

TOWN OF SUTTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sutton, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of and for the year ended June 30, 2011 which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Sutton's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, appearing on the following pages, and the supplementary information appearing on page 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management

Additional Offices:

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

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.
Andover, Massachusetts
January 31, 2012

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, 2011.

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

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

Both of the government-wide financial statements distinguish functions 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 funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for Sewer and Transfer Station operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Transfer Station operations. The Sewer fund is considered to be 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 infor-

mation 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 exceeded liabilities by \$ 39,350,885 (i.e., net assets), a change of \$ 99,768 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,876,710, a change of \$ 20,699,154 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,053,688, a change of \$ (353,270) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 38,701,114, a change of \$ 23,721,049 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 (in thousands).

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 32,360	\$ 10,307	\$ 1,779	\$ 1,922	\$ 34,139	\$ 12,229
Capital assets	41,542	36,028	10,063	10,406	51,605	46,434
Total assets	<u>73,902</u>	<u>46,335</u>	<u>11,842</u>	<u>12,328</u>	<u>85,744</u>	<u>58,663</u>
Long-term liabilities outstanding	35,579	10,153	6,927	7,319	42,506	17,472
Other liabilities	<u>3,759</u>	<u>1,802</u>	<u>129</u>	<u>138</u>	<u>3,888</u>	<u>1,940</u>
Total liabilities	<u>39,338</u>	<u>11,955</u>	<u>7,056</u>	<u>7,457</u>	<u>46,394</u>	<u>19,412</u>
Net assets:						
Invested in capital assets, net	28,668	28,811	3,225	3,134	31,893	31,945
Restricted	3,007	3,199	-	-	3,007	3,199
Unrestricted	<u>2,889</u>	<u>2,370</u>	<u>1,562</u>	<u>1,737</u>	<u>4,451</u>	<u>4,107</u>
Total net assets	<u>\$ 34,564</u>	<u>\$ 34,380</u>	<u>\$ 4,787</u>	<u>\$ 4,871</u>	<u>\$ 39,351</u>	<u>\$ 39,251</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,716	\$ 1,736	\$ 721	\$ 744	\$ 2,437	\$ 2,480
Operating grants and contributions	9,400	9,361	-	-	9,400	9,361
Capital grants and contributions	1,564	878	-	-	1,564	878
General revenues:						
Property taxes	16,387	15,361	-	-	16,387	15,361
Excises	1,328	1,247	-	-	1,328	1,247
Penalties, interest, and other taxes	108	95	-	-	108	95
Grants and contributions not restricted to specific programs	785	841	-	-	785	841
Investment income	293	164	-	-	293	164
Miscellaneous	35	16	-	-	35	16
Total revenues	<u>31,616</u>	<u>29,699</u>	<u>721</u>	<u>744</u>	<u>32,337</u>	<u>30,443</u>
Expenses:						
General government	2,297	2,573	-	-	2,297	2,573
Public safety	2,603	2,392	-	-	2,603	2,392
Education	20,185	19,892	-	-	20,185	19,892
Public works	1,501	1,352	-	-	1,501	1,352
Human services	302	307	-	-	302	307
Culture and recreation	303	322	-	-	303	322
Employee benefits	2,904	2,635	-	-	2,904	2,635
Insurance	248	230	-	-	248	230
Interest on long-term debt	492	961	-	-	492	961
Intergovernmental	68	75	-	-	68	75
Sewer	-	-	1,186	1,202	1,186	1,202
Nonmajor transfer station	-	-	148	143	148	143
Total expenses	<u>30,903</u>	<u>30,739</u>	<u>1,334</u>	<u>1,345</u>	<u>32,237</u>	<u>32,084</u>
Change in net assets before transfers	713	(1,040)	(613)	(601)	100	(1,641)
Transfers in (out)	(529)	(697)	529	697	-	-
Change in net assets	184	(1,737)	(84)	96	100	(1,641)
Net assets - beginning of year	<u>34,380</u>	<u>36,117</u>	<u>4,871</u>	<u>4,775</u>	<u>39,251</u>	<u>40,892</u>
Net assets - end of year	<u>\$ 34,564</u>	<u>\$ 34,380</u>	<u>\$ 4,787</u>	<u>\$ 4,871</u>	<u>\$ 39,351</u>	<u>\$ 39,251</u>

As noted earlier, net assets 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 assets were \$ 39,350,885, a change of \$ 99,768 from the prior year.

The largest portion of net assets \$ 31,892,396 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 assets \$ 3,007,291 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 4,451,198 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 184,199. Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 718
General fund transfers to enterprise funds, net	(529)
Depreciation in excess of debt service principal paydown	(345)
Capital assets acquired from current year revenues	1,665
Increase in net OPEB obligation	(1,309)
Other	(16)
Total	<u>\$ 184</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (84,431). Key elements of this change are as follows (in thousands):

Sewer operations	\$ (55)
Nonmajor Transfer Station operations	(29)
Total	<u>\$ (84)</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 \$ 28,876,710, a change of \$ 20,699,154 in comparison to the prior year. Key elements of this change are as follows (in thousands):

General fund revenues and other financing sources in excess of expenditures and other financing uses	\$ 220
Middle and High School Construction fund revenues and other financing sources in excess of expenditures and other uses	21,553
Special revenue funds expenditures and transfers out in excess of revenues and transfers in	(208)
Capital project funds expenditures in excess of revenues and other financing sources	(884)
Permanent Trust Funds revenues and transfers in in excess of expenditures and transfers out	<u>18</u>
Total	\$ <u>20,699</u>

In fiscal year 2011, the Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the Notes to Financial Statements. Additionally, amounts previously reported in stabilization funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 1,053,688, while total fund balance was \$ 4,604,236. 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>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 1,053,688	\$ 1,406,958	\$ (353,270)	4.09%
Total fund balance ¹	4,604,236	4,384,062	220,174	17.87%

¹Now includes stabilization fund. Prior period balances have been revised to conform to current presentation.

The total fund balance of the general fund changed by \$ 220,174 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash and overlay surplus as a funding source	\$ (646)
Transfer to stabilization funds, net	220
Revenues in excess of budget	211
Expenditures less than budget	561
Other	<u>(126)</u>
Total	<u>\$ 220</u>

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

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ 1,812,369	\$ 1,837,392	\$ (25,023)
Capital stabilization	<u>347,237</u>	<u>102,520</u>	<u>244,717</u>
Total	<u>\$ 2,159,606</u>	<u>\$ 1,939,912</u>	<u>\$ 219,694</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 assets of the enterprise funds at the end of the year amounted to \$ 1,562,023, a change of \$ (174,654) in comparison to the prior year.

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 \$ 100,000. Major reasons for these amendments include:

- \$ 40,000 To fund the underfunded Employment account by a transfer from Overlay Reserve.
- \$ 10,000 To fund the underfunded Veteran's Benefits account by a transfer from Overlay Reserve.
- \$ 50,000 To fund Snow and Ice Removal by a transfer from free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 51,605,923 (net of accumulated depreciation), a change of \$ 5,172,539 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 construction costs for the High School/Middle School, and the acquisition of vehicles for the school, police, and fire departments.

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

Credit Rating. The Town of Sutton maintains 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 \$ 38,701,114 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

- According to the Commonwealth of Massachusetts Division of Employment and Training, the unemployment rate for the Town of Sutton was 7.89% as of March, 2011, which compares favorably with the state rate of 8.2% and the national rate of 8.89% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2009 was \$ 99,447; the per capita income for the same time was \$ 35,486. This compares favorably with both state and national incomes.
- According to the Town's Board of Assessors, the average 2010 single family home in Sutton is valued at \$ 340,600; the average two-family home is valued at \$ 259,000; the average three-family home is valued at \$ 354,200; the aver-

age condominium is valued at \$ 210,700; the average commercial property is valued at \$ 686,000; and the average industrial property is valued at \$ 481,200. All properties compare favorably with state and national property values.

- The Town approved a fiscal year 2012 general fund budget of \$ 26,205,761, an increase of \$ 1,134,941 or 4.5% (due to school construction project) over the fiscal year 2010 general fund budget.
- The total property tax levy for fiscal year 2011 is \$ 17,259,573, an increase of \$ 1,095,702 or 6.8% (due to school construction project). Local receipts are anticipated to be 10.8% more than fiscal year 2011 and state aid is anticipated to be 0.3% less than fiscal year 2011.

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 ASSETS

JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 25,165,056	\$ 505,656	\$ 25,670,712
Investments	6,398,534	-	6,398,534
Receivables, net of allowance for uncollectibles:			
Property taxes	434,031	-	434,031
Excises	76,244	-	76,244
User fees	-	85,910	85,910
Intergovernmental	115,308	120,082	235,390
Other assets	-	4,000	4,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	170,566	-	170,566
Intergovernmental	-	1,063,540	1,063,540
Capital assets not being depreciated	11,754,078	-	11,754,078
Capital assets, net of accumulated depreciation	<u>29,788,561</u>	<u>10,063,284</u>	<u>39,851,845</u>
TOTAL ASSETS	73,902,378	11,842,472	85,744,850
LIABILITIES			
Current:			
Warrants payable	546,619	-	546,619
Accounts payable	1,963,921	-	1,963,921
Retainage payable	99,907	-	99,907
Accrued liabilities	471,601	122,084	593,685
Tax refunds payable	119,463	-	119,463
Notes Payable	550,000	-	550,000
Other current liabilities	7,690	7,068	14,758
Current portion of long-term liabilities:			
Bonds payable	1,584,311	441,686	2,025,997
Compensated absences	49,165	1,148	50,313
Capital leases	33,515	-	33,515
Landfill liability	16,000	-	16,000
Noncurrent:			
Bonds payable	30,277,238	6,397,879	36,675,117
OPEB liability	2,952,070	75,782	3,027,852
Compensated absences	442,488	10,330	452,818
Landfill liability	<u>224,000</u>	<u>-</u>	<u>224,000</u>
TOTAL LIABILITIES	39,337,988	7,055,977	46,393,965
NET ASSETS			
Invested in capital assets, net of related debt	28,667,924	3,224,472	31,892,396
Restricted for:			
Grants and other statutory restrictions	2,515,703	-	2,515,703
Permanent funds	491,588	-	491,588
Unrestricted	<u>2,889,175</u>	<u>1,562,023</u>	<u>4,451,198</u>
TOTAL NET ASSETS	\$ <u>34,564,390</u>	\$ <u>4,786,495</u>	\$ <u>39,350,885</u>

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 2,297,552	\$ 245,067	\$ 619,776	\$ -	\$ (1,432,709)	\$ -	\$ (1,432,709)
Public safety	2,602,651	221,518	67,139	-	(2,313,994)	-	(2,313,994)
Education	20,184,885	1,027,788	8,681,537	1,278,656	(9,196,904)	-	(9,196,904)
Public works	1,500,560	40,242	225	285,361	(1,174,732)	-	(1,174,732)
Health and human services	301,753	149,639	7,428	-	(144,686)	-	(144,686)
Culture and recreation	302,989	32,160	23,713	-	(247,116)	-	(247,116)
Employee benefits	2,904,340	-	-	-	(2,904,340)	-	(2,904,340)
Insurance	247,968	-	-	-	(247,968)	-	(247,968)
Interest	492,321	-	-	-	(492,321)	-	(492,321)
Intergovernmental	68,131	-	-	-	(68,131)	-	(68,131)
Total Governmental Activities	30,903,150	1,716,414	9,399,818	1,564,017	(18,222,901)	-	(18,222,901)
Business-Type Activities:							
Sewer services	1,186,114	579,767	-	-	-	(606,347)	(606,347)
Nonmajor Transfer Station services	148,345	141,612	-	-	-	(6,733)	(6,733)
Total Business-Type Activities	1,334,459	721,379	-	-	-	(613,080)	(613,080)
Total	\$ 32,237,609	\$ 2,437,793	\$ 9,399,818	\$ 1,564,017	(18,222,901)	(613,080)	(18,835,981)
General Revenues and Transfers:							
Property taxes					16,386,761	-	16,386,761
Excises					1,328,022	-	1,328,022
Penalties, interest and other taxes					108,464	-	108,464
Grants and contributions not restricted to specific programs					785,433	-	785,433
Investment income					292,473	-	292,473
Miscellaneous					34,596	-	34,596
Transfers, net					(528,649)	528,649	-
Total general revenues and transfers					18,407,100	528,649	18,935,749
Change in Net Assets					184,199	(84,431)	99,768
Net Assets:							
Beginning of year					34,380,191	4,870,926	39,251,117
End of year					\$ 34,564,390	\$ 4,786,495	\$ 39,350,885

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>Middle and High School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 3,943,555	\$ 18,123,093	\$ 3,098,408	\$ 25,165,056
Investments	1,398,534	5,000,000	-	6,398,534
Receivables:				
Property taxes	647,696	-	-	647,696
Excises	137,093	-	-	137,093
Intergovernmental	507	-	114,801	115,308
TOTAL ASSETS	\$ 6,127,385	\$ 23,123,093	\$ 3,213,209	\$ 32,463,687
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 546,619	\$ -	\$ -	\$ 546,619
Accounts payable	-	1,963,921	-	1,963,921
Retainage payable	-	99,907	-	99,907
Accrued liabilities	262,390	-	-	262,390
Deferred revenues	706,450	-	-	706,450
Other liabilities	7,690	-	-	7,690
TOTAL LIABILITIES	1,523,149	2,063,828	-	3,586,977
Fund Balances:				
Nonspendable	-	-	491,588	491,588
Restricted	367,343	21,059,265	2,721,621	24,148,229
Committed	2,159,606	-	-	2,159,606
Assigned	1,023,599	-	-	1,023,599
Unassigned	1,053,688	-	-	1,053,688
TOTAL FUND BALANCES	4,604,236	21,059,265	3,213,209	28,876,710
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,127,385	\$ 23,123,093	\$ 3,213,209	\$ 32,463,687

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS

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

JUNE 30, 2011

Total governmental fund balances	\$ 28,876,710
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	41,542,639
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	483,039
<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.	(209,211)
<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	(550,000)
Bonds payable	(31,861,549)
Net OPEB obligation	(2,952,070)
Compensated absences liability	(491,653)
Capital leases	(33,515)
Landfill liability	<u>(240,000)</u>
Net assets of governmental activities	\$ <u><u>34,564,390</u></u>

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Middle and High School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 16,275,439	\$ -	\$ -	\$ 16,275,439
Excises	1,317,983	-	-	1,317,983
Penalties, interest, and other taxes	108,464	-	-	108,464
Charges for services	314,129	-	1,239,438	1,553,567
Intergovernmental	8,016,096	1,203,656	2,469,180	11,688,932
Licenses and permits	79,283	-	-	79,283
Fines and forfeitures	83,566	-	-	83,566
Investment income	289,596	-	2,877	292,473
Miscellaneous	3,430	-	31,167	34,597
Contributions	-	-	60,336	60,336
Total Revenues	<u>26,487,986</u>	<u>1,203,656</u>	<u>3,802,998</u>	<u>31,494,640</u>
Expenditures:				
Current:				
General government	1,253,255	-	904,892	2,158,147
Public safety	2,104,528	-	80,304	2,184,832
Education	16,394,779	-	2,505,241	18,900,020
Public works	817,344	-	303,951	1,121,295
Health and human services	224,180	-	53,273	277,453
Culture and recreation	226,026	-	61,216	287,242
Employee benefits	2,904,340	-	-	2,904,340
Insurance	247,968	-	-	247,968
Debt service	1,529,781	-	-	1,529,781
Intergovernmental	68,131	-	-	68,131
Capital outlay	-	4,992,165	1,511,963	6,504,128
Total Expenditures	<u>25,770,332</u>	<u>4,992,165</u>	<u>5,420,840</u>	<u>36,183,337</u>
Excess (deficiency) of revenues over expenditures	717,654	(3,788,509)	(1,617,842)	(4,688,697)
Other Financing Sources (Uses):				
Issuance of bonds and notes	366,500	25,000,000	550,000	25,916,500
Transfers in	119,531	342,010	1,406	462,947
Transfers out	(983,511)	-	(8,085)	(991,596)
Total Other Financing Sources (Uses)	<u>(497,480)</u>	<u>25,342,010</u>	<u>543,321</u>	<u>25,387,851</u>
Change in fund balance	220,174	21,553,501	(1,074,521)	20,699,154
Fund Equity, at Beginning of Year as reclassified	<u>4,384,062</u>	<u>(494,236)</u>	<u>4,287,730</u>	<u>8,177,556</u>
Fund Equity, at End of Year	\$ <u><u>4,604,236</u></u>	\$ <u><u>21,059,265</u></u>	\$ <u><u>3,213,209</u></u>	\$ <u><u>28,876,710</u></u>

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, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 20,699,154
<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: 	
Capital outlay purchases, net of disposals	7,072,315
Depreciation	(1,557,358)
<ul style="list-style-type: none"> 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. 	121,361
<ul style="list-style-type: none"> 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 assets: 	
Issuance of bonds and notes	(25,916,500)
Repayments of debt	1,212,811
<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. 	(175,351)
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as capital leases and OPEB liability, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
Increase in net OPEB obligation	(1,309,105)
Increase in compensated absences liability	(26,146)
Decrease in capital leases	47,018
Decrease in landfill liability	<u>16,000</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>184,199</u>

See notes to 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, 2011

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Property taxes	\$ 16,089,539	\$ 16,089,539	\$ 16,089,539	\$ -
Excises	1,226,500	1,226,500	1,317,983	91,483
Penalties, interest, and other taxes	70,000	70,000	108,464	38,464
Charges for services	199,145	199,145	314,129	114,984
Intergovernmental	5,906,480	5,906,480	5,931,332	24,852
Licenses and permits	66,000	66,000	79,283	13,283
Fines and forfeitures	84,700	84,700	83,566	(1,134)
Investment income	135,000	135,000	60,356	(74,644)
Miscellaneous	-	-	3,430	3,430
Bond proceeds	366,500	366,500	366,500	-
Transfers in	685,461	685,461	685,461	-
Other Sources	<u>546,437</u>	<u>646,437</u>	<u>646,437</u>	<u>-</u>
Total Revenues	25,375,762	25,475,762	25,686,480	210,718
Expenditures and other uses:				
General government	1,353,841	1,339,405	1,227,807	111,598
Public safety	2,098,036	2,136,907	2,095,895	41,012
Education	14,297,731	14,297,731	14,106,504	191,227
Public works	733,664	769,164	811,633	(42,469)
Health and human services	218,685	228,685	224,101	4,584
Culture and recreation	242,852	242,852	204,827	38,025
Employee benefits	2,892,283	2,927,348	2,904,340	23,008
Insurance	253,992	248,992	247,968	1,024
Debt service	2,705,124	2,705,124	2,512,179	192,945
Intergovernmental	68,031	68,031	68,131	(100)
Transfers out	<u>511,523</u>	<u>511,523</u>	<u>511,523</u>	<u>-</u>
Total Expenditures	<u>25,375,762</u>	<u>25,475,762</u>	<u>24,914,908</u>	<u>560,854</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>771,572</u>	\$ <u>771,572</u>

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 496,080	\$ 9,576	\$ 505,656
User fees, net of allowance for uncollectibles	85,910	-	85,910
Intergovernmental receivable	120,082	-	120,082
Other assets	-	4,000	4,000
Total current assets	702,072	13,576	715,648
Noncurrent:			
Intergovernmental receivable	1,063,540	-	1,063,540
Capital assets, net of accumulated depreciation	9,916,091	147,193	10,063,284
Total noncurrent assets	10,979,631	147,193	11,126,824
TOTAL ASSETS	11,681,703	160,769	11,842,472
<u>LIABILITIES</u>			
Current:			
Accrued liabilities	122,084	-	122,084
Other current liabilities	7,068	-	7,068
Current portion of long-term liabilities:			
Bonds payable	441,686	-	441,686
Compensated absences	1,148	-	1,148
Total current liabilities	571,986	-	571,986
Noncurrent:			
Bonds payable, net of current portion	6,397,879	-	6,397,879
OPEB liability	67,157	8,625	75,782
Compensated absences	10,330	-	10,330
Total noncurrent liabilities	6,475,366	8,625	6,483,991
TOTAL LIABILITIES	7,047,352	8,625	7,055,977
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	3,077,279	147,193	3,224,472
Unrestricted	1,557,072	4,951	1,562,023
TOTAL NET ASSETS	\$ 4,634,351	\$ 152,144	\$ 4,786,495

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 579,767	\$ 141,612	\$ 721,379
Total Operating Revenues	579,767	141,612	721,379
Operating Expenses:			
Personnel services	244,671	41,219	285,890
Non-personnel services	300,120	73,904	374,024
Depreciation	309,195	33,222	342,417
Total Operating Expenses	853,986	148,345	1,002,331
Operating (Loss)	(274,219)	(6,733)	(280,952)
Nonoperating Revenues (Expenses):			
Interest expense	(332,128)	-	(332,128)
Total Nonoperating Revenues (Expenses), Net	(332,128)	-	(332,128)
(Loss) Before Transfers	(606,347)	(6,733)	(613,080)
Transfers:			
Transfers in	640,388	-	640,388
Transfers out	(89,164)	(22,575)	(111,739)
Change in Net Assets	(55,123)	(29,308)	(84,431)
Net Assets at Beginning of Year	4,689,474	181,452	4,870,926
Net Assets at End of Year	\$ 4,634,351	\$ 152,144	\$ 4,786,495

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund Fund	Nonmajor Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 581,917	\$ 141,612	\$ 723,529
Payments to vendors	(300,120)	(78,802)	(378,922)
Payments to employees	(207,678)	(37,907)	(245,585)
Net Cash Provided By Operating Activities	74,119	24,903	99,022
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfer in	640,388	-	640,388
Transfer out	(89,164)	(22,575)	(111,739)
Net Cash Provided by (Used For) Noncapital Financing Activities	551,224	(22,575)	528,649
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Principal payments on bonds and notes	(432,640)	-	(432,640)
Interest expense	(207,748)	-	(207,748)
Net Cash (Used For) Capital and Related Financing Activities	(640,388)	-	(640,388)
Net Change in Cash and Short-Term Investments	(15,045)	2,328	(12,717)
Cash and Short-Term Investments, Beginning of Year	511,125	7,248	518,373
Cash and Short-Term Investments, End of Year	<u>\$ 496,080</u>	<u>\$ 9,576</u>	<u>\$ 505,656</u>
<u>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</u>			
Operating (loss)	\$ (274,219)	\$ (6,733)	\$ (280,952)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:			
Depreciation	309,195	33,222	342,417
Changes in assets and liabilities:			
User fees	2,150	-	2,150
Other assets	-	3,907	3,907
Accrued liabilities	-	(8,805)	(8,805)
Other liabilities	36,993	3,312	40,305
Net Cash Provided By Operating Activities	<u>\$ 74,119</u>	<u>\$ 24,903</u>	<u>\$ 99,022</u>

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>92,204</u>
Total Assets	\$ <u><u>92,204</u></u>
 <u>LIABILITIES</u>	
Deposits held in custody	\$ 36,804
Other liabilities	<u>55,400</u>
Total Liabilities	\$ <u><u>92,204</u></u>

See notes to 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.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the statement of changes in net assets) report information on all of the nonfiduciary 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 govern-

mental 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 government reports the following major governmental funds:

- 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 *Middle and High School Construction* capital project accounts for revenue and costs associated with constructing, equipping, and furnishing a new Sutton Middle and High School.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary fund:

- Sewer Fund

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 market 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 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2011 tax levy reflected an excess capacity of \$ 2,392.

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 estimated fair market value at the date of donation.

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

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

Property, plant and equipment is 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 Assets.

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 assets".

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.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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. All other net assets are 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)	\$ 26,487,986	\$ 25,770,332
Other financing sources/uses (GAAP Basis)	<u>486,031</u>	<u>983,511</u>
Subtotal (GAAP Basis)	26,974,017	26,753,843
Adjust tax revenue to accrual basis	(185,900)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(486,493)
Add end of year appropriation carryforwards to expenditures	-	225,931
To reverse the effect of non- budgeted State contributions for teachers retirement	(2,084,764)	(2,084,764)
To reverse nonbudgeted activity	336,690	506,391
Recognize other funding sources	<u>646,437</u>	<u>-</u>
Budgetary Basis	<u>\$ 25,686,480</u>	<u>\$ 24,914,908</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Snow and Ice	\$ (53,405)
--------------	-------------

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

Agency Funds:	
Police Off Duty	\$ (10,820)

The deficits in these funds will be eliminated through future departmental revenues.

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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2011, the Town's bank balance of \$ 26,304,658 was fully insured and collateralized.

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 (in thousands) is the actual rating as of year-end for each investment of the Town (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Aaa</u>	<u>AA+</u>	<u>BB-</u>	<u>Not Rated</u>
Certificates of deposits	\$ 5,165	\$ -	\$ -	\$ -	\$ 5,165
Corporate bonds	200	-	109	91	-
Mutual funds	94	-	-	-	94
Federal agency securities	849	849	-	-	-
U.S. Treasury notes	89	89	-	-	-
Equities	2	-	-	-	2
Total investments	<u>\$ 6,399</u>	<u>\$ 938</u>	<u>\$ 109</u>	<u>\$ 91</u>	<u>\$ 5,261</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 \$ 6,398,534, the government has a custodial credit risk exposure of \$ 1,233,252 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. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Century Bank CD	\$ 5,000,000
Federal National Mortgage Assoc.	547,768

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 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Certificates of deposit	\$ 5,165	\$ 5,000	\$ 165	\$ -
Corporate bonds	200	-	200	-
Federal agency securities	849	236	573	40
U.S. Treasury notes	<u>89</u>	<u>89</u>	<u>-</u>	<u>-</u>
Total	\$ <u>6,303</u>	\$ <u>5,325</u>	\$ <u>938</u>	\$ <u>40</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.

5. Taxes 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.

Fourteen days after the due date for the final tax bill for real estate taxes, 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.

Taxes receivable at June 30, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 392	
2010	2	
2009	2	
Prior	<u>9</u>	
		405
Personal Property		
2011	2	
2010	1	
2009	1	
Prior	<u>34</u>	
		38
Tax Liens		<u>205</u>
Total		<u>\$ 648</u>

6. **Allowance for Doubtful Accounts**

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 43
Excises	61

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

8. **Capital Assets**

Capital asset activity for the year ended June 30, 2011 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	\$ 33,355	\$ 1,575	\$ -	\$ 34,930
Machinery, equipment, and furnishings	2,214	52	-	2,266
Motor vehicles	2,670	931	(95)	3,506
Infrastructure	<u>11,370</u>	<u>115</u>	<u>-</u>	<u>11,485</u>
Total capital assets, being depreciated	49,609	2,673	(95)	52,187
Less accumulated depreciation for:				
Buildings and improvements	(13,586)	(892)	-	(14,478)
Machinery, equipment, and furnishings	(1,825)	(92)	-	(1,917)
Motor vehicles	(2,105)	(200)	95	(2,210)
Infrastructure	<u>(3,420)</u>	<u>(373)</u>	<u>-</u>	<u>(3,793)</u>
Total accumulated depreciation	<u>(20,936)</u>	<u>(1,557)</u>	<u>95</u>	<u>(22,398)</u>
Total capital assets, being depreciated, net	28,673	1,116	-	29,789
Capital assets, not being depreciated:				
Land	5,953	-	-	5,953
Construction in progress	<u>1,402</u>	<u>6,775</u>	<u>(2,376)</u>	<u>5,801</u>
Total capital assets, not being depreciated	<u>7,355</u>	<u>6,775</u>	<u>(2,376)</u>	<u>11,754</u>
Governmental activities capital assets, net	<u>\$ 36,028</u>	<u>\$ 7,891</u>	<u>\$ (2,376)</u>	<u>\$ 41,543</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	\$ 9,937	\$ -	\$ -	\$ 9,937
Millbury pumping station	1,665	-	-	1,665
Sewer pipes	307	-	-	307
Machinery, equipment and furnishings	<u>545</u>	<u>-</u>	<u>-</u>	<u>545</u>
Total capital assets, being depreciated	12,454	-	-	12,454
Less accumulated depreciation for:				
Sewer treatment plant	(1,240)	(248)	-	(1,488)
Millbury pumping station	(183)	(56)	-	(239)
Sewer pipes	(307)	-	-	(307)
Machinery, equipment and furnishings	<u>(318)</u>	<u>(39)</u>	<u>-</u>	<u>(357)</u>
Total accumulated depreciation	<u>(2,048)</u>	<u>(343)</u>	<u>-</u>	<u>(2,391)</u>
Total capital assets, being depreciated, net	<u>10,406</u>	<u>(343)</u>	<u>-</u>	<u>10,063</u>
Business-type activities capital assets, net	<u>\$ 10,406</u>	<u>\$ (343)</u>	<u>\$ -</u>	<u>\$ 10,063</u>

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

Governmental Activities:	
General government	\$ 41
Public safety	261
Education	761
Public works	483
Health and human services	<u>11</u>
Total depreciation expense - governmental activities	\$ <u>1,557</u>
Business-Type Activities:	
Sewer	\$ 309
Nonmajor Transfer Station	<u>34</u>
Total depreciation expense - business-type activities	\$ <u>343</u>

9. Warrants and Accounts Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011.
Accounts payable represent additional 2011 expenditures paid after July 15, 2011.

10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2012. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2011:

<u>Fiscal</u> <u>Year</u>	<u>Capital</u> <u>Leases</u>
2012	\$ 33,653
Total minimum lease payments	33,653
Less amounts representing interest	<u>(138)</u>
Present Value of Minimum Lease Payments	<u>\$ 33,515</u>

12. Notes Payable

The Town had the following notes outstanding at June 30, 2011:

	<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Issue</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance at</u> <u>6/30/11</u>
ELC Solar Panels	1.15%	06/16/11	06/15/12	\$ 550,000
Total				<u>\$ 550,000</u>

The following summarizes activity in notes payable during fiscal year 2011:

	<u>Balance</u> <u>Beginning</u> <u>of Year</u>	<u>New</u> <u>Issues</u>	<u>Maturities</u>	<u>Balance</u> <u>End of</u> <u>Year</u>
School Feasibility Study	\$ 342,010	\$ -	\$ (342,010)	\$ -
MS/HS Construction	-	3,000,000	(3,000,000)	-
ELC Solar Panels	-	550,000	-	550,000
Total	<u>\$ 342,010</u>	<u>\$ 3,550,000</u>	<u>\$ (3,342,010)</u>	<u>\$ 550,000</u>

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	Interest Rate(s) %	Amount Outstanding as of 6/30/11
<u>Governmental Activities:</u>	<u>Through</u>		
Title V Septic Program	02/01/17	0.00%	\$ 25,049
Shaw Land	11/15/26	4.00 - 5.00%	3,780,000
Capital Plan	11/15/26	4.00 - 5.00%	495,000
ELC Roof	06/15/19	2.50 - 5.00%	755,000
Fire Truck	06/15/19	2.50 - 5.00%	525,000
2009 Capital Plan	06/15/19	2.50 - 5.00%	255,000
2010 Capital Plan	06/15/19	2.50 - 5.00%	30,000
Whitter Farms	04/01/17	2.00 - 3.75%	251,000
2010 Capital Plan	04/01/17	2.00 - 3.75%	379,000
2011 Capital Plan	06/30/16	3.00 - 5.00%	366,500
MS/HS Construction	06/30/31	3.00 - 5.00%	<u>25,000,000</u>
Total Governmental Activities:			\$ <u>31,861,549</u>

	Serial Maturities	Interest Rate(s) %	Amount Outstanding as of 6/30/11
<u>Business-Type Activities:</u>	<u>Through</u>		
Municipal Purpose	06/15/18	3.00 - 4.00%	\$ 700,000
Manchaug Treatment Plant	08/01/24	2.00%	<u>6,139,565</u>
Total Business-Type Activities:			\$ <u>6,839,565</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,584,311	\$ 1,234,592	\$ 2,818,903
2013	1,887,811	1,216,738	3,104,549
2014	2,007,811	1,157,417	3,165,228
2015	1,897,811	1,094,717	2,992,528
2016	1,887,761	1,019,417	2,907,178
2017-2021	8,211,044	4,056,518	12,267,562
2022-2026	7,650,000	2,440,011	10,090,011
2027-2029	6,735,000	889,230	7,624,230
Total	<u>\$ 31,861,549</u>	<u>\$ 13,108,640</u>	<u>\$ 44,970,189</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 441,686	\$ 204,665	\$ 646,351
2013	451,072	191,268	642,340
2014	464,761	173,555	638,316
2015	479,447	154,322	633,769
2016	495,546	134,459	630,005
2017-2021	2,486,478	342,549	2,829,027
2022-2026	2,020,575	30,091	2,050,666
Total	<u>\$ 6,839,565</u>	<u>\$ 1,230,909</u>	<u>\$ 8,070,474</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/11</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 7,708	\$ 25,366	\$ (1,213)	\$ 31,861	\$ (1,584)	\$ 30,277
Other:						
Net OPEB obligation	1,643	1,309	-	2,952	-	2,952
Compensated absences	465	38	(12)	491	(49)	442
Capital leases	81	-	(47)	34	(34)	-
Landfill closure	256	-	(16)	240	(16)	224
Totals	<u>\$ 10,153</u>	<u>\$ 26,713</u>	<u>\$ (1,288)</u>	<u>\$ 35,578</u>	<u>\$ (1,683)</u>	<u>\$ 33,895</u>

	Total Balance 7/1/10	Additions	Reductions	Total Balance 6/30/11	Less Current Portion	Equals Long-Term Portion 6/30/11
<u>Business-Type Activities</u>						
Bonds payable	\$ 7,272	\$ -	\$ (432)	\$ 6,840	\$ (442)	\$ 6,398
Other:						
Net OPEB obligation	35	41	-	76	-	76
Compensated absences	12	-	(1)	11	(1)	10
Totals	<u>\$ 7,319</u>	<u>\$ 41</u>	<u>\$ (433)</u>	<u>\$ 6,927</u>	<u>\$ (443)</u>	<u>\$ 6,484</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 \$ 240,000 as the estimate of the remaining postclosure care liability at June 30, 2011 in the Governmental Activities Statement of Net Assets. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Restricted Net Assets

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

Permanent fund restricted net assets 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.

16. 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.

In fiscal year 2011, 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, 2011:

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 for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue 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.

Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Following is a breakdown of the Town's fund balances at June 30, 2011:

	General Fund	Middle and High School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 491,588	\$ 491,588
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 491,588</u>	<u>\$ 491,588</u>
Restricted				
Bonded projects	\$ -	\$ 21,059,265	\$ 205,918	\$ 21,265,183
Special revenue funds	-	-	2,515,703	2,515,703
Debt service	367,343	-	-	367,343
	<u>\$ 367,343</u>	<u>\$ 21,059,265</u>	<u>\$ 2,721,621</u>	<u>\$ 24,148,229</u>
Committed				
Stabilization funds	\$ 2,159,606	\$ -	\$ -	\$ 2,159,606
	<u>\$ 2,159,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,159,606</u>
Assigned				
Encumbrances	\$ 225,999	\$ -	\$ -	\$ 225,999
Reserved for expenditures	797,600	-	-	797,600
	<u>\$ 1,023,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,023,599</u>
Unassigned	<u>\$ 1,053,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,053,688</u>

17. Commitments and Contingencies

Outstanding Legal Issues - There are several 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.

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.

18. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, 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, 2010, the actuarial valuation date, approximately 108 retirees and 185 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 2011 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, 2011, 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, 2010.

Annual Required Contribution (ARC)	\$ 1,934,757
Interest on net OPEB obligation	83,884
Adjustment to ARC	<u>(74,694)</u>
Annual OPEB cost	1,943,947
Contributions made	<u>(593,765)</u>
Increase in net OPEB obligation	1,350,182
Net OPEB obligation - beginning of year	<u>1,677,670</u>
Net OPEB obligation - end of year	<u><u>\$ 3,027,852</u></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>
2009	\$ 1,316,321	44%	\$ 742,289
2010	\$ 1,396,781	33%	\$ 1,677,670
2011	\$ 1,943,947	29%	\$ 3,027,852

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 22,114,790
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 22,114,790</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to 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, 2010 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 3.0 %.

19. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The Town contributes to the Worcester Regional Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Worcester Regional Retirement System at 23 Midstate Drive, Suite 106 Midstate Office Park, Auburn, MA 01501.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were \$ 647,873, \$ 627,330, and \$ 574,032, respectively, which were equal to its annual required contributions for each of these years. The payroll for employees covered by the System for the year ended June 30, 2011 was not available.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The Town's current year covered payroll for teachers and administrators was not available.

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 2,084,764 to the MTRS on behalf of the Town. This is included in the

education expenditures and intergovernmental revenues in the general fund.

20. **Risk Management**

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

21. **Beginning Fund Balance Reclassification**

The Town's major governmental funds for fiscal year 2011, as defined by GASB Statement 34, and with the implementation of GASB Statement 54, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/10 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/10 (as reclassified)
General Fund	\$ 2,444,150	\$ 1,939,912	\$ 4,384,062
Stabilization Fund	<u>1,939,912</u>	<u>(1,939,912)</u>	<u>-</u>
Total	<u>\$ 4,384,062</u>	<u>\$ -</u>	<u>\$ 4,384,062</u>

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

June 30, 2011
(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]
06/30/07	\$ -	\$ 14,747,895	\$ 14,747,895	0.0%	N/A	N/A
06/30/10	\$ -	\$ 22,114,790	\$ 22,114,790	0.0%	N/A	N/A

See Independent Auditors' Report.