

DEDHAM-WESTWOOD WATER DISTRICT
Financial Statements
For the Year Ended December 31, 2014
(With Independent Auditors' Report Thereon)

Dedham-Westwood Water District

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Comparative Statements of Net Position	9
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position	10
Comparative Statements of Cash Flows	11
Comparative Statement of Fiduciary Net Position	12
Comparative Statement of Changes in Fiduciary Net Position	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	25

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Dedham-Westwood Water District

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the Dedham-Westwood Water District (the District) as of and for the year ended December 31, 2014, which collectively comprise the District's financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate remaining fund information of the Dedham-Westwood Water District, at December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress (pages 3–8 and page 25 respectively) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

July 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Dedham-Westwood Water District's (the "District") annual financial report, District management offers readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2014.

The District provides water supply services to approximately 13,300 service connections, and approximately 38,000 people, through metered sales in the communities of Dedham and Westwood. The District is responsible for operating and maintaining the water supply system, providing ongoing capital improvements, and for providing the highest quality water product at the lowest possible price.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the District include (1) the Statement of Net Position, (2) the Statement of Revenues, Expenses and Changes in Fund Net Position, (3) the Statement of Cash Flows, (4) the Statement of Fiduciary Net Position, (5) the Statement of Changes in Fiduciary Net Position, and (6) Notes to Financial Statements.

The Statement of Net Position is designed to indicate the District's financial position as of a specific point in time. This statement presents information regarding the assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. At December 31, 2014, it indicates the District's net worth as \$56,934,192 which comprises \$43,414,300 invested in capital assets and \$13,519,892 unrestricted.

The Statement of Revenues, Expenses, and Changes in Fund Net Position summarizes operating and non-operating revenues and expenses for the year, reveals how much, if any, profit was earned for the year, and determines the net change in assets for the year. That change combined with the previous year-end net position total reconciles to the net position total at the end of the current year. As discussed in more detail below, District net income for December 31, 2014 was \$5,226,923.

The Statement of Cash Flows reports cash and cash equivalents activity for the year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year. A review of the District's Statement of Cash Flows indicates that the cash receipts from operating activities adequately covered District operating expenses in 2014.

The Statements of Fiduciary Net Position and Changes in Fiduciary Net Position represent the net position and changes in net position of the District's Other Post-Employment Benefit (OPEB) irrevocable trust fund.

The District's financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting are used. Revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows.

B. FINANCIAL HIGHLIGHTS

As of the close of the current year, the District's net position (equity) is \$56,934,192. Equity has increased by \$5,226,923 in comparison to the prior year. The increase in net position is attributable to continuing positive operating results.

Operating revenues were \$9,570,351 for the District in 2014, a 10.10% increase from 2013. This change was primarily due to increased water revenues, derived from a relatively warm and dry summer in 2014, and an increase in Special Revenues (access fees) resulting primarily from growth at University Station in Westwood, as well as other recent commercial and residential developments in Dedham and Westwood. A 2% water rate increase effective in 2014 was also a contributing factor in the District's positive revenue results for the year. On December 20, 2013, the Board established a financial policy regarding its annual water rate setting process, a forward-looking approach that considers future operating and capital spending expectations, and enables the District to maintain and improve water system infrastructure, fire protection, and water sources by developing water rates sufficient to annually attain these goals.

Operating expenses were \$6,855,022 in 2014, an increase of 5.16% from 2013, primarily the result of increased 'other operating costs' due to additional purchased water expense in 2014. This additional cost of \$313,282 was derived from the need to shut down and provide maintenance to a water well (Well #5) during a year when prolonged warm, dry weather would increase demand for water delivery in Dedham and Westwood. In an effort to expand capacity before 2014 had ended, the District Board negotiated an agreement with the MWRA to purchase an additional 36.5 million gallons per year. This agreement will become effective in 2015 (see Notes to Financial Statements, Note 18, Subsequent Events).

The District's Statement of Cash Flows identifies the sources and uses of cash activity for the year. In 2014, District cash and cash equivalents increased by \$3,677,998 from 2013, primarily due to bond proceeds and continued increases in water revenues.

In 2014 the District continued to fund an irrevocable trust fund for its Other Post-Employment Benefits (OPEB), with additional funding of \$125,000.

C. FINANCIAL ANALYSIS

The following is a summary of condensed financial data for the current and prior years (in thousands).

SUMMARY OF NET POSITION

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 15,295	\$ 11,468
Capital assets	51,557	47,665
Deferred outflows	<u>25</u>	<u>50</u>
Total assets and deferred outflows	66,877	59,183
Current liabilities	2,939	1,845
Noncurrent liabilities	<u>7,004</u>	<u>5,631</u>
Total liabilities	9,943	7,476
Net position:		
Net investment in capital assets	43,414	41,127
Unrestricted	<u>13,520</u>	<u>10,580</u>
Total net position	<u>\$ 56,934</u>	<u>\$ 51,707</u>

SUMMARY OF CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 9,570	\$ 8,692
Lease revenue	137	153
Contributions revenue	2,500	948
Investment income	<u>64</u>	<u>42</u>
Total revenue	12,271	9,835
Operating expense	6,855	6,519
Interest on long-term debt	<u>189</u>	<u>233</u>
Total expenses	<u>7,044</u>	<u>6,752</u>
Change in net position	5,227	3,083
Net position - beginning of year	<u>51,707</u>	<u>48,624</u>
Net position - end of year	<u>\$ 56,934</u>	<u>\$ 51,707</u>

As noted earlier, net position may serve over time as a useful indicator of a governmental entity's financial position. At the close of 2014, total net position was \$56,934,192, a change of \$5,226,923 from the prior year.

The largest portion of net position \$43,414,300, reflects the District's investment in capital assets (e.g., land, treatment plants, equipment, and infrastructure), less any related debt used to acquire those assets that remains outstanding. These capital assets are used to provide services to customers; consequently, these assets are not available for future spending. Although the investment in 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.

D. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District continues to aggressively respond to infrastructure funding needs throughout the water system. Total investment in capital assets at year end 2014 amounted to \$51,556,648 (net of accumulated depreciation), a change of \$3,891,279 from the prior year. In 2014, the District's capital asset additions totaled \$5,649,689, including donated capital (pipe and hydrants) totaling \$2,500,405. Capital asset additions in 2014 included the installation of water mains, services, and hydrants, well redevelopments, and the installation of water meters. Additionally, capital costs were incurred at both treatment plants that included a new generator and heating system (White Lodge) and design/construction costs to rehabilitate the Bridge Street plant.

Debt Plan

The District's long-term debt obligations are a reflection of long-term capital budgets designed to aggressively address the infrastructure needs of the District in priority order. In 2014, capital expenditures (net of donated capital) totaled \$3.1 million, approximately one-third of which (\$1.1 million) was spent on oil tank removal and gas installation at the White Lodge Treatment Plant, and the balance largely spent on routine capital projects, ranging from treatment plant upgrades, hydrants, water mains and services, water source investigations, to well redevelopments.

The District has substantially reduced its debt service (principal only) levels in the last nine years, from \$15.1 million in 2005 to \$8.1 million at the end of 2014. In December, 2014, the District bonded \$3 million in new debt that will fund replacement of a treatment plant fuel tank, a new well (replace Well C), infrastructure improvements that include water mains, replacement of customer service lines, and water meters. The District also refunded a 2004 bond (\$985,000 principal) in 2014. The District continues to maintain its underlying debt rating (Moody's) of Aa2 for its general obligation debt.

As of December 31, 2014, the District has five series of general obligation bonds outstanding totaling \$8,142,350. Maturities by issue are as follows:

	<u>2014</u>
Series D through 2021	\$ 357,350
Series F through 2016	1,380,000
Series G through 2020	2,420,000
Series H through 2024	3,000,000
Series I through 2019	<u>985,000</u>
Total	<u>\$ 8,142,350</u>

E. GASB STATEMENT 45

GASB 45 relates to the accounting and disclosure of any Other Postemployment Benefits (OPEB) provided by the District to its current and retired employees. GASB 45 requires the disclosure of the actuarial valuation of the District's post-employment obligation and requires a financial liability to be recorded when the actuarial cost of benefits exceeds the amount paid by the District. In 2006, the District assumed direct responsibility for all personnel costs including OPEB. In April, 2008, the District contracted with the Segal Company (actuarial consultants) to ensure the District's compliance with GASB 45. In March, 2011, the District's Board of Commissioners approved a "closed-loop" OPEB plan which will provide post-retirement benefits for a specific group of 17 (both union and non-union) staff. Segal updated the District's OPEB actuarial valuation as of December 31, 2010. As mandated by GASB 45, the District is required to update its actuarial valuation for OPEB a minimum of once every three years. In January, 2015, Segal issued the updated OPEB actuarial valuation as of December 31, 2013. The financial data related to the District's 2013 OPEB valuation are incorporated in various sections of the 2014 audited financial statements. On May 13, 2014, the Board established an Irrevocable OPEB Trust. In opting to serve as trustees ex officio, the Board has authorized VALIC Financial Advisors, Inc. to serve as financial advisors to the Board in managing the OPEB irrevocable trust account. During 2014, the District continued to fund the irrevocable trust account with an additional funding of \$125,000, supplementing an initial funding of \$100,000 in late 2013. As of December 31, 2014, the District has no retired employees.

Additional information regarding OPEB costs can be found in Notes to Financial Statements, Note 12.

REQUESTS FOR INFORMATION

This information is designed to provide a general overview of the District's finances for all those with an interest in those finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Dedham-Westwood Water District
50 Elm Street, P.O. Box 9137
Dedham, MA 02027-9137

DEDHAM-WESTWOOD WATER DISTRICT
 BUSINESS-TYPE PROPRIETARY FUND
 COMPARATIVE STATEMENT OF NET POSITION

DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current:		
Cash and cash equivalents	\$ 13,066,977	\$ 9,388,979
Accounts receivable	1,591,564	1,572,101
Other assets	554,400	461,260
Noncurrent:		
Bond issue costs	82,857	45,885
Capital assets:		
Land	1,799,332	1,799,332
Other capital assets, net of accumulated depreciation	49,757,316	45,866,037
Deferred outflows of resources	24,769	49,539
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	66,877,215	59,183,133
LIABILITIES		
Current:		
Accounts payable	505,108	168,880
Accrued expenses	675,506	236,241
Other liabilities	27,468	-
Current portion of long-term liabilities:		
Bonds payable	1,661,050	1,381,050
Compensated absence	33,843	37,804
Bond premium	35,917	20,952
Noncurrent:		
Bonds payable, net of current portion	6,481,300	5,157,350
Bond premium, net of current portion	158,231	82,427
Accrued other post employment benefits	364,600	391,160
TOTAL LIABILITIES	9,943,023	7,475,864
NET POSITION		
Net investment in capital assets	43,414,300	41,126,970
Unrestricted	13,519,892	10,580,299
TOTAL NET POSITION	\$ 56,934,192	\$ 51,707,269

The accompanying notes are an integral part of these financial statements.

DEDHAM-WESTWOOD WATER DISTRICT
 BUSINESS-TYPE PROPRIETARY FUND
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
User charges	\$ 8,641,577	\$ 8,487,931
Miscellaneous	<u>928,774</u>	<u>204,429</u>
Total Operating Revenues	9,570,351	8,692,360
Operating Expenses:		
Direct labor	2,252,573	2,213,324
Depreciation	1,616,885	1,583,543
Other operating costs	856,750	550,153
Fuel and power	476,742	527,665
Pension assessment	388,875	362,723
Health care	340,553	319,056
Repairs and maintenance	310,373	332,814
Other employee benefits	149,182	189,967
General insurance	140,738	121,804
Chemicals	99,503	111,905
Transportation, heat, electric	94,224	93,652
Payroll tax	45,569	44,561
Temporary help	42,902	45,359
Water conservation	<u>40,153</u>	<u>22,303</u>
Total Operating Expenses	<u>6,855,022</u>	<u>6,518,829</u>
Operating Income	2,715,329	2,173,531
Other Income (Expenses):		
Lease revenue	137,102	152,720
Contributions revenue	2,500,405	947,960
Interest income	63,523	41,843
Interest expense	<u>(189,436)</u>	<u>(232,661)</u>
Total Other Income (Expenses)	<u>2,511,594</u>	<u>909,862</u>
Net Income	5,226,923	3,083,393
Net Position at Beginning of Year	<u>51,707,269</u>	<u>48,623,876</u>
Net Position at End of Year	<u>\$ 56,934,192</u>	<u>\$ 51,707,269</u>

The accompanying notes are an integral part of these financial statements.

DEDHAM-WESTWOOD WATER DISTRICT
 BUSINESS-TYPE PROPRIETARY FUND
 COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 9,485,217	\$ 8,633,887
Payments to vendors and employees	<u>(4,493,166)</u>	<u>(4,974,802)</u>
Net Cash Provided By Operating Activities	4,992,051	3,659,085
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Contribution revenue	2,500,405	947,960
Acquisition and construction of capital assets, net of disposition	(5,508,164)	(3,491,751)
Bond proceeds	3,985,000	-
Principal payments on bonds payable	(2,381,050)	(1,391,050)
Amortization of debt related costs	78,567	15,392
Interest expense	<u>(189,436)</u>	<u>(232,661)</u>
Net Cash Used For Capital and Related Financing Activities	(1,514,678)	(4,152,110)
<u>Cash Flows From Investing Activities:</u>		
Lease revenue	137,102	152,720
Investment income	<u>63,523</u>	<u>41,843</u>
Net Cash Provided by Investing Activities	<u>200,625</u>	<u>194,563</u>
Net Change in Cash and Cash Equivalents	3,677,998	(298,462)
Cash and Cash Equivalents, Beginning of Year	<u>9,388,979</u>	<u>9,687,441</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,066,977</u>	<u>\$ 9,388,979</u>
<u>Reconciliation of Operating Income to Net Cash:</u>		
Operating income	\$ 2,715,329	\$ 2,173,531
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	1,616,885	1,583,543
Accounts receivable	(19,463)	(61,785)
Other assets	(93,140)	3,312
Accounts payable	336,228	(3,633)
Accrued expenses	439,265	(78,234)
Accrued other post employment benefits	(26,560)	39,334
Compensated absences	(3,961)	3,017
Other liabilities	<u>27,468</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 4,992,051</u>	<u>\$ 3,659,085</u>

The accompanying notes are an integral part of these financial statements.

DEDHAM-WESTWOOD WATER DISTRICT
 FIDUCIARY FUNDS
 COMPARATIVE STATEMENT OF FIDUCIARY NET POSITION
 DECEMBER 31, 2014 AND 2013

	Other Post-Employment Benefits Trust Fund	
	2014	2013
<u>ASSETS</u>		
Cash and short-term investments	\$ 98,516	\$ 100,000
Accounts receivable	125,000	-
	\$ 223,516	100,000
 <u>NET POSITION</u>		
Total net position held in trust	\$ 223,516	\$ 100,000

The accompanying notes are an integral part of these financial statements.

DEDHAM-WESTWOOD WATER DISTRICT

FIDUCIARY FUNDS

COMPARATIVE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>Other Post-Employment Benefits Trust Fund</u>	
	<u>2014</u>	<u>2013</u>
Additions:		
Contributions	\$ 125,000	\$ 100,000
Investment income (loss)	<u>(1,484)</u>	<u>-</u>
Net increase	123,516	100,000
Net position:		
Beginning of year	<u>100,000</u>	<u>-</u>
End of year	<u>\$ 223,516</u>	<u>\$ 100,000</u>

The accompanying notes are an integral part of these financial statements.

DEDHAM-WESTWOOD WATER DISTRICT

Notes to Financial Statements

1. Reporting Entity

The District is a government instrumentality created by Chapter 193 of the Acts of 1985 of the Commonwealth of Massachusetts (the Enabling Act) for the purpose of supplying the Towns of Dedham and Westwood, Massachusetts, with water and providing water treatment works and facilities. Pursuant to the Enabling Act, the District was organized on July 24, 1985. The Enabling Act requires that a six-member Board of Water Commissioners exercise the management and control of the District. The Boards of Selectmen from the Towns of Dedham and Westwood each select three residents from their respective towns to serve as water commissioners.

2. Summary of Significant Accounting Policies

The accounting policies of the Dedham-Westwood Water District (the District) conform to Generally Accepted Accounting Principles in the United States of America (GAAP) as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies followed by the District:

A. Basis of Presentation

The operations of the District are accounted for as an enterprise fund. The District's financial statements are reported on an accrual basis of accounting as specified by the GASB requirements for an enterprise fund. The accrual basis of accounting recognizes revenues when earned and recognizes expenses when the related liability is incurred, regardless of when the related cash flow takes place.

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2013.

B. Operating Revenue and Expense

Operating revenue consists of billings for metered and unmetered water supplied to residential, commercial, and industrial entities; water system access fees; sales to public authorities; water property; and other water related services. The District bills users of the system on a cycle basis

and unbilled revenue is accrued for as of December 31, 2014. Accounts receivable reported in the Statement of Net Position are net of estimated uncollectible accounts. All other revenue is considered nonoperating.

Operating expenses include costs to provide water services.

C. Inventories

Inventories are valued at cost using the weighted average cost method and are included in Other Assets (Note 5).

D. Capital Assets

Capital assets are stated at historical cost. Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Major betterments or renewals are capitalized and depreciated over their estimated useful lives. The District capitalizes interest costs as part of constructing transmission and distribution facilities; however, the District did not have any material construction in progress or capitalized interest costs in 2014.

Estimated useful lives used in computing depreciation are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	5 - 60 years
Machinery and equipment	5 - 25 years
Infrastructure	5 - 75 years

E. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred. A liability for these amounts is reported in the Financial Statements.

F. Fund Equity

Net Position - Net position represents the difference between assets/deferred outflows and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The remaining net position is reported as unrestricted.

G. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Unrestricted Net Position

Included in the unrestricted net position of \$13,519,892 at December 31, 2014 is a board-designated stabilization fund of \$1,800,000.

3. Cash and Cash Equivalents

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the District’s deposits “in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” As of December 31, 2014, none of the District’s bank balance of \$14,348,184 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank’s trust department not in the District’s name.

4. Accounts Receivable

Accounts receivable consists of the following:

	<u>2014</u>	<u>2013</u>
Customer Accounts:		
Billed	\$ 906,200	\$ 838,181
Unbilled	<u>685,364</u>	<u>733,920</u>
Total receivables	<u>\$ 1,591,564</u>	<u>\$ 1,572,101</u>

5. Other Assets

Other assets consist primarily of the following:

	<u>2014</u>	<u>2013</u>
Miscellaneous accounts receivable	\$ 128,618	\$ 48,133
Prepaid pension assessment	203,741	185,135
Inventory	139,336	155,264
Prepaid expenses	82,505	72,528
Other	<u>200</u>	<u>200</u>
Total other assets	<u>\$ 554,400</u>	<u>\$ 461,260</u>

6. Capital Assets

The following is a summary of the 2014 activity in capital assets (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 19,795	\$ 922	\$ -	\$ 20,717
Machinery, equipment, and furnishings	12,668	960	-	13,628
Infrastructure	<u>40,654</u>	<u>3,768</u>	<u>(208)</u>	<u>44,214</u>
Total capital assets, being depreciated	73,117	5,650	(208)	78,559
Less accumulated depreciation for:				
Buildings and improvements	(5,919)	(484)	-	(6,403)
Machinery, equipment, and furnishings	(9,390)	(532)	-	(9,922)
Infrastructure	<u>(11,942)</u>	<u>(600)</u>	<u>66</u>	<u>(12,476)</u>
Total accumulated depreciation	<u>(27,251)</u>	<u>(1,616)</u>	<u>66</u>	<u>(28,801)</u>
Total capital assets, being depreciated, net	45,866	4,034	(142)	49,758
Capital assets, not being depreciated:				
Land	<u>1,799</u>	<u>-</u>	<u>-</u>	<u>1,799</u>
Total capital assets, not being depreciated	<u>1,799</u>	<u>-</u>	<u>-</u>	<u>1,799</u>
Governmental activities capital assets, net	<u>\$ 47,665</u>	<u>\$ 4,034</u>	<u>\$ (142)</u>	<u>\$ 51,557</u>

Included in the current year additions is \$2,500,405 of donated assets including water mains and hydrants for various capital projects.

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the District that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

In 2004, the District refunded bonds issued in 1986 and 1988. This resulted in a deferred loss of \$297,239, which was to be amortized over 12 years. The remaining deferred loss as of December 31, 2014 is \$24,769 and is reported as a deferred outflow.

8. Accounts Payable

Accounts payable represents amounts due to vendors for goods and services provided as of December 31, 2014, which were subsequently paid in 2015.

9. Accrued Expenses

Accrued expenses consist of the following:

	<u>2014</u>	<u>2013</u>
Accrued payroll	\$ 87,591	\$ 53,850
Accrued interest	43,548	49,774
Accrued unbilled items	96,411	18,063
Accrued purch water - MWRA	313,282	87,607
Contract retainage	111,477	-
Other accrued liabilities	<u>23,197</u>	<u>26,947</u>
Total accrued expenses	<u>\$ 675,506</u>	<u>\$ 236,241</u>

10. Bonds Payable

A. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities. General obligation bonds currently outstanding are as follows:

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>12/31/14</u>
General obligation series D	2021	0.00%	\$ 357,350
General obligation series F	2016	2.00 - 3.75%	1,380,000
General obligation series G	2020	2.00 - 3.25%	2,420,000
General obligation series H	2024	2.00 - 2.50%	3,000,000
General obligation series I	2019	2.00 - 3.00%	<u>985,000</u>
Total Business-Type Activities:			<u>\$ 8,142,350</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of December 31, 2014 are as follows:

Business-Type Activities:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,661,050	\$ 191,538	\$ 1,852,588
2016	1,641,050	146,138	1,787,188
2017	956,050	100,438	1,056,488
2018	946,050	80,413	1,026,463
2019	941,050	61,588	1,002,638
2020 - 2025	<u>1,997,100</u>	<u>113,338</u>	<u>2,110,438</u>
Total	<u>\$ 8,142,350</u>	<u>\$ 693,453</u>	<u>\$ 8,835,803</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

	<u>Total Balance 1/1/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 12/31/14</u>	<u>Less Current Portion</u>	<u>Long-Term Portion 12/31/14</u>
<u>Business-Type Activities</u>						
General obligation bonds	\$ 6,538,400	\$ 3,985,000	\$ (2,381,050)	\$ 8,142,350	\$ (1,661,050)	\$ 6,481,300
Other:						
Compensated absence	37,804	-	(3,961)	33,843	(33,843)	-
Bond premium	103,379	90,769	-	194,148	(35,917)	158,231
Accrued other post-employment benefits	<u>391,160</u>	<u>-</u>	<u>(26,560)</u>	<u>364,600</u>	<u>-</u>	<u>364,600</u>
Totals	<u>\$ 7,070,743</u>	<u>\$ 4,075,769</u>	<u>\$ (2,411,571)</u>	<u>\$ 8,734,941</u>	<u>\$ (1,730,810)</u>	<u>\$ 7,004,131</u>

D. Refundings

On August 18, 2010 the District sold \$4,090,000 general obligation bonds. \$1,040,000 of this issue was to current refund the outstanding balance of the \$2,545,000 General Obligation Bonds of the District originally dated October 15, 2000 and maturing October 15, 2011 through 2020. The refunding bonds were dated September 1, 2010 and will mature on September 1, 2020. The outstanding balance of the refunded portion of these bonds as of December 31, 2014 was \$590,000.

On December 4, 2014 the District sold \$985,000 General Obligation Refunding Bonds, Series B. This issue was to refund the outstanding balance of the \$3,000,000 General Obligation Bonds of the District originally dated June 15, 2004 and maturing June 15, 2015 through 2019. The refunding bonds were dated December 15, 2014 and will

mature on June 15, 2019. The balance outstanding as of December 31, 2014 was \$985,000. Total budgetary savings was \$53,925 or 5.321% of the refunded principal.

11. **Pension Plan**

The District follows the provisions of GASB Statement No. 27, (as amended by GASB 50), *Accounting for Pensions by State and Local Government Employers*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases.

A. Plan Description

In 2006, the District began contributing to the Norfolk County Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by a county retirement board that is subject to oversight from PERAC. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Norfolk County Retirement System, 480 Neponset Street, Building #15, Canton, Massachusetts 02021.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 9% to 11% of annual covered compensation. The District is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the District are governed by Chapter 32 of the Massachusetts General Laws. The District's contributions to the System at December 31, 2014 and 2013 were \$388,875 and \$362,723, respectively, which were equal to its annual required contributions for each of these years.

12. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the

recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the District provides post-employment healthcare and life insurance benefits for a limited number of retired employees on a “closed loop” basis through the District’s plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of December 31, 2013, the actuarial valuation date, 17 active employees met the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The District provides medical, prescription drug, vision, and dental insurance to retirees and their covered dependents. Those specific active employees who retire from the District and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the District. The District contributes the remainder of the health plan costs primarily on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The District’s 2014 annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the District’s annual OPEB cost for the year ending December 31, 2014, the amount actually contributed to the plan, and the change in the District’s net OPEB obligation based on an actuarial valuation as of December 31, 2013.

Annual Required Contribution (ARC)	\$ 105,708
Interest on net OPEB obligation	27,381
Adjustment to ARC	<u>(25,915)</u>
Annual OPEB cost	107,174
Contributions made*	<u>(133,734)</u>
Increase (decrease) in net OPEB obligation	(26,560)
Net OPEB obligation - beginning of year	<u>391,160</u>
Net OPEB obligation - end of year	<u><u>\$ 364,600</u></u>

*Includes additional 2014 contribution of \$125,000 to the District's OPEB Irrevocable Trust Fund.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 107,174	125%	\$ 364,600
2013	\$ 157,032	75%	\$ 391,160
2012	\$ 187,335	3%	\$ 351,826

The District's net OPEB obligation as of December 31, 2014 is recorded as a component of the "accrued other post-employment benefits" liability line item.

E. Funded Status and Funding Progress

The funded status of the plan as of December 31, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 626,450
Less actuarial value of plan assets	<u>(100,000)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 526,450</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>15.96%</u>
Covered payroll (active plan members)	<u>\$ -</u>
UAAL as a percentage of covered payroll	<u>0%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the District and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the District has not advance funded its obligation. The actuarial assumptions included a 7.0% investment rate of return and an initial annual healthcare cost trend rate of 8%, which decreases to a 5% long-term rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 23 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3%.

13. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past five years.

14. Lease Revenue

The District has entered into operating leases with certain cellular telecommunication companies whereby these companies use District property for cellular towers. In 2014, Nextel terminated its cellular lease with the District. The District currently has three active cellular leases with Sprint (\$58,171), New Cingular Wireless (\$25,602), and Cingular (\$26,225), each with annual escalators of 3%. The District anticipates these revenues to continue in the future.

15. Contributions Revenue

During 2014, the District received contributions of \$2,500,405 in the form of donated assets. These donated assets included mains and hydrants, and were primarily related to the development of University Station.

16. Parking Rental Agreement

In July 2014, the District entered into an agreement with the trustees of HCH Investment Trust of Norwood, Massachusetts, to rent space for the purpose of storing clean fill and gravel, and to park and store vehicles or equipment, permitted by applicable laws and regulations. Monthly rental expense to the District is \$1,150 per month. The agreement is cancellable by either party with one month of notice.

17. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015. Management's current assessment is that this pronouncement will have a significant impact on the District's financial statements by recognizing as a liability and expense, the District's proportionate share of the Norfolk County Retirement System's actuarially accrued net pension liability.

18. Subsequent Events

The District entered into an agreement with MWRA to purchase an additional 100,000 gallons of water per day, to ensure adequate supply during periods of peak demand. The new entrance fee agreement is interest-free and will cost the District a total of \$556,727. This cost will be paid in 5 equal installments of approximately \$111,345, which will be due in years 2015 through 2019 on January 20 of each year.

Subsequent Events, events and transactions from January 1, 2015 through July 17, 2015, the date the financial statements were issued, have been evaluated by management for disclosure. Other than the subsequent event previously disclosed, management has determined that there were no other material events that would require disclosure in the District's financial statements through this date.

**DEDHAM-WESTWOOD WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2014
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/13	\$ 100,000	\$ 626,450	\$ 526,450	16%	\$ -	0%
12/31/10	\$ -	\$ 937,400	\$ 937,400	0%	\$ -	0%

**NORFOLK COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

**Employees' Retirement System
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/14	\$ 696,682,779	\$ 1,247,596,772	\$ 550,913,993	55.8%	\$ 246,722,941	223.3%
01/01/12	\$ 608,235,096	\$ 1,128,960,288	\$ 520,725,192	53.9%	\$ 229,095,409	227.3%
01/01/10	\$ 600,790,835	\$ 1,001,881,055	\$ 401,090,220	60.0%	\$ 223,332,595	179.6%
01/01/08	\$ 596,157,147	\$ 907,719,124	\$ 311,561,977	65.7%	\$ 223,814,977	139.2%

**Employees' Retirement System
Schedule of Employer Contributions**

Plan Year End	System Wide			Dedham Westwood Water District	
	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	District Contributions as a % of Actual Contributions
12/30/14	\$ 49,280,000	\$ 49,280,000	100%	\$ 388,875	0.8%
12/30/13	\$ 44,800,000	\$ 44,800,000	100%	\$ 362,723	0.8%
12/31/12	\$ 42,714,639	\$ 42,714,639	100%	\$ 346,793	0.8%
12/31/11	\$ 41,206,587	\$ 41,206,587	100%	\$ 328,807	0.8%
12/31/10	\$ 39,749,857	\$ 39,749,857	100%	\$ 313,476	0.8%

See Independent Auditors' Report.