

**TOWN OF WALPOLE, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2011

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# ROSELLI, CLARK & ASSOCIATES

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

Board of Selectmen  
Town of Walpole  
Walpole, Massachusetts

In planning and performing our audit of the 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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Selectman, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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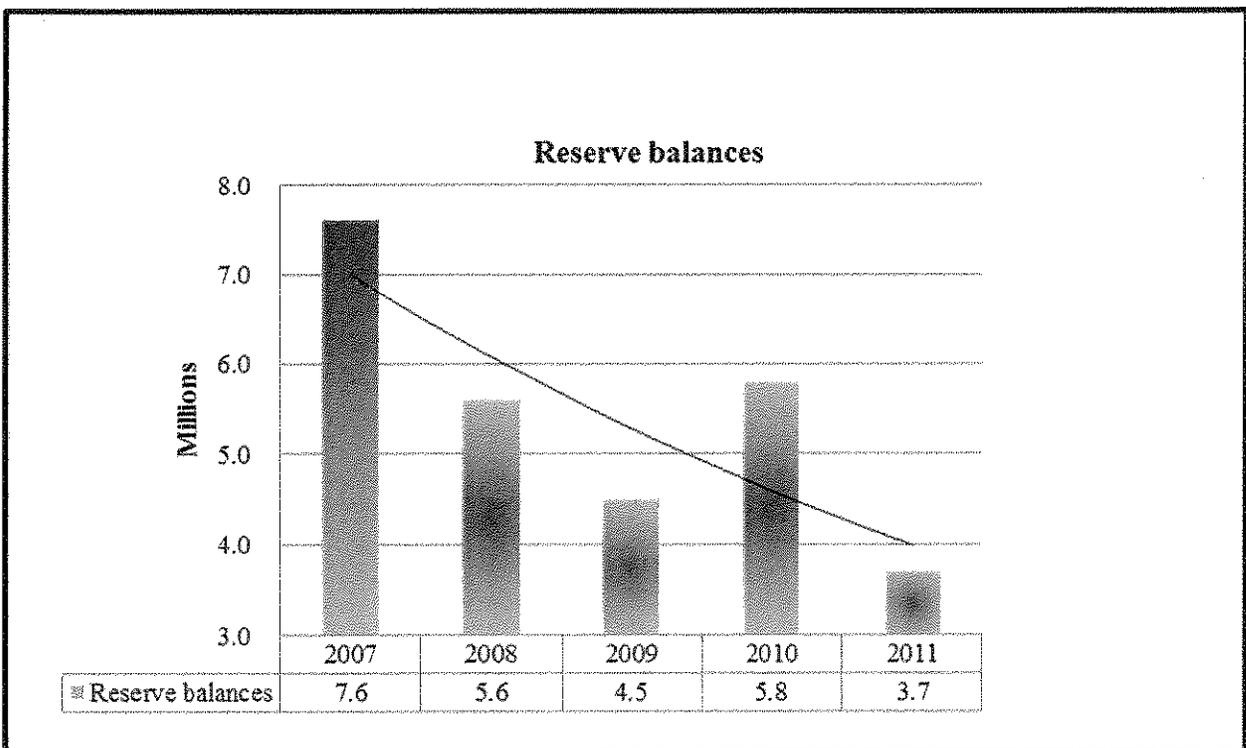
Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
November 4, 2011

## I. OVERVIEW

The inconsistent economic climate that has and continues to plague the entire United States has made it very difficult for communities to manage their reserves effectively. Many have had to concede to the pressures of maintaining services in lieu of building reserves and thus will have to face the consequences of those decisions including possible downgrades to their credit ratings.

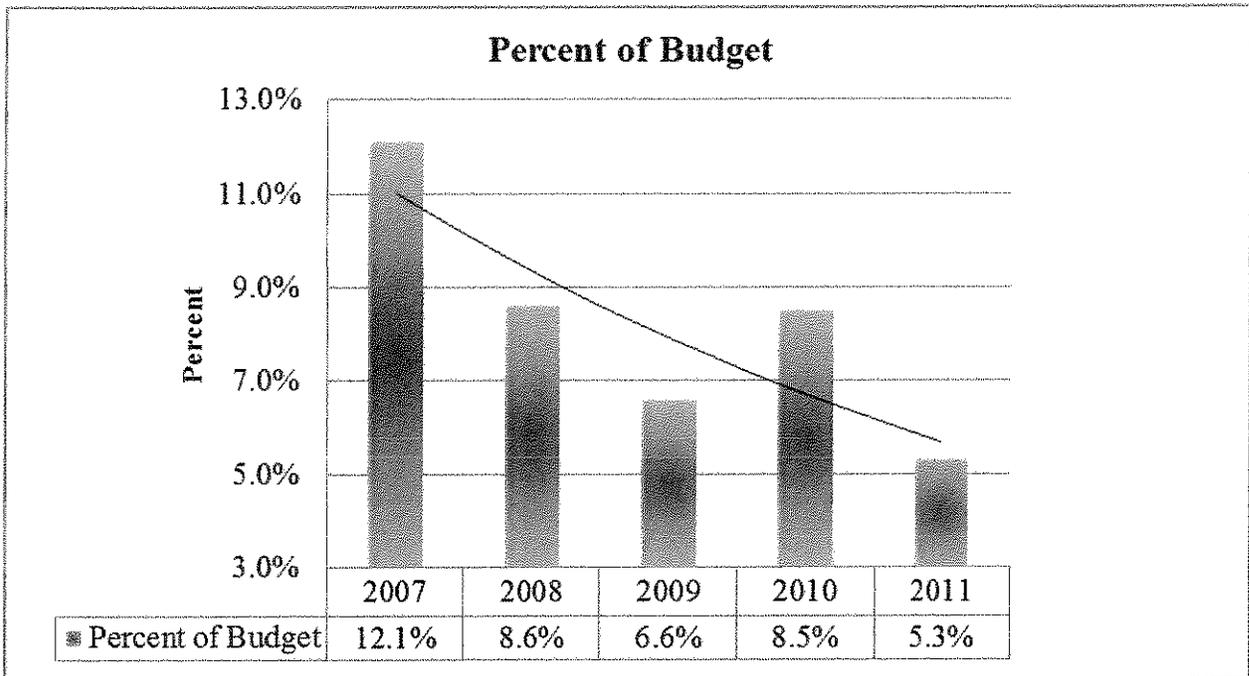
Walpole is a community that is struggling to maintain adequate reserve metrics. In the past fiscal year, the Town appropriated approximately \$1.7 million from free cash to fund capital articles, experienced an operating loss of over \$0.7 million and appropriated over \$0.7 million to balance the 2012 budget. As a result the Town has fallen to the low end of the reserve metric of 5% of budget that the credit agencies seek when evaluating the creditworthiness of a community. The Town is not alone and is fortunate that it still maintains positive balances in its undesignated and stabilization accounts, however the Town should take whatever precautions it can to stabilize this trend.

The following chart depicts this trend:



2007 reserves of approximately \$7.6 million have dipped to approximately \$3.7 million, a reduction of almost 50%.

This has had an adverse impact on the reserve to budget ratio as can be observed in the following chart.



The ratio, which stood at 12.1% in 2007, has now dipped to 5.3%.

The Town should strive to attempt to achieve an aggregate reserve balance of 10% of budget as a financial operating goal. These are the optimum levels of reserves bond rating agencies seek when evaluating a community's stability.

It is important to note also, that the Town maintains approximately \$1.5 million in various receipts for reserve accounts and while these don't technically count as a reserve for credit purposes, they are in fact annual budget sources.

In addition, the Town should review the items in this report and put in place a plan to correct the items noted. Given the continued challenges management is confronting with respect to the economy, we understand that certain of these items would not be given the highest priority.

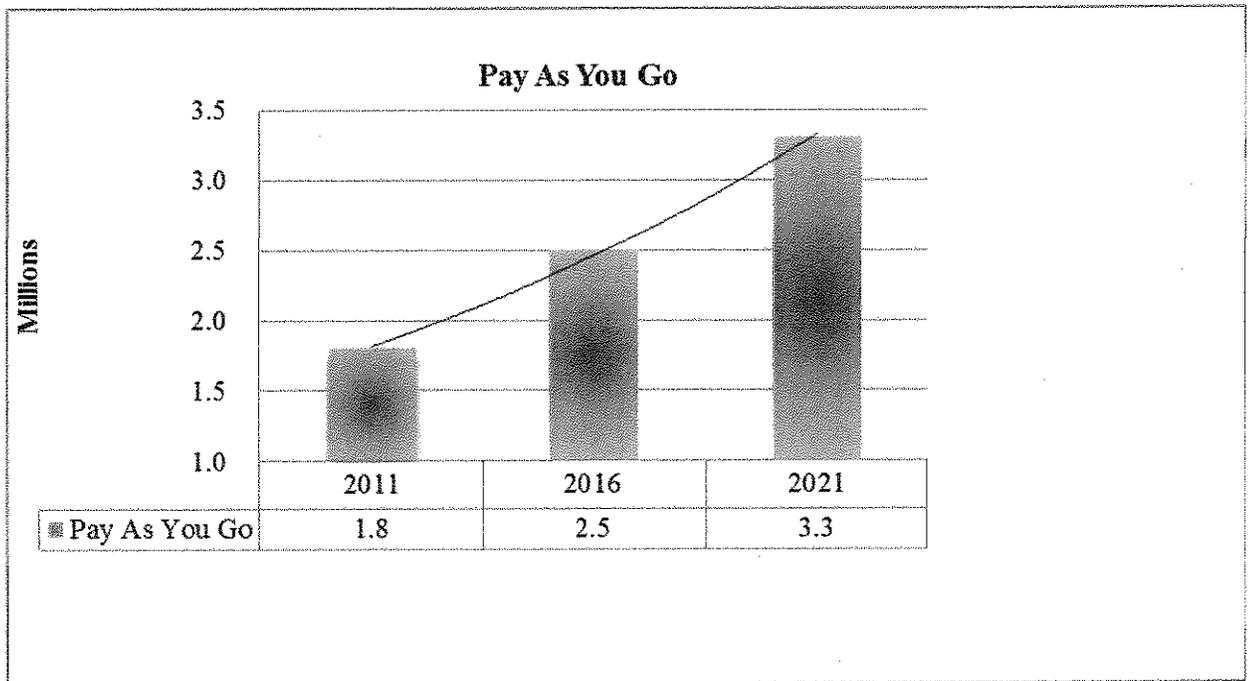
**II. INFORMATIONAL ITEMS**

*Other Post-Employment Benefits*

Governmental Accounting Standards Board (GASB) No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefit Plans Other Than Pension Plans (“GASB 45”) now requires Towns to recognize in their financial statements a liability that recognizes Post-Employment Benefits as this benefit is earned by employees.

The Town’s most recent valuation reflected a future liability of approximately \$66 million which was a significant increase over the 2009 valuation of over \$17 million and while this is a future liability its impact to current operations should not be ignored. This is especially important in light of the average employment age for Walpole employees, which is approaching 50, thus possibly making this liability unmanageable in 10 years.

The following graph illustrates the challenges the Town will be facing:



The Town has begun the process of addressing this liability. The Town adopted MGL c. 32B s18. This legislation requires retirees to enroll in Medicare Part B provided by Medicare, the federal insurance program. This shifts a portion of the obligation away from the Town. In addition, at the last Town Meeting, the Town adopted MGL c. 32B s 20, which allowed the Town to establish an OPEB Trust Fund. This enabling

legislation has been specifically set up by the State Legislature and was recently amended to allow towns to legally begin reserving funds for future OPEB costs.

To date, not many communities have been able to fully fund the current required contributions that are actuarially calculated, but some have at least begun to put some funds aside. Those towns are being viewed as more fiscally responsible by the credit agencies than those who ignore the liability completely. At the last town meeting, the town voted to put \$75,000 into this trust fund as seed money to begin the funding process. Other options for funding this are currently being evaluated.

While the impact of this future liability is in its infancy in terms of the impact on the Town's overall bond rating, the rating bureaus will, in the not too distant future, begin to factor how communities are dealing with this liability. Therefore, the issuance of GASB 45 is more than a financial reporting requirement. Its issuance reminds towns like Walpole that it has future obligations that may materially affect the Town.

### ***Regionalization opportunities***

One of the stronger trends currently gaining momentum in government is the collaboration of efforts to preserve critical services and reduce costs. This movement is called regionalization. Many communities are in the process of collaborating with neighboring communities in attempts to achieve this goal. We suggest that the Town begin to research what possibilities exist with neighboring communities by contacting them and determining what services can be performed in a collaborated effort and also see what funding is available from the State to help fund the initial costs of such research in that regard. The current hottest areas are dispatch, health and inspectional services and animal control.

### ***New Health Insurance Legislation***

Chapter 69 of the Act of 2011 was signed into law by the Governor on July 12, 2011. This is an Act relative to Municipal Health Insurance. The Act amends Chapter 32B and as a result of its enactment, Section 26 will be added to Chapter 32B and reads as follows:

*An appropriate public authority of a political subdivision which has undertaken to provide health insurance coverage to its subscribers under this chapter shall conduct an enrollment audit not less than once every 2 years. The audit shall be completed in order to ensure that members are appropriately eligible for coverage.*

We suggest the Town review this amendment and put a plan in place to comply with such requirements. At this time it is not clear if the audit may be conducted internally or by an independent party. The intention of the audit is to cause the removal of subscribers who do not qualify to participate in the Town's health plan.

### **III. FINDINGS AND RECOMMENDATIONS**

#### ***School Revolving Fund Deficits***

As of June 30, 2011, the School Lunch Revolving Fund had a fund balance deficit of \$55,000. This is the second consecutive year a deficit has occurred in this fund. In addition, the School Building Rental Fund has a deficit of \$16,000 this is an improvement over the prior deficit of \$65,000 but none the less still a deficit. Deficits in special revenue accounts are used as offsets by the Department of Revenue in calculating free cash, thus the Town's free cash was reduced dollar for dollar for these deficits.

In the area of school lunch, the deficit could be a function of insufficient user fees or the lack of expenditure control such as procurement practices and bidding.

In the area of building rentals, it could be a function of lack of follow-up of overdue rents.

The School Department should perform an analysis to determine why these deficits are occurring and put in place the corrective action.

#### ***Deminimus Property Tax Assessments***

The Town annually assesses property taxes for each tax entity for which the Town has reported taxable personal property. A large number of personal property tax accounts have valuations less than \$5,000, in fact out of the total 578 personal property accounts, 223 are below \$5,000 and generate total tax of \$9,900. At the current enacted property tax rates, these personal property tax accounts have annual assessments of approximately \$44. In many instances, the cost to assess, collect and follow-up on these deminimus accounts can exceed the actual property tax assessment itself.

We recommend that the Town consider including an article at the next Town Meeting asking voters to exempt property up to \$5,000 from being taxed. There are over 100 communities currently employing this practice, some for personal property as high as \$10,000. It is important to note that the elimination of these assessments would not reduce the amount of overall tax assessments in a given tax year since the remaining property tax accounts would absorb these deminimus accounts, which will likely add only pennies to each tax bill while reducing significantly the amount of bills needing to be processed.

*Student Activity Accounts*

The following summarize our findings relative to our annual review of the Walpole Student Activity accounts:

- We reminded the Schools of the need to follow Chapter 30B with respect to procurements. Some of the larger purchases (year book, prom) were in excess of \$25,000 and proper solicitation processes were not employed.
- Three invoices totaling approximately \$8,000 at the Bird Middle School were not supported by an invoice or equivalent.
- We noted that none of the School stores charge sales tax on sales.
- Other minor items were also noted.

Separately issued reports were submitted for the Student Activity Reviews, these should be read for further detail on these findings and in conjunction with this management letter.