

TOWN OF SUTTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

TOWN OF SUTTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sutton, Massachusetts

Additional Offices:

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

Report on the Financial Statements

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 Sutton, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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.

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 Sutton, Massachusetts, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB schedules appearing on pages 60 to 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

February 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sutton, we offer readers this narrative overview and analysis of the financial activities of the Town of Sutton for the fiscal year ended June 30, 2017. Unless otherwise noted, all amounts reported in this analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets, liabilities and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (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 include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include Sewer and Transfer Station activities.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for Sewer and Transfer Station operations, of which Sewer is considered a major fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements 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.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$54,786,845 (i.e., net position), a change of \$1,090,871 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$9,682,664, a change of \$2,311,778 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,856,444, a change of \$116,212 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 10,939	\$ 10,342	\$ 1,426	\$ 1,801	\$ 12,365	\$ 12,143
Capital assets	<u>88,654</u>	<u>90,669</u>	<u>8,204</u>	<u>8,486</u>	<u>96,858</u>	<u>99,155</u>
Total assets	99,593	101,011	9,630	10,287	109,223	111,298
Deferred outflows	2,510	1,132	51	23	2,561	1,155
Long-term liabilities outstanding	50,754	49,491	4,264	4,729	55,018	54,220
Other liabilities	<u>755</u>	<u>2,479</u>	<u>128</u>	<u>152</u>	<u>883</u>	<u>2,631</u>
Total liabilities	51,509	51,970	4,392	4,881	55,901	56,851
Deferred inflows	1,074	1,345	22	27	1,096	1,372
Net position:						
Net investment in capital assets	63,209	61,437	4,307	4,179	67,516	65,616
Restricted	3,641	3,196	-	-	3,641	3,196
Unrestricted	<u>(17,330)</u>	<u>(15,805)</u>	<u>960</u>	<u>1,223</u>	<u>(16,370)</u>	<u>(14,582)</u>
Total net position	<u>\$ 49,520</u>	<u>\$ 48,828</u>	<u>\$ 5,267</u>	<u>\$ 5,402</u>	<u>\$ 54,787</u>	<u>\$ 54,230</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,259	\$ 2,285	\$ 1,170	\$ 920	\$ 3,429	\$ 3,205
Operating grants and contributions	10,320	12,045	-	-	10,320	12,045
Capital grants and contributions	1,916	916	-	-	1,916	916
General revenues:						
Property taxes	21,984	20,612	-	-	21,984	20,612
Excises	1,557	1,673	-	-	1,557	1,673
Penalties, interest, and other taxes	239	145	-	-	239	145
Grants and contributions not restricted to specific programs	919	889	7	3	926	892
Investment income	36	112	6	3	42	115
Miscellaneous	108	108	-	-	108	108
Total revenues	<u>39,338</u>	<u>38,785</u>	<u>1,183</u>	<u>926</u>	<u>40,521</u>	<u>39,711</u>
Expenses:						
General government	1,627	1,415	-	-	1,627	1,415
Public safety	2,771	2,683	-	-	2,771	2,683
Education	24,000	24,745	-	-	24,000	24,745
Public works	1,591	1,633	-	-	1,591	1,633
Human services	395	381	-	-	395	381
Culture and recreation	341	320	-	-	341	320
Employee benefits	6,019	5,432	-	-	6,019	5,432
Insurance	367	311	-	-	367	311
Interest on long-term debt	1,054	1,115	-	-	1,054	1,115
Intergovernmental	82	81	-	-	82	81
Sewer	-	-	1,090	1,154	1,090	1,154
Nonmajor transfer station	-	-	93	136	93	136
Total expenses	<u>38,247</u>	<u>38,116</u>	<u>1,183</u>	<u>1,290</u>	<u>39,430</u>	<u>39,406</u>
Change in net position before transfers	1,091	669	-	(364)	1,091	305
Transfers in (out)	<u>(399)</u>	<u>(711)</u>	<u>399</u>	<u>711</u>	<u>-</u>	<u>-</u>
Change in net position	692	(42)	399	347	1,091	305
Net position - beginning of year, as restated	<u>48,828</u>	<u>48,870</u>	<u>4,868</u>	<u>5,055</u>	<u>53,696</u>	<u>53,925</u>
Net position - end of year	<u>\$ 49,520</u>	<u>\$ 48,828</u>	<u>\$ 5,267</u>	<u>\$ 5,402</u>	<u>\$ 54,787</u>	<u>\$ 54,230</u>

The largest portion of net position \$67,516,348 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; 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.

An additional portion of net position, \$3,641,231, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(16,370,734) primarily resulting from the Town's net pension liability.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$54,786,845, a change of \$1,090,871 from the prior year.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$692,498. Key elements of this change are as follows:

Capital assets purchased with current year revenues	\$ 1,212,528
Depreciation in excess of current year principal debt service	(740,191)
Change in OPEB obligation	(1,410,377)
Change in net pension liability	(2,381,195)
Change in pension deferred outflows/inflows	1,648,723
Receipt of MSBA funds for high school project	1,540,925
School choice receipts in excess of expenditures	232,276
Other	589,809
Total	<u>\$ 692,498</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$398,373. Key elements of this change are as follows:

Sewer operations, before transfers	\$ (74,524)
Sewer debt service paid from the general fund, net	421,453
Nonmajor Transfer Station operations	51,444
Total	<u>\$ 398,373</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,682,664, a change of \$2,311,778 in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures and transfers out in excess of revenues and other financing sources	\$ 330,195
Capital project fund revenues in excess of current year expenditures	1,528,676
Special revenue funds revenues and transfers in in excess of expenditures and transfers out	486,659
Permanent trust funds revenues and transfers in in excess of expenditures and transfers out	<u>(33,752)</u>
Total	<u>\$ 2,311,778</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,856,444, while total fund balance was \$5,788,860. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance ¹	\$ 3,856,444	\$ 3,740,232	\$ 116,212	11.45%
Total fund balance ²	\$ 5,788,860	\$ 5,458,665	\$ 330,195	17.18%

¹Includes General Stabilization of \$2,553,921.

²Includes General, Capital and SPED Stabilization fund balances.

The total fund balance of the general fund changed by \$330,195 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (934,500)
Revenues in excess of budget	792,807
Expenditures less than budget	243,179
Other	<u>228,709</u>
Total	<u>\$ 330,195</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization (unassigned)	\$ 2,056,319	\$ 2,047,702	\$ 8,617
Capital stabilization (committed)	295,961	310,807	(14,846)
Special education stabilization (committed)	<u>201,641</u>	<u>200,230</u>	<u>1,411</u>
Total	<u>\$ 2,553,921</u>	<u>\$ 2,558,739</u>	<u>\$ (4,818)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$959,670, a change of \$(263,605) in comparison to the prior year. The decrease primarily results from the recognition of the net pension liability.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,414,281. Major reasons for these amendments include:

- \$ 197,445 To increase various departmental appropriations funded by state aid and taxes
- \$ 500,000 To fund design services for a new police station, funded by taxes
- \$ 320,000 To fund deficits in snow and ice and health insurance, funded by the use of free cash
- \$ 336,836 Prior year encumbrances, funded by assigned fund balance

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$96,857,488 (net of accumulated depreciation), a change of \$(2,297,123) from the prior year. This investment in capital assets includes land, buildings and improvements, infrastructure, vehicles, and machinery and equipment.

Major capital asset events during the current fiscal year included parking lot improvements at the schools, vehicles for the public works department, and vehicles and equipment for the police department.

Additional information on capital assets can be found in the Notes to Financial Statements.

Credit Rating. The Town is currently assigned an “AA+” rating from Standard and Poor’s for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$28,670,140 all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

G. ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES (WHOLE DOLLAR AMOUNTS)

- According to the Commonwealth of Massachusetts Division of Employment and Training, the unemployment rate for the Town of Sutton was 2.8% as of December 2017, which compares favorably with the state rate of 3.1% and the national rate of 4.1% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2016 was \$108,762; the per capita income for the same time was \$41,573. This compares favorably with both state and national incomes.
- According to the Town’s Board of Assessors, the average 2018 single family home in Sutton is valued at \$345,542; the average two-family home is valued at \$224,229; the average three-family home is valued at \$328,992; the average condominium is valued at \$331,542; the average commercial property is valued at \$648,467; and the average industrial property is valued at \$553,763. All properties compare favorably with state and national property values.
- The Town approved a fiscal year 2018 general fund budget of \$32,545,262, an increase of \$873,067 or 2.76% over the final fiscal year 2017 general fund budget.
- The total property tax levy for fiscal year 2018 is \$23,005,487, an increase of \$970,306 or 4.4%. Local receipts are anticipated to be 2.3% more than fiscal year 2017 and state aid is anticipated to be 1.2% more than fiscal year 2017.

REQUESTS FOR INFORMATION

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

Town Administrator
Town of Sutton
4 Uxbridge Road
Sutton, Massachusetts 01590

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 5,706,055	\$ 1,150,637	\$ 6,856,692
Investments	4,412,696	-	4,412,696
Receivables, net of allowance for uncollectibles:			
Property taxes	660,121	-	660,121
Excises	137,781	-	137,781
User fees	-	270,863	270,863
Departmental	278	-	278
Other assets	22,529	4,000	26,529
Noncurrent:			
Capital assets not being depreciated	6,489,601	-	6,489,601
Capital assets, net of accumulated depreciation	82,164,085	8,203,802	90,367,887
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	2,509,733	51,220	2,560,953
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	102,102,879	9,680,522	111,783,401
LIABILITIES			
Current:			
Accounts payable	279,105	-	279,105
Accrued liabilities	469,722	120,429	590,151
Other current liabilities	6,193	7,108	13,301
Current portion of long-term liabilities:			
Notes payable	671,000	-	671,000
Bonds payable	1,912,761	429,729	2,342,490
Compensated absences	24,344	558	24,902
Landfill liability	16,000	-	16,000
Noncurrent:			
Bonds payable, net of current portion	22,860,522	3,467,128	26,327,650
Compensated absences, net of current portion	462,535	10,598	473,133
Landfill liability, net of current portion	128,000	-	128,000
Net OPEB obligation	9,186,681	40,280	9,226,961
Net pension liability	15,492,023	316,164	15,808,187
Total liabilities	51,508,886	4,391,994	55,900,880
DEFERRED INFLOWS OF RESOURCES			
Pension related	1,073,763	21,913	1,095,676
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	52,582,649	4,413,907	56,996,556
NET POSITION			
Net investment in capital assets	63,209,403	4,306,945	67,516,348
Restricted for:			
Grants and other statutory restrictions	3,143,765	-	3,143,765
Permanent funds	497,466	-	497,466
Unrestricted	(17,330,404)	959,670	(16,370,734)
TOTAL NET POSITION	<u>\$ 49,520,230</u>	<u>\$ 5,266,615</u>	<u>\$ 54,786,845</u>

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

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
			Operating	Capital		Business-	
	Expenses	Charges for	Grants and	Grants and	Governmental	Type	Total
		Services	Contributions	Contributions	Activities	Activities	
GOVERNMENTAL ACTIVITIES:							
General government	\$ 1,626,562	\$ 495,612	\$ 231,887	\$ -	\$ (899,063)	\$ -	\$ (899,063)
Public safety	2,771,516	327,428	23,015	-	(2,421,073)	-	(2,421,073)
Education	23,999,522	1,191,440	9,998,595	1,540,925	(11,268,562)	-	(11,268,562)
Public works	1,590,621	38,249	-	375,142	(1,177,230)	-	(1,177,230)
Health and human services	395,469	114,300	36,041	-	(245,128)	-	(245,128)
Culture and recreation	340,934	92,333	29,984	-	(218,617)	-	(218,617)
Insurance	367,243	-	-	-	(367,243)	-	(367,243)
Interest	1,054,387	-	-	-	(1,054,387)	-	(1,054,387)
Employee benefits	6,018,923	-	-	-	(6,018,923)	-	(6,018,923)
Intergovernmental	81,843	-	-	-	(81,843)	-	(81,843)
Total Governmental Activities	38,247,020	2,259,362	10,319,522	1,916,067	(23,752,069)	-	(23,752,069)
BUSINESS-TYPE ACTIVITIES:							
Sewer services	1,089,682	1,008,971	-	-	-	(80,711)	(80,711)
Nonmajor Transfer Station services	93,450	160,869	-	-	-	67,419	67,419
Total Business-Type Activities	1,183,132	1,169,840	-	-	-	(13,292)	(13,292)
Total	\$ 39,430,152	\$ 3,429,202	\$ 10,319,522	\$ 1,916,067	(23,752,069)	(13,292)	(23,765,361)
GENERAL REVENUES AND TRANSFERS:							
					21,984,481	-	21,984,481
Property taxes					1,556,843	-	1,556,843
Excises					238,608	-	238,608
Penalties, interest and other taxes							
Grants and contributions not restricted to specific programs					919,087	6,600	925,687
Investment income					36,146	6,187	42,333
Miscellaneous					108,280	-	108,280
Transfers, net					(398,878)	398,878	-
Total general revenues and transfers					24,444,567	411,665	24,856,232
Change in Net Position					692,498	398,373	1,090,871
NET POSITION:							
					48,827,732	4,868,242	53,695,974
Beginning of year, as restated							
End of year					\$ 49,520,230	\$ 5,266,615	\$ 54,786,845

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 2,649,529	\$ 3,056,526	\$ 5,706,055
Investments	3,569,225	843,471	4,412,696
Receivables:			
Property taxes	692,016	-	692,016
Excises	212,242	-	212,242
Departmental	278	-	278
Prepaid expenses	<u>22,529</u>	<u>-</u>	<u>22,529</u>
TOTAL ASSETS	<u><u>\$ 7,145,819</u></u>	<u><u>\$ 3,899,997</u></u>	<u><u>\$ 11,045,816</u></u>
LIABILITIES			
Warrants payable	\$ 279,105	\$ -	\$ 279,105
Accrued liabilities	252,957	-	252,957
Other liabilities	<u>-</u>	<u>6,193</u>	<u>6,193</u>
TOTAL LIABILITIES	532,062	6,193	538,255
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	824,897	-	824,897
FUND BALANCES			
Nonspendable	-	206,794	206,794
Restricted	132,968	3,725,155	3,858,123
Committed	1,103,448	-	1,103,448
Assigned	696,000	-	696,000
Unassigned	<u>3,856,444</u>	<u>(38,145)</u>	<u>3,818,299</u>
TOTAL FUND BALANCES	<u><u>5,788,860</u></u>	<u><u>3,893,804</u></u>	<u><u>9,682,664</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 7,145,819</u></u>	<u><u>\$ 3,899,997</u></u>	<u><u>\$ 11,045,816</u></u>

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

TOWN OF SUTTON, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total governmental fund balances	\$ 9,682,664
<ul style="list-style-type: none"> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	88,653,686
<ul style="list-style-type: none"> Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	718,541
<ul style="list-style-type: none"> Deferred outflows of resources related to pensions resulting from projected vs. actual earnings and changes in assumptions will be recognized as an increase in pension expense in the years ending June 30, 2017 through June 30, 2021. 	2,509,733
<ul style="list-style-type: none"> Deferred inflows of resources related to pensions resulting from changes in proportion will be recognized as a reduction in the net pension expense in the years ending June 30, 2017 through June 30, 2021. 	(1,073,763)
<ul style="list-style-type: none"> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(216,765)
<ul style="list-style-type: none"> Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: 	
Notes payable	(671,000)
Bonds payable	(24,773,283)
Net pension liability	(15,492,023)
Net OPEB obligation	(9,186,681)
Compensated absences	(486,879)
Landfill liability	(144,000)
Net position of governmental activities	<u>\$ 49,520,230</u>

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>General</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUES:			
Property taxes	\$ 21,916,570	\$ -	\$ 21,916,570
Excises	1,617,290	-	1,617,290
Penalties, interest, and other taxes	238,608	-	238,608
Charges for services	672,508	1,430,616	2,103,124
Intergovernmental	9,637,508	3,370,481	13,007,989
Licenses and permits	91,838	-	91,838
Fines and forfeitures	64,400	-	64,400
Investment income	32,250	3,896	36,146
Miscellaneous	108,229	50	108,279
Contributions	-	146,687	146,687
Total Revenues	34,379,201	4,951,730	39,330,931
EXPENDITURES:			
Current:			
General government	1,385,625	193,876	1,579,501
Public safety	2,474,078	69,696	2,543,774
Education	19,619,674	2,073,046	21,692,720
Public works	1,075,522	14,522	1,090,044
Health and human services	308,771	74,277	383,048
Culture and recreation	228,655	112,279	340,934
Employee benefits	3,876,074	-	3,876,074
Insurance	367,243	-	367,243
Debt service	3,545,160	-	3,545,160
Intergovernmental	81,843	-	81,843
Capital outlay	728,896	391,038	1,119,934
Total Expenditures	33,691,541	2,928,734	36,620,275
Excess (deficiency) of revenues over expenditures	687,660	2,022,996	2,710,656
OTHER FINANCING SOURCES (USES):			
Transfers in	164,531	11,577	176,108
Transfers out	(521,996)	(52,990)	(574,986)
Total Other Financing Sources (Uses)	(357,465)	(41,413)	(398,878)
Change in fund balance	330,195	1,981,583	2,311,778
Fund Balance, at Beginning of Year, as reclassified	5,458,665	1,912,221	7,370,886
Fund Balance, at End of Year	\$ 5,788,860	\$ 3,893,804	\$ 9,682,664

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

TOWN OF SUTTON, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - Total governmental funds	\$ 2,311,778																		
<ul style="list-style-type: none"> 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: <table> <tr> <td>Capital outlay</td><td style="text-align: right;">1,212,528</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(3,227,952)</td></tr> </table> 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 (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right;">7,464</div> The issuance of long-term debt (e.g., bonds and leases) 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 transaction, however, has any effect on net position: <table> <tr> <td>Repayments of debt (bonds)</td><td style="text-align: right;">2,097,761</td></tr> <tr> <td>Repayments of debt (notes)</td><td style="text-align: right;">390,000</td></tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">3,012</div> Pension and OPEB related inflows and outflows are recorded as expenses in the Statement of Activities, but are not recorded as expenditures in governmental funds. <table> <tr> <td>Net pension liability</td><td style="text-align: right;">(2,381,195)</td></tr> <tr> <td>Pension related deferred outflows & inflows</td><td style="text-align: right;">1,648,723</td></tr> <tr> <td>Net OPEB obligation</td><td style="text-align: right;">(1,410,377)</td></tr> </table> 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. <table> <tr> <td>Compensated absences</td><td style="text-align: right;">24,756</td></tr> <tr> <td>Landfill liability</td><td style="text-align: right;">16,000</td></tr> </table> 	Capital outlay	1,212,528	Depreciation	(3,227,952)	Repayments of debt (bonds)	2,097,761	Repayments of debt (notes)	390,000	Net pension liability	(2,381,195)	Pension related deferred outflows & inflows	1,648,723	Net OPEB obligation	(1,410,377)	Compensated absences	24,756	Landfill liability	16,000	
Capital outlay	1,212,528																		
Depreciation	(3,227,952)																		
Repayments of debt (bonds)	2,097,761																		
Repayments of debt (notes)	390,000																		
Net pension liability	(2,381,195)																		
Pension related deferred outflows & inflows	1,648,723																		
Net OPEB obligation	(1,410,377)																		
Compensated absences	24,756																		
Landfill liability	16,000																		
Change in net position of governmental activities	\$ <u>692,498</u>																		

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

TOWN OF SUTTON, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES,
AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u>)	Variance with Final Budget Positive (Negative)
REVENUES AND TRANSFERS IN:				
Property taxes	\$ 21,079,393	\$ 21,796,498	\$ 21,969,353	\$ 172,855
Excises and other taxes	1,512,500	1,512,500	1,749,825	237,325
Intergovernmental	6,234,794	6,325,134	6,322,560	(2,574)
Licenses and permits, fees and fines	547,400	547,400	731,418	184,018
Investment income	81,000	81,000	127,773	46,773
Miscellaneous	52,000	52,000	206,410	154,410
Transfers in	<u>724,511</u>	<u>774,511</u>	<u>774,511</u>	<u>-</u>
Total revenues and transfers in	30,231,598	31,089,043	31,881,850	792,807
EXPENDITURES AND TRANSFERS OUT:				
General government	1,688,755	1,738,515	1,636,106	102,409
Public safety	2,615,324	3,208,421	3,171,682	36,739
Education	16,362,149	16,596,539	16,595,995	544
Public works	914,135	1,171,863	1,150,643	21,220
Health and human services	318,809	338,610	308,774	29,836
Culture and recreation	232,203	233,577	228,655	4,922
Employee benefits	3,787,344	3,947,344	3,877,884	69,460
Insurance	391,975	371,975	367,243	4,732
Debt service	3,922,295	4,008,577	4,005,777	2,800
Intergovernmental	138,552	170,401	199,884	(29,483)
Transfers out	<u>593,210</u>	<u>593,210</u>	<u>593,210</u>	<u>-</u>
Total Expenditures and transfers out	<u>30,964,751</u>	<u>32,379,032</u>	<u>32,135,853</u>	<u>243,179</u>
Excess of revenues and transfers in over expenditures and transfers out	(733,153)	(1,289,989)	(254,003)	1,035,986
OTHER FINANCING SOURCES (USES):				
Use of fund balance (free cash) - capital	614,500	614,500	614,500	-
Use of fund balance (free cash)	100,000	-	-	-
Use of fund balance (free cash) - deficits	-	320,000	320,000	-
Use of prior year assigned fund balance	-	336,836	-	(336,836)
Use of other reserves - debt	<u>18,653</u>	<u>18,653</u>	<u>18,653</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>699,150</u>	\$ <u>699,150</u>

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 1,088,420	\$ 62,217	\$ 1,150,637
User fees, net of allowance for uncollectibles	270,863	-	270,863
Other assets	-	4,000	4,000
Total current assets	1,359,283	66,217	1,425,500
Noncurrent:			
Capital assets, net of accumulated depreciation	8,182,945	20,857	8,203,802
Total noncurrent assets	8,182,945	20,857	8,203,802
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	51,220	-	51,220
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	9,593,448	87,074	9,680,522
LIABILITIES			
Current:			
Accrued liabilities	120,429	-	120,429
Other current liabilities	7,068	40	7,108
Current portion of long-term liabilities:			
Bonds payable	429,729	-	429,729
Compensated absences	558	-	558
Total current liabilities	557,784	40	557,824
Noncurrent:			
Bonds payable, net of current portion	3,467,128	-	3,467,128
Compensated absences, net of current portion	10,598	-	10,598
Net OPEB obligation	40,280	-	40,280
Net pension liability	316,164	-	316,164
Total noncurrent liabilities	3,834,170	-	3,834,170
DEFERRED INFLOWS OF RESOURCES			
Pension related	21,913	-	21,913
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,413,867	40	4,413,907
NET POSITION			
Net investment in capital assets	4,286,088	20,857	4,306,945
Unrestricted	893,493	66,177	959,670
TOTAL NET POSITION	\$ 5,179,581	\$ 87,034	\$ 5,266,615

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 1,008,971	\$ 160,869	\$ 1,169,840
Total Operating Revenues	1,008,971	160,869	1,169,840
OPERATING EXPENSES:			
Salaries and benefits	152,509	18,638	171,147
Other operating expenses	428,284	73,714	501,998
Depreciation	320,956	1,098	322,054
Total Operating Expenses	901,749	93,450	995,199
Operating Income / (Loss)	107,222	67,419	174,641
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental revenue	-	6,600	6,600
Other nonoperating income	6,187	-	6,187
Interest expense	(187,933)	-	(187,933)
Total Nonoperating Revenues (Expenses)	(181,746)	6,600	(175,146)
Income / (Loss) Before Transfers	(74,524)	74,019	(505)
TRANSFERS:			
Transfers in	510,617	-	510,617
Transfers out	(89,164)	(22,575)	(111,739)
Change in Net Position	346,929	51,444	398,373
Net Position at Beginning of Year, as restated	4,832,652	35,590	4,868,242
Net Position at End of Year	\$ 5,179,581	\$ 87,034	\$ 5,266,615

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 850,673	\$ 160,870	\$ 1,011,543
Payments to vendor for goods and services	(428,284)	(70,860)	(499,144)
Payments to employees for services	(206,949)	(46,333)	(253,282)
Net Cash Provided By Operating Activities	215,440	43,677	259,117
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Other nonoperating revenues	6,187	6,600	12,787
Transfer in	510,617	-	510,617
Transfer out	(89,164)	(22,575)	(111,739)
Net Cash Provided by (Used For) Noncapital Financing Activities	427,640	(15,975)	411,665
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets, net of disposals	(18,400)	(21,955)	(40,355)
Principal payments on bonds	(410,196)	-	(410,196)
Interest expense	(114,852)	(480)	(115,332)
Net Cash (Used For) Capital and Related Financing Activities	(543,448)	(22,435)	(565,883)
Net Change in Cash and Short-Term Investments	99,632	5,267	104,899
Cash and Short-Term Investments, Beginning of Year	988,788	56,950	1,045,738
Cash and Short-Term Investments, End of Year	\$ 1,088,420	\$ 62,217	\$ 1,150,637
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 107,222	\$ 67,419	\$ 174,641
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	320,956	1,098	322,054
Changes in assets, deferred outflows, liabilities, and deferred inflows:			
User fees	(152,764)	-	(152,764)
Other assets	(28,114)	2,815	(25,299)
Net OPEB obligation	(75,236)	(27,695)	(102,931)
Net pension liability, and related deferrals	43,062	-	43,062
Other liabilities	314	40	354
Net Cash Provided By Operating Activities	\$ 215,440	\$ 43,677	\$ 259,117

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS		
Cash and short-term investments	\$ 952	\$ 190,968
Investments	<u>820,165</u>	<u>-</u>
Total Assets	821,117	190,968
 LIABILITIES		
Deposits held in custody	-	70,607
Other liabilities	<u>-</u>	<u>120,361</u>
Total Liabilities	<u>-</u>	<u>190,968</u>
 NET POSITION		
Total net position held in trust for other post employment benefits	\$ <u><u>821,117</u></u>	\$ <u><u>-</u></u>

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

TOWN OF SUTTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2017

	Other Post- Employment Benefits <u>Trust Fund</u>
ADDITIONS:	
Contributions	\$ 431,299
Investment income	<u>59,099</u>
Total additions	490,398
DEDUCTIONS:	
Benefit payments	326,299
NET POSITION:	
Beginning of year	<u>657,018</u>
End of year	<u><u>\$ 821,117</u></u>

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

TOWN OF SUTTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Sutton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2017, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 and excises.

Fund Financial Statements

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. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental fund:

- The *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.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the sewer fund as a major proprietary fund:

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *other post-employment insurance liability trust fund* is used to account for funds to offset the anticipated cost of premium payments for or direct payments to be made to retired employees of the Town, and to any eligible surviving spouse of or dependents of deceased employees of the Town.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. *Agency funds* report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at fair value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2½ percent (excluding new growth), unless an override is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of \$4,755.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of proprietary fund type inventories are recorded as expenses when consumed. No significant inventory balances were on hand in proprietary funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 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 acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	20 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. 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 Position.

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision-making authority in the government (i.e., the Board of Selectmen).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

Net Position - Net position represents the difference between assets and liabilities/deferred inflows. Net investment in capital assets, consist 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 34,379,201	\$ 33,691,541
Other financing sources/uses (GAAP Basis)	<u>164,531</u>	<u>521,996</u>
Subtotal (GAAP Basis)	34,543,732	34,213,537
Add end of year appropriation carryforwards to expenditures	-	606,087
To eliminate gross up of MTRS	(3,276,979)	(3,276,979)
To record use of free cash	934,500	-
To reverse stabilization activity	598,028	593,208
To reverse nonbudgeted activity	<u>35,722</u>	<u>-</u>
Budgetary Basis	\$ <u>32,835,003</u>	\$ <u>32,135,853</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2017:

Non-Major Funds:	
Wetlands protection fees	\$ (147)
Highway Chapter 90	(7,021)
Police 911 support	(23,896)
CMRPC bicycle grant	(1,530)
Police 911 training	<u>(5,551)</u>
Total Non-Major	\$ <u>(38,145)</u>

The deficits in these funds will be eliminated through future intergovernmental and departmental revenues and bond proceeds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or

trust company or banking company to an amount not exceeding sixty percent 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.” Massachusetts General Law Chapter 32, Section 23, limits the System’s deposits “in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company.” The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2017, \$1,956,439 of the Town’s bank balance of \$7,586,889 was exposed to custodial credit risk as uninsured or uncollateralized.

4. **Investments**

A. **Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year-end for each investment of the Town:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year-end</u>		
		<u>Aaa</u>	<u>A3</u>	<u>Not Rated</u>
Certificates of deposits	\$ 2,317,153	\$ -	\$ -	\$ 2,317,153
Corporate bonds	569,044	-	569,044	-
Mutual funds	407,083	-	-	407,083
Federal agency securities	646,236	646,236	-	-
U.S. Treasury notes	418,467	418,467	-	-
Equity securities	<u>874,878</u>	<u>-</u>	<u>-</u>	<u>874,878</u>
Total investments	<u>\$ 5,232,861</u>	<u>\$ 1,064,703</u>	<u>\$ 569,044</u>	<u>\$ 3,599,114</u>

B. **Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town’s policy for custodial credit risk is to limit investments to only those financial institutions assigned the highest rating by one or more of the recognized bank rating services.

Of the Town's investments of \$5,232,861, the government has a custodial credit risk exposure of \$2,915,708 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town has one investment (other than U.S. Treasury securities and mutual funds) that represent 5% or more of the total investments, a certificate of deposit with Millbury Savings Bank for \$1,601,125.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's policy for interest rate risk is to minimize the liquidation of investments that could result in forfeiture of accrued interest earnings or even in some cases, loss of principal, by structuring the portfolio so securities mature to meet all operating requirements that may be reasonably anticipated.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Debt-related securities:			
Certificates of deposit	\$ 2,317,153	\$ 1,601,125	\$ 716,028
Corporate bonds	569,044	139,903	429,141
Federal agency securities	646,236	-	646,236
U.S. Treasury notes	418,467	-	418,467
Total	<u>\$ 3,950,900</u>	<u>\$ 1,741,028</u>	<u>\$ 2,209,872</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy for foreign currency risk is to prohibit investments in foreign currency.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2017:

<u>Fair Value Measurements Using:</u>			
<u>Description</u>	Quoted prices in active markets for identical assets (Level 1)		Significant observable inputs (Level 2)
Investments by fair value level:			
Debt securities:			
Corporate bonds	\$ 569,043	\$ -	\$ 569,043
Federal agency securities	646,236	-	646,236
U.S. Treasury notes	418,467	-	418,467
Equity securities			
Equity mutual funds	407,083	407,083	-
Utilities	15,804	15,804	-
Technology	80,669	80,669	-
Financial Services	462,200	462,200	-
Industrials	25,840	25,840	-
Healthcare	48,855	48,855	-
Consumer staples	159,698	159,698	-
Energy	44,784	44,784	-
Other sectors	37,029	37,029	-
Total	\$ <u>2,915,708</u>	\$ <u>1,281,962</u>	\$ <u>1,633,746</u>

5. Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Boat vehicle excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

Taxes and excise receivables at June 30, 2017 consist of the following, net of an estimated allowance for doubtful account in the government-wide financial statements:

Receivables	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Real estate taxes	\$ 311,165	\$ (31,895)	\$ 279,270
Personal property taxes	46,782	-	46,782
Tax liens	334,069	-	334,069
Total property taxes	692,016	(31,895)	660,121
Motor vehicle excise	204,765	(74,461)	130,304
Boat excise	5,992	-	5,992
Farm animal excise	1,485	-	1,485
Total excises	212,242	(74,461)	137,781
Grand total	\$ 904,258	\$ (106,356)	\$ 797,902

6. User Fees Receivable

The Town provides sewer services but does not supply public water. Sewer bills are mailed twice annually covering January through June, and July through December. Usage is based on gallon consumption, with a minimum bill of \$295 for the first 30,000 gallons and a fee of \$6.25 for every additional 1,000 gallons used.

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

8. Interfund Transfers

The Town reports interfund transfers between many of its funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 164,531	\$ 521,996
Nonmajor Funds: ⁽¹⁾		
Special Revenue Funds:		
Town Revolving Funds	11,577	14,590
Trust Funds:		
Cemetery Funds	<u>11,600</u>	<u>50,000</u>
Subtotal Nonmajor Funds	23,177	64,590
<u>Business-Type Funds</u>		
Sewer Fund	510,617	89,164
Transfer Station	<u>-</u>	<u>22,575</u>
Grand Total	<u>\$ 698,325</u>	<u>\$ 698,325</u>

⁽¹⁾ Transfers in and out were netted on page 17 to eliminate intrafund activity.

The \$510,617 transfer from the General Fund to the Sewer Fund represents the annual transfer of the monies for sewer debt service that is appropriated in the General Fund.

The Town's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

9. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 93,266	\$ 15	\$ -	\$ 93,281
Machinery, equipment, and furnishings	2,563	155	-	2,718
Motor vehicles	4,223	397	(113)	4,507
Infrastructure	<u>15,581</u>	<u>307</u>	<u>-</u>	<u>15,888</u>
Total capital assets, being depreciated	115,633	874	(113)	116,394
Less accumulated depreciation for:				
Buildings and improvements	(20,446)	(2,322)	-	(22,768)
Machinery, equipment, and furnishings	(2,001)	(89)	-	(2,090)
Motor vehicles	(2,440)	(285)	113	(2,612)
Infrastructure	<u>(6,229)</u>	<u>(530)</u>	<u>-</u>	<u>(6,759)</u>
Total accumulated depreciation	<u>(31,116)</u>	<u>(3,226)</u>	<u>113</u>	<u>(34,229)</u>
Total capital assets, being depreciated, net	84,517	(2,352)	-	82,165
Capital assets, not being depreciated:				
Land	6,152	99	-	6,251
Construction in progress	<u>-</u>	<u>238</u>	<u>-</u>	<u>238</u>
Total capital assets, not being depreciated	<u>6,152</u>	<u>337</u>	<u>-</u>	<u>6,489</u>
Governmental activities capital assets, net	<u>\$ 90,669</u>	<u>\$ (2,015)</u>	<u>\$ -</u>	<u>\$ 88,654</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Sewer treatment plant	\$ 10,011	\$ -	\$ -	\$ 10,011
Millbury pumping station	1,665	-	-	1,665
Sewer pipes	307	-	-	307
Machinery, equipment, and furnishings	<u>624</u>	<u>39</u>	<u>-</u>	<u>663</u>
Total capital assets, being depreciated	12,607	39	-	12,646
Less accumulated depreciation for:				
Sewer treatment plant	(2,740)	(250)	-	(2,990)
Millbury pumping station	(516)	(55)	-	(571)
Sewer pipes	(307)	-	-	(307)
Machinery, equipment, and furnishings	<u>(558)</u>	<u>(16)</u>	<u>-</u>	<u>(574)</u>
Total accumulated depreciation	<u>(4,121)</u>	<u>(321)</u>	<u>-</u>	<u>(4,442)</u>
Total capital assets, being depreciated, net	<u>8,486</u>	<u>(282)</u>	<u>-</u>	<u>8,204</u>
Business-type activities capital assets, net	<u>\$ 8,486</u>	<u>\$ (282)</u>	<u>\$ -</u>	<u>\$ 8,204</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 41
Public safety	253
Education	2,303
Public works	617
Health and human services	<u>12</u>
Total depreciation expense - governmental activities	\$ <u>3,226</u>
Business-Type Activities:	
Sewer	\$ 320
Nonmajor Transfer Station	<u>1</u>
Total depreciation expense - business-type activities	\$ <u>321</u>

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 19.

11. Warrants Payable

Warrants payable represent 2017 expenditures paid after year end.

12. Notes Payable

The Town had the following notes outstanding at June 30, 2017:

Purpose	Interest Rate	Date of Issue	Date of Maturity	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
School Construction	0.75%	09/16/16	12/16/16	\$ 1,300,000	\$ -	\$ (1,300,000)	\$ -
2014 Capital Plan	1.25%	05/19/17	05/18/18	146,000	-	(50,000)	96,000
Departmental Equipment	1.25%	05/19/17	05/18/18	515,000	-	(165,000)	350,000
Tennis Courts	1.25%	05/19/17	05/18/18	200,000	-	(50,000)	150,000
Driveway	1.25%	05/19/17	05/18/18	<u>200,000</u>	<u>-</u>	<u>(125,000)</u>	<u>75,000</u>
Total Notes Payable				\$ <u>2,361,000</u>	\$ <u>-</u>	\$ <u>(1,690,000)</u>	\$ <u>671,000</u>

The Town accounts for these notes as long-term as the Town expects to continuously roll the notes with incremental paydowns annually.

13. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/17</u>
<u>Governmental Activities:</u>			
Title V Septic Program	08/01/19	0.00%	\$ 8,283
Shaw Land	11/15/26	4.00 - 5.00%	2,350,000
ELC Roof	06/15/19	2.50 - 5.00%	260,000
MS/HS Construction	06/30/31	3.00 - 5.00%	18,155,000
MS/HS Construction	02/15/33	2.00 - 2.50%	4,000,000
Total Governmental Activities:			<u>\$ 24,773,283</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/17</u>
<u>Business-Type Activities:</u>			
Manchaug Treatment Plant	08/01/24	2.00%	\$ 3,896,857
			<u>\$ 3,896,857</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,912,761	\$ 963,568	\$ 2,876,329
2019	1,912,761	905,117	2,817,878
2020	1,782,761	833,601	2,616,362
2021	1,780,000	767,164	2,547,164
2022	1,780,000	686,413	2,466,413
2023 - 2027	8,905,000	2,418,578	11,323,578
2028 - 2032	6,450,000	726,750	7,176,750
2033	250,000	6,875	256,875
Total	<u>\$ 24,773,283</u>	<u>\$ 7,308,066</u>	<u>\$ 32,081,349</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 429,729	\$ 83,216	\$ 512,945
2019	444,378	66,166	510,544
2020	495,520	49,145	544,665
2021	506,655	31,601	538,256
2022	508,720	18,528	527,248
2023 - 2027	<u>1,511,855</u>	<u>11,563</u>	<u>1,523,418</u>
Total	<u>\$ 3,896,857</u>	<u>\$ 260,219</u>	<u>\$ 4,157,076</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current <u>Portion</u>	Equals Long-Term Portion <u>6/30/17</u>
<u>Governmental Activities</u>						
Notes payable	\$ 1,061	\$ -	\$ (390)	\$ 671	\$ (671)	\$ -
Bonds payable	26,871	-	(2,097)	24,774	(1,913)	22,861
Compensated absences	511	-	(24)	487	(24)	463
Landfill liability	160	-	(16)	144	(16)	128
Net OPEB obligation	7,776	1,411	-	9,187	-	9,187
Net pension liability	<u>13,111</u>	<u>2,381</u>	<u>-</u>	<u>15,492</u>	<u>-</u>	<u>15,492</u>
Totals	<u>\$ 49,490</u>	<u>\$ 3,792</u>	<u>\$ (2,527)</u>	<u>\$ 50,755</u>	<u>\$ (2,624)</u>	<u>\$ 48,131</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,307	\$ -	\$ (410)	\$ 3,897	\$ (430)	\$ 3,467
Compensated absences	11	1	-	12	(1)	11
Net OPEB obligation	143	-	(103)	40	-	40
Net pension liability	<u>268</u>	<u>48</u>	<u>-</u>	<u>316</u>	<u>-</u>	<u>316</u>
Totals	<u>\$ 4,729</u>	<u>\$ 49</u>	<u>\$ (513)</u>	<u>\$ 4,265</u>	<u>\$ (431)</u>	<u>\$ 3,834</u>

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as a liability in the financial statements in each period based on landfill capacity used as of each balance sheet date. The Town landfill is closed and the final capping was completed in 2004. The Town has reflected \$144,000 as the estimate of the remaining postclosure care liability at June 30, 2017 in the Governmental Activities Statement of Net Position. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 19.

Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

16. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position includes both nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

17. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2017:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

Unassigned funds are available to be spent in future periods and deficit funds.

Following is a breakdown of the Town's fund balances at June 30, 2017:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 206,794	\$ 206,794
Total Nonexpendable	-	206,794	206,794
Restricted			
MS/HS Construction	-	290,719	290,719
Town revolving funds:			
Manchaug dam gift	-	372,755	372,755
Goddard Lodge donations	-	254,472	254,472
Cable access fees	-	292,273	292,273
Other	-	331,696	331,696
School revolving funds:			
School choice	-	674,580	674,580
School lunch	-	133,027	133,027
SPED Circuit Breaker	-	233,745	233,745
After school program	-	154,437	154,437
Other	-	414,514	414,514
Town grants	-	251,929	251,929
School grants	-	30,336	30,336
Expendable permanent funds	-	290,672	290,672
Debt service	132,968	-	132,968
Total Restricted	132,968	3,725,155	3,858,123

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Capital purchase articles	606,087	-	606,087
Other reserves for cont. appropriation	4,577	-	4,577
Capital and special education stabilization	492,784	-	492,784
Total Committed	1,103,448	-	1,103,448
Assigned			
For next year's expenditures	696,000	-	696,000
Total Assigned	696,000	-	696,000
Unassigned	(1) 3,856,444	(38,145)	3,818,299
Total Unassigned	3,856,444	(38,145)	3,818,299
Total Fund Balance	\$ 5,788,860	\$ 3,893,804	\$ 9,682,664

(1) Includes General Stabilization Fund Balance of \$2,553,921.

18. General Fund Unassigned Fund Balances

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS).

Massachusetts general laws include provisions to allow municipalities to over expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 3,856,444
Stabilization fund	<u>(2,553,921)</u>
Statutory (UMAS) Balance	<u>\$ 1,302,523</u>

19. Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Worcester Regional Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 23 Midstate Drive, Suite 106 Midstate Office Park, Auburn, MA 01501.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participants Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2017 was \$916,769, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$15,808,187 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016, rolled forward to the measurement date of December 31, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the Town's proportion was 1.89%.

For the year ended June 30, 2017, the Town recognized pension expense of \$1,664,188. The Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 128,902	\$ -
Changes of assumptions	1,869,839	-
Net difference between projected and actual earnings on pension plan investments	548,552	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>13,660</u>	<u>1,095,676</u>
Total	<u>\$ 2,560,953</u>	<u>\$ 1,095,676</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflows (Inflows) of Resources
2017	\$ 334,892
2018	334,891
2019	333,203
2020	176,164
2021	286,127
Total	<u>\$ 1,465,277</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Cost of living adjustment	3% of the first \$16,000
Salary increases	Group 1: 6% - 4.25%, based on service Group 4: 7% - 4.75% based on service
Inflation	3.0% per year
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table (base year 2009) with full generational mortality improvement using Scale BB. For disabled lives, the mortality rates were based on the RP-2000 mortality table (base year 2012) with full generational mortality improvement using Scale BB.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset

allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40%	4.97%
Fixed income	22%	2.29%
Private equity	11%	6.50%
Real estate	10%	3.50%
Timber/Natural resources	4%	3.00%
Hedge funds	13%	3.48%
Total	<u>100%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$ 19,041,147	\$ 15,808,187	\$ 13,079,032

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

20. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributing entity and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65.

Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).

- Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return 2017</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate as of June 30, 2016. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or

one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 7.50%</u>
June 30, 2016	\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributing entity and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2016 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$32,125,185 and \$3,276,979 respectively, based on a proportionate share of 0.143686%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

21. Other Post-Employment Benefits – OPEB (GASB 45)

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 Activities 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 in Note 19, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2015, the actuarial valuation date, approximately 121 retirees and 228 active

employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute various percentages of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), 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 Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2015.

Annual Required Contribution (ARC)	\$ 1,700,857
Interest on net OPEB obligation	358,923
Adjustment to ARC	<u>(377,583)</u>
Annual OPEB cost	1,682,197
Contributions made	(326,299)
Additional Contributions made	(105,000)
Other	<u>56,548</u>
Increase in net OPEB obligation	1,307,446
Net OPEB obligation - beginning of year	<u>7,919,515</u>
Net OPEB obligation - end of year	<u>\$ 9,226,961</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 1,682,197	26%	\$ 9,226,961
2016	\$ 1,605,427	27%	\$ 7,919,515
2015	\$ 1,426,624	31%	\$ 6,745,474
2014	\$ 1,368,694	30%	\$ 5,758,289
2013	\$ 1,717,851	45%	\$ 4,793,579
2012	\$ 1,624,980	49%	\$ 3,850,565
2011	\$ 1,943,947	29%	\$ 3,027,852
2010	\$ 1,396,781	33%	\$ 1,677,670
2009	\$ 1,316,321	44%	\$ 742,289

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 17,417,141
Actuarial value of plan assets	<u>(657,018)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 16,760,123</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>3.77%</u>
Covered payroll (active plan members)	<u>\$ 17,738,791</u>
UAAL as a percentage of covered payroll	<u>94%</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 OPEB Funding Progress, presented as required supplementary information following the Notes to 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 Town 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 Town 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 June 30, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

22. **Other Post-Employment Benefits – OPEB (GASB 74)**

In January 2012, the Government established an OPEB Trust fund to provide funding for future employee healthcare costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of mutual funds. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$	28,269,696
Plan fiduciary net position		<u>821,117</u>
Net OPEB liability	\$	<u><u>27,448,579</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability		2.90%

Actuarial assumptions: The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3 percent
Salary increases	3 percent, average, including inflation
Investment rate of return	4.5 percent, net of OPEB plan investment expense, including inflation

Mortality rates were based on RP-2014 mortality tables.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	35.00%	6.00%
International equity	18.00%	0.00%
Domestic bond	23.00%	0.00%
International bond	6.00%	0.00%
Alternative	18.00%	0.00%
Fixed income	0.00%	1.50%
Private equity	0.00%	6.00%
Real estate	0.00%	5.50%
Total	<u>100.00%</u>	

Discount rate: The discount rate used to measure the total OPEB liability was 3.13%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

<u>1% Decrease (2.13%)</u>	<u>Discount Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
\$ 32,273,792	\$ 27,448,579	\$ 22,623,367

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	Healthcare Cost Trend Rates (8.0% decreasing to 5.0%)	
1% Decrease (4.0%)		1% Increase (6.0%)
\$ 21,968,523	\$ 27,448,579	\$ 34,151,723

23. **Commitments and Contingencies**

Outstanding Legal Issues - There are pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Abatements - There are cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts if any, to be immaterial.

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

24. **Beginning Net Position/Fund Balance Restatement**

The Town's major governmental funds for fiscal year 2016, as defined by GASB Statement 34, have changed from the previous fiscal year. In addition, the Town's beginning net position has been restated in order to eliminate the MWPAT loan subsidy receivable. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:

	<u>Business-Type Activities</u>
As previously reported	\$ 5,401,723
Elimination of MWPAT subsidy receivable	<u>(533,481)</u>
As restated	<u><u>\$ 4,868,242</u></u>

Fund Financial Statements:

	<u>Middle and High School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Enterprise</u>
As previously reported	\$ (1,237,957)	\$ 3,150,178	\$ 5,366,133
Elimination of MWPAT subsidy receivable	-	-	(533,481)
Reclassification of Middle and High School Construction Fund	<u>1,237,957</u>	<u>(1,237,957)</u>	<u>-</u>
As restated	<u><u>\$ -</u></u>	<u><u>\$ 1,912,221</u></u>	<u><u>\$ 4,832,652</u></u>

25. Subsequent Events

Subsequent to June 30, 2017, the Town has incurred the following debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonds	\$ 25,585,000	2.50 - 5.00%	11/15/17	06/01/38

26. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

TOWN OF SUTTON, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017
(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	1.89%	\$15,808,187	\$ 6,249,073	252.97%	42.00%
June 30, 2016	June 30, 2015	1.88%	\$13,378,396	\$ 6,062,691	220.67%	44.52%
June 30, 2015	June 30, 2014	2.16%	\$12,865,839	\$ 5,829,511	220.70%	47.90%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.143686%	\$ -	\$ 32,125,185	\$ 32,125,185	\$ 9,451,169	0.00%	52.73%
June 30, 2016	June 30, 2015	0.148094%	\$ -	\$ 30,343,834	\$ 30,343,834	\$ 9,387,513	0.00%	55.38%
June 30, 2015	June 30, 2014	0.150380%	\$ -	\$ 23,905,002	\$ 23,905,002	\$ 9,340,394	0.00%	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF SUTTON, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017
(Unaudited)**

Worcester Regional Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 916,769	\$ 916,769	\$ -	\$ 6,249,073	14.67%
June 30, 2016	\$ 847,894	\$ 847,894	\$ -	\$ 6,062,691	13.99%
June 30, 2015	\$ 854,433	\$ 854,433	\$ -	\$ 5,829,511	14.66%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF SUTTON, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017
(Unaudited)

Other Post-Employment Benefits						
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 Percent- age of Covered Payroll [(b-a)/c]
07/01/16	\$ 657,018	\$ 17,417,141	\$ 16,760,123	3.80%	\$ 17,738,791	95%
07/01/15	\$ 531,194	\$ 16,648,275	\$ 16,117,081	3.19%	\$ 17,484,328	92%
07/01/14	\$ 385,598	\$ 15,109,900	\$ 14,724,302	2.55%	\$ 14,210,449	104%
07/01/13	\$ 189,247	\$ 14,541,229	\$ 14,351,982	1.30%	\$ 14,210,449	101%
06/30/12	\$ 84,922	\$ 17,346,775	\$ 17,261,853	0.49%	N/A	N/A
06/30/10	\$ -	\$ 22,114,790	\$ 22,114,790	0.0%	N/A	N/A
06/30/07	\$ -	\$ 14,747,895	\$ 14,747,895	0.0%	N/A	N/A

See Independent Auditors' Report.

**TOWN OF SUTTON, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 1,192,407
Interest on unfunded liability - time value of \$	867,890
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(326,299)</u>
Net change in total OPEB liability	1,733,998
Total OPEB liability - beginning	<u>26,535,698</u>
Total OPEB liability - ending (a)	<u><u>\$ 28,269,696</u></u>
Plan fiduciary net position*	
Contributions - employer	\$ 431,299
Contributions - member	-
Net investment income	59,099
Benefit payments, including refunds of member contributions	(326,299)
Administrative expense	-
Other	<u>-</u>
Net change in plan fiduciary net position	164,099
Plan fiduciary net position - beginning	<u>657,018</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 821,117</u></u>
Net OPEB liability (asset) - ending (a-b)	<u><u>\$ 27,448,579</u></u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF SUTTON, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 28,269,696
Plan fiduciary net position	<u>821,117</u>
Net OPEB liability (asset)	<u>\$ 27,448,579</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.90%
Covered payroll	\$ 17,738,791
Participating employer net OPEB liability (asset) as a percentage of covered payroll	154.74%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 1,682,197
Contributions in relation to the actuarially determined contribution	<u>431,299</u>
Contribution deficiency (excess)	<u>\$ 1,250,898</u>
Covered payroll	\$ 17,738,791
Contributions as a percentage of covered payroll	2.43%

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	8.00%

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

Additional Offices:

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Board of Selectmen
Town of Sutton, Massachusetts

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

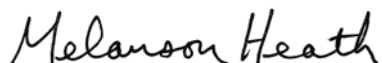
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



February 9, 2018