\$ 18,458,746</u>
<i>Business-type Activities:</i>				
Compensated absences, net	\$ 68,006	\$ 18,442		\$ 86,448
Bond indebtedness	15,535,116	171,600	(1,148,785)	14,557,931
Total Business-type	<u>\$ 15,603,122</u>	<u>\$ 190,042</u>	<u>\$ (1,148,785)</u>	<u>\$ 14,644,379</u>

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 following is a computation of the legal debt margin as of June 30, 2008:

Equalized Valuation –			
Real Estate and Personal Property			<u>\$3,981,929,170</u>
Debt Limit – 5% of Equalized Valuation			199,096,459
Total Debt (including authorized and unissued)	\$ 34,692,698		
Less: Debt exempt from Limit	(14,404,968)	<u>(20,287,730)</u>	
Legal Debt Margin			<u>\$ 178,808,729</u>

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

F. Long-Term Debt (continued)

Bond Debt Issued - The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2007:

Description of Issue	Year of Issue	Maturity Date	Interest Rate	Original Amounts	Amounts Outstanding
<i>Governmental Activities:</i>					
Inside the debt limit:					
General Obligation 1998	1998	05/15/18	4.0 - 6.5%	\$ 10,409,000	\$ 4,250,000
General Obligation 2001	2001	05/15/16	3.5 - 5.0%	1,498,000	207,000
General Obligation 2004	2004	11/01/24	2.5 - 4.5%	7,511,000	6,304,000
General Obligation 2005	2005	11/01/25	4.0 - 5.0%	4,542,500	4,110,000
Total inside the debt limit					14,871,000
Outside the debt limit:					
OPR School	1993	12/01/12	3.90 - 5.75%	3,410,000	890,000
General Obligation School	1998	05/15/09	4.0 - 6.5%	1,095,000	100,000
MWPAT Title V	2000	08/01/18	4.26%	44,687	27,306
General Obligation 2001	2001	05/15/16	3.5 - 5.0%	259,000	77,000
General Obligation 2004	2004	11/01/24	2.5 - 4.5%	1,059,000	890,000
MWPAT Title V	2004	08/01/21	0%	34,942	30,019
Total outside the debt limit					2,014,325
Total Governmental Activities					\$ 16,885,325
<i>Business-type Activities:</i>					
Inside the debt limit:					
MWPAT loan - 96-31	1997	08/01/20	5.45%	1,804,079	\$ 867,768
MWPAT loan - 98-08	1998	08/01/18	0%	954,000	572,400
General Obligation 2001	2001	05/15/16	3.5 - 5.0%	814,000	360,000
General Obligation 2004	2004	11/01/24	2.5 - 4.5%	90,000	60,000
MWRA	2007	11/15/11	0%	169,400	135,520
MWRA	2008	05/15/08	0%	171,600	171,600
Total inside the debt limit					2,167,288
Outside the debt limit:					
General Obligation 1998	1998	05/15/18	4.0 - 6.5%	5,900,000	2,950,000
General Obligation 2001	2001	05/15/16	3.5 - 5.0%	890,000	471,000
MWPAT Loan CW-02-09	2003	08/05/17	2%	394,362	273,406
MWPAT Loan DW-01-08	2003	08/05/17	5%	9,981,948	8,010,414
General obligation 2004	2004	11/01/24	2.5 - 4.5%	570,000	396,000
MWPAT loan CW-02-09-a	2004	08/01/21	2.50%	11,490	9,823
General obligation 2005	2006	11/01/15	4.25 - 5.0%	354,500	280,000
Total outside the debt limit					12,390,643
Total Business-type Activities					\$ 14,557,931

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008

III. Detailed Notes to All Funds (continued)

F. Long-Term Debt (continued)

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			Business-type Activities						
	Principal		Interest	Principal		Interest				
	Balance	Net Amount		Balance	Net Amount					
2009	\$ 1,611,124	\$ 684,673	\$ (2,623)	\$ 682,050	\$ 1,154,192	\$ (126,293)	\$ 1,027,899	\$ 654,962	\$ (310,588)	\$ 344,374
2010	1,511,124	620,304	(2,441)	617,863	1,171,372	(136,397)	1,034,975	605,457	(294,646)	310,812
2011	1,495,124	558,971	(2,232)	556,739	1,192,643	(140,743)	1,051,900	558,858	(279,503)	279,355
2012	1,391,124	497,791	(2,039)	495,753	1,201,179	(151,105)	1,050,074	506,403	(255,896)	250,506
2013	5,606,861	1,658,893	(9,864)	1,649,030	5,697,055	(937,583)	4,759,472	1,638,621	(851,708)	786,913
2014 - 2018	3,168,778	755,384	(2,900)	752,484	3,480,068	(950,994)	2,529,074	487,760	(320,715)	167,046
2019 - 2023	2,101,191	149,682	(509)	149,173	661,422	(205,387)	456,035	16,571	(16,571)	-
Total	\$ 16,885,325	\$ 4,925,698	\$ (22,609)	\$ 4,903,089	\$ 14,557,931	\$ (2,648,502)	\$ 11,909,429	\$ 4,468,632	\$ (2,329,627)	\$ 2,139,005

Authorized and Unissued Debt - At June 30, 2008, the Town had authorized and unissued debt as follows:

Project	Amount
Governmental:	
School Construction (outside debt)	\$ 594,100
Town hall remodeling	700,000
Roof repair	220,000
Street improvements	200,000
Septic	115,058
Business-Type:	
Water and Sewer Construction	1,420,284
Total authorized and unissued	\$ 3,249,442

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2008

III. Detailed Notes on All Funds (continued)

F. **Long-Term Debt (continued)**

MWPAT Loan Subsidies – The Town has entered into a number of loan agreements since February 1997 with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$2,648,502 and interest costs of \$2,329,677 until maturity of these agreements. Thus net loan repayments under these agreements including interest are scheduled to be \$7,070,863. Since the Town is legally obligated for the total amount of the debt, such principal amounts have been recorded in the accompanying basic financial statements under business type activities. Also see discussion at Note B.

Overlapping Debt – The Town's is responsible for a proportionate share of debt of other governmental units which provide services within the Town's boundaries. The following table lists those entities along with the amount assessed to the Town during 2008.

<u>Related Entity</u>	<u>Annually Assessed</u>
Massachusetts Bay Transportation Authority	\$ 465,323
Norfolk County	162,038
Massachusetts Water Resources Authority – Sewer only	2,871,687
Tri-County Regional Vocational Technical School District	<u>700,306</u>
	<u>\$4,199,354</u>

IV. Other Information

A. **Retirement System**

System Description – The Town contributes to the Norfolk County Retirement System (NCRS), an agency multiple-employer defined benefit pension plan for the Town and other governmental agencies within Norfolk County. The System was established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. NCRS issues a publicly available financial report which is available at the Norfolk County Retirement System, 480 Neponset Street, Building 15, Canton, MA 02021.

Substantially all employees of the Town, except teachers and certain administrative personnel employed by the School Department, participate in the NCRS. The members of the NCRS do not participate in the Social Security System. Benefits paid under the NCRS, referred to as "retirement allowances," include both an annuity portion, funded principally from amounts contributed by the participants, and a pension portion, funded by the Town.

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 \$5,171,519 the year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008

IV. Other Information (continued)

A. Retirement System (continued)

Contribution Requirements and Contributions Made – The NCRS's funding policies have been established by Chapter 32 of the Massachusetts General Laws. The annuity portion of the retirement allowance is funded by employees who contribute a percentage of their regular compensation. Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. Additionally, employees hired after January 1979 contribute an additional 2% on earnings in excess of \$30,000.

The Pension Reform Act of 1987 was enacted by the State Legislature in January 1988. The Act amends Chapter 32 of the General Laws and requires amortization of the unfunded pension liability over a forty-year period. The law also permits each retirement board to waive the \$30,000 pay cap for employees hired after 1978 and, accordingly, the Board of Directors of the NCRS voted to waive the pay cap effective January 1, 1990. Beginning July 1, 1994, the employer contribution is determined using various funding schedules derived under Section 22D. These include at a minimum, the employer normal cost plus the amortization of the original unfunded actuarial liability.

In accordance with Massachusetts General Laws, employer contributions to the NCRS have historically been determined on a pay-as-you-go basis. GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method.

The employer contribution to the NCRS for the year ended June 30, 2008 was approximately 11.3% of the covered payroll. Contributions to the NCRS for the years ended June 30, 2008, 2007, and 2006 were \$2,254,346, \$2,203,686 and \$1,837,078 respectively. This equaled 100% of the required contribution each year.

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

C. Post Employment Benefits – In addition to providing pension benefits, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. These benefits are provided through various health maintenance organizations. Benefits paid by the Town are on a pay-as-you-go basis. There is no actuarial valuation available as of June 30, 2008, which would permit an estimation of the unfunded past service cost liability, future costs of current participants in the system and annual amounts needed to fund such costs. The cost to fund these benefits amounted to approximately \$775,000 for each of the last three fiscal years.

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2008

IV. Other Information (continued)

- D. **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 \$775,000.

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, 2008, 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, 2008.

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.

- E. **Implementation of New GASB Pronouncements** - The following GASB pronouncements which may have a significant future impact on the Town's financial statements will be implemented in future years as their dates become effective:

Effective date: June 30, 2009.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions

TOWN OF WALPOLE, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 44,338,857	\$ 44,406,532	\$ 44,235,676	\$ -	\$ 44,235,676	\$ (170,856)
Intergovernmental	10,390,818	10,390,818	11,194,220		11,194,220	803,402
Motor vehicle and other excises	3,253,000	3,253,000	3,316,716		3,316,716	63,716
Departmental and other revenue	1,114,600	1,114,600	957,756		957,756	(156,844)
License and permits	650,000	650,000	743,965		743,965	93,965
Penalties and interest on taxes	140,000	140,000	183,048		183,048	43,048
Fines and forfeitures	80,000	80,000	62,805		62,805	(17,195)
Investment income	572,000	572,000	577,997		577,997	5,997
Total Revenues	60,539,275	60,606,950	61,272,183	-	61,272,183	665,233
EXPENDITURES						
General government	2,785,901	2,912,383	2,521,495	304,328	2,825,823	86,560
Public safety	7,360,369	8,093,977	7,400,236	646,319	8,046,555	47,422
Education	31,046,194	31,959,415	31,394,775	558,247	31,953,022	6,393
Public works	6,875,692	7,623,236	6,710,728	1,151,745	7,862,473	(239,237)
Culture, recreation, health and human services	1,853,934	2,122,071	1,761,196	304,934	2,066,130	55,941
Pension and other fringe Benefits	11,090,794	10,869,081	10,647,902	295	10,648,197	220,884
State and county tax assessments	1,130,651	1,130,651	1,076,379	-	1,076,379	54,272
Debt service	2,507,221	2,507,221	2,483,603	-	2,483,603	23,618
Total Expenditures	64,650,756	67,218,035	63,996,314	2,965,868	66,962,182	255,853
OTHER FINANCING SOURCES (USES)						
Transfers (net)	1,626,396	914,067	881,959		881,959	(32,108)
Total Other Financing Sources (Uses)	1,626,396	914,067	881,959	-	881,959	(32,108)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(2,485,085)</u>	<u>(5,697,018)</u>	<u>(1,842,172)</u>	<u>\$ (2,965,868)</u>	<u>\$ (4,808,040)</u>	<u>\$ 888,978</u>
BUDGETARY FUND BALANCES, JULY 1, 2007	<u>8,818,265</u>	<u>8,818,265</u>	<u>8,818,265</u>			
BUDGETARY FUND BALANCES, JUNE 30, 2008	<u>\$ 6,333,180</u>	<u>\$ 3,121,247</u>	<u>\$ 6,976,093</u>			

TOWN OF WALPOLE, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund and the 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.

At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. The Town made several supplemental budgetary appropriations throughout the year totaling approximately \$3.3 million. The majority of these were to supplement the Town's individual appropriations.

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 grossing up of revenues and expenditures to reflect On Behalf Teacher's Retirement paid by the Commonwealth. A reconciliation is provided below.

Revenues on a GAAP basis	\$ 66,443,702
On Behalf Teacher's receipts	(5,171,519)
Revenues on a Budgetary basis	\$ 61,272,183
Expenditures on a GAAP basis	\$ 69,167,833
On Behalf Teacher's expenditures	(5,171,519)
Expenditures on a Budgetary basis	\$ 63,996,314