

**TOWN OF SUTTON, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2012**

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## MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

### 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, 2012 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, 2012 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress information 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.

*Melanson, Heath + Company P.C.*  
January 22, 2013

## **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, 2012.

### **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 \$ 46,503,736 (i.e., net assets), a change of \$ 7,152,852 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 18,579,355, a change of \$ (10,297,355) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,109,247, a change of \$ 55,559 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 36,675,117, a change of \$ (2,025,997) 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 23,527	\$ 32,360	\$ 1,810	\$ 1,779	\$ 25,337	\$ 34,139
Capital assets	<u>57,931</u>	<u>41,542</u>	<u>9,721</u>	<u>10,063</u>	<u>67,652</u>	<u>51,605</u>
Total assets	81,458	73,902	11,531	11,842	92,989	85,744
Long-term liabilities outstanding	34,731	35,579	6,512	6,927	41,243	42,506
Other liabilities	<u>5,078</u>	<u>3,759</u>	<u>164</u>	<u>129</u>	<u>5,242</u>	<u>3,888</u>
Total liabilities	39,809	39,338	6,676	7,056	46,485	46,394
Net assets:						
Invested in capital assets, net	31,927	28,668	3,324	3,225	35,251	31,893
Restricted	2,708	3,007	-	-	2,708	3,007
Unrestricted	<u>7,014</u>	<u>2,889</u>	<u>1,531</u>	<u>1,562</u>	<u>8,545</u>	<u>4,451</u>
Total net assets	<u>\$ 41,649</u>	<u>\$ 34,564</u>	<u>\$ 4,855</u>	<u>\$ 4,787</u>	<u>\$ 46,504</u>	<u>\$ 39,351</u>

## CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,779	\$ 1,716	\$ 857	\$ 721	\$ 2,636	\$ 2,437
Operating grants and contributions	9,010	9,400	-	-	9,010	9,400
Capital grants and contributions	408	1,564	-	-	408	1,564
General revenues:						
Property taxes	17,283	16,387	-	-	17,283	16,387
Excises	1,294	1,328	-	-	1,294	1,328
Penalties, interest, and other taxes	127	108	-	-	127	108
Grants and contributions not restricted to specific programs	8,897 *	785	-	-	8,897	785
Investment income	171	293	-	-	171	293
Miscellaneous	35	35	-	-	35	35
Total revenues	<u>39,004</u>	<u>31,616</u>	<u>857</u>	<u>721</u>	<u>39,861</u>	<u>32,337</u>
Expenses:						
General government	1,355	2,297	-	-	1,355	2,297
Public safety	2,361	2,603	-	-	2,361	2,603
Education	19,871	20,185	-	-	19,871	20,185
Public works	1,386	1,501	-	-	1,386	1,501
Human services	323	302	-	-	323	302
Culture and recreation	303	303	-	-	303	303
Employee benefits	4,200	2,904	-	-	4,200	2,904
Insurance	250	248	-	-	250	248
Interest on long-term debt	1,263	492	-	-	1,263	492
Intergovernmental	70	68	-	-	70	68
Sewer	-	-	1,177	1,186	1,177	1,186
Nonmajor transfer station	-	-	149	148	149	148
Total expenses	<u>31,382</u>	<u>30,903</u>	<u>1,326</u>	<u>1,334</u>	<u>32,708</u>	<u>32,237</u>
Change in net assets before transfers	7,622	713	(469)	(613)	7,153	100
Transfers in (out)	<u>(537)</u>	<u>(529)</u>	<u>537</u>	<u>529</u>	<u>-</u>	<u>-</u>
Change in net assets	7,085	184	68	(84)	7,153	100
Net assets - beginning 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>
Net assets - end of year	<u>\$ 41,649</u>	<u>\$ 34,564</u>	<u>\$ 4,855</u>	<u>\$ 4,787</u>	<u>\$ 46,504</u>	<u>\$ 39,351</u>

\* Change is due to Town receiving MSBA grants of \$ 6 million in the current year.



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 \$ 46,503,736, a change of \$ 7,152,852 from the prior year.

The largest portion of net assets \$ 35,250,995 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 \$ 2,708,032 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 8,544,710 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 \$ 7,084,234. Key elements of this change are as follows (in thousands):

MSBA grant to finance school construction	\$ 6,024
Capital assets acquired from current year road contributions	2,019
Increase in net OPEB obligation	(798)
Other	<u>(161)</u>
Total	\$ <u><u>7,084</u></u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ 68,618. Key elements of this change are as follows (in thousands):

Sewer operations, before transfers	\$ (453)
Sewer debt service paid from the general fund, net	559
Nonmajor Transfer Station operations	<u>(38)</u>
Total	\$ <u><u>68</u></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 \$ 18,579,355, a change of \$ (10,297,355) in comparison to the prior year. Key elements of this change are as follows (in thousands):

General fund expenditures and other financing uses	
in excess of revenues and other financing sources	\$ (315)
Middle and High School Construction fund expenditures in	
excess of current year revenues	(9,388)
Special revenue funds expenditures and transfers out	
in excess of revenues	(405)
Capital project funds expenditures and transfers out in	
excess of revenues	(207)
Permanent Trust Funds revenues and transfers in	
in excess of expenditures and transfers out	<u>18</u>
Total	\$ <u>(10,297)</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 \$ 1,109,247, while total fund balance was \$ 4,289,317. 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>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,109,247	\$ 1,053,688	\$ 55,559	4.02%
Total fund balance <sup>1</sup>	4,289,317	4,604,236	(314,919)	15.54%

<sup>1</sup>Includes stabilization funds.

The total fund balance of the general fund changed by \$ (314,919) during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash as a funding source	\$ (798)
Use of other reserves as a funding source	(191)
Use of bond premiums as a funding source	(75)
Revenues in excess of budget	396
Expenditures less than budget	304
Other	<u>49</u>
Total	\$ <u><u>(315)</u></u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ 1,805,411	\$ 1,812,369	\$ (6,958)
Capital stabilization	<u>147,646</u>	<u>347,237</u>	<u>(199,591)</u>
Total	\$ <u><u>1,953,057</u></u>	\$ <u><u>2,159,606</u></u>	\$ <u><u>(206,549)</u></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 \$ 1,531,372, a change of \$ (30,651) 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 \$ 57,700. Major reasons for these amendments include:

- \$ 32,700 To fund capital improvements at Marion's Camp by a transfer from the Capital Stabilization Fund.
- \$ 25,000 To increase appropriation for debt principle, funded by the tax levy

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 67,652,335 (net of accumulated depreciation), a change of \$ 16,046,412 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 roads and vehicles for the highway, 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 \$ 36,675,117 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 6.0% as of October, 2012, which compares favorably with the state rate of 6.6% and the national rate of 7.9% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2010 was \$ 91,858; the per capita income for the same time as \$ 35,932. 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 average 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 2013 general fund budget of \$ 27,021,485, an increase of \$ 333,633 or 1.25% over the final fiscal year 2012 general fund budget.
- The total property tax levy for fiscal year 2013 is \$ 18,388,837, an increase of \$ 1,129,264 or 6.9% (due to school construction project). Local receipts are anticipated to be 2.2% more than fiscal year 2012 and state aid is anticipated to be 1.6% more than fiscal year 2012.

## **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, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 20,288,060	\$ 646,870	\$ 20,934,930
Investments	1,676,756	-	1,676,756
Receivables, net of allowance for uncollectibles:			
Property taxes	355,858	-	355,858
Excises	79,103	-	79,103
User fees	-	94,350	94,350
Intergovernmental	867,735	115,557	983,292
Other assets	-	5,261	5,261
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	259,036	-	259,036
Intergovernmental	-	947,983	947,983
Capital assets not being depreciated	27,142,767	-	27,142,767
Capital assets, net of accumulated depreciation	<u>30,788,701</u>	<u>9,720,867</u>	<u>40,509,568</u>
<b>TOTAL ASSETS</b>	<b>81,458,016</b>	<b>11,530,888</b>	<b>92,988,904</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	3,172,899	-	3,172,899
Accounts payable	50,227	13,814	64,041
Retainage payable	685,175	-	685,175
Accrued liabilities	572,819	142,720	715,539
Notes Payable	597,000	-	597,000
Other current liabilities	-	7,068	7,068
Current portion of long-term liabilities:			
Bonds payable	1,887,811	451,072	2,338,883
Compensated absences	48,028	1,348	49,376
Landfill liability	16,000	-	16,000
Noncurrent:			
Bonds payable	28,389,427	5,946,807	34,336,234
Net OPEB obligation	3,749,753	100,812	3,850,565
Compensated absences	432,253	12,134	444,387
Landfill liability	<u>208,000</u>	<u>-</u>	<u>208,000</u>
<b>TOTAL LIABILITIES</b>	<b>39,809,392</b>	<b>6,675,775</b>	<b>46,485,167</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	31,927,254	3,323,741	35,250,995
Restricted for:			
Grants and other statutory restrictions	2,198,091	-	2,198,091
Permanent funds	509,941	-	509,941
Unrestricted	<u>7,013,338</u>	<u>1,531,372</u>	<u>8,544,710</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>41,648,624</u></b>	<b>\$ <u>4,855,113</u></b>	<b>\$ <u>46,503,737</u></b>

See notes to financial statements.

## TOWN OF SUTTON, MASSACHUSETTS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-	Total
	Expenses	Services	Grants and Contributions	Grants and Contributions	Activities	Type Activities	
<b>Governmental Activities:</b>							
General government	\$ 1,354,626	\$ 426,801	\$ 130,797	\$ -	\$ (797,028)	\$ -	\$ (797,028)
Public safety	2,360,793	264,242	53,366	-	(2,043,185)	-	(2,043,185)
Education	19,871,389	936,599	8,682,360	-	(10,252,430)	-	(10,252,430)
Public works	1,386,340	38,618	14,487	407,884	(925,351)	-	(925,351)
Health and human services	322,955	87,942	18,817	-	(216,196)	-	(216,196)
Culture and recreation	302,388	24,832	109,939	-	(167,617)	-	(167,617)
Employee benefits	4,200,459	-	-	-	(4,200,459)	-	(4,200,459)
Insurance	249,916	-	-	-	(249,916)	-	(249,916)
Interest	1,263,079	-	-	-	(1,263,079)	-	(1,263,079)
Intergovernmental	69,581	-	-	-	(69,581)	-	(69,581)
Total Governmental Activities	31,381,526	1,779,034	9,009,766	407,884	(20,184,842)	-	(20,184,842)
<b>Business-Type Activities:</b>							
Sewer services	1,176,663	723,848	-	-	-	(452,815)	(452,815)
Nonmajor Transfer Station services	149,269	133,387	-	-	-	(15,882)	(15,882)
Total Business-Type Activities	1,325,932	857,235	-	-	-	(468,697)	(468,697)
Total	\$ 32,707,458	\$ 2,636,269	\$ 9,009,766	\$ 407,884	(20,184,842)	(468,697)	(20,653,539)
<b>General Revenues and Transfers:</b>							
Property taxes					17,283,021	-	17,283,021
Excises					1,293,747	-	1,293,747
Penalties, interest and other taxes					126,608	-	126,608
Grants and contributions not restricted to specific programs					8,896,899	-	8,896,899
Investment income					171,117	-	171,117
Miscellaneous					34,999	-	34,999
Transfers, net					(537,315)	537,315	-
Total general revenues and transfers					27,269,076	537,315	27,806,391
Change in Net Assets					7,084,234	68,618	7,152,852
<b>Net Assets:</b>							
Beginning of year					34,564,390	4,786,495	39,350,885
End of year					\$ 41,648,624	\$ 4,855,113	\$ 46,503,737

See notes to financial statements.

## TOWN OF SUTTON, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Middle and High School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 2,992,174	\$ 14,643,091	\$ 2,652,795	\$ 20,288,060
Investments	1,676,756	-	-	1,676,756
Receivables:				
Property taxes	659,853	-	-	659,853
Excises	140,372	-	-	140,372
Intergovernmental	10,093	777,471	80,172	867,736
<b>TOTAL ASSETS</b>	<b>\$ 5,479,248</b>	<b>\$ 15,420,562</b>	<b>\$ 2,732,967</b>	<b>\$ 23,632,777</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 133,550	\$ 3,014,165	\$ 25,184	\$ 3,172,899
Accounts payable	-	50,227	-	50,227
Retainage payable	-	685,175	-	685,175
Accrued liabilities	339,981	-	1,740	341,721
Deferred revenues	716,400	-	-	716,400
Notes payable	-	-	87,000	87,000
<b>TOTAL LIABILITIES</b>	<b>1,189,931</b>	<b>3,749,567</b>	<b>113,924</b>	<b>5,053,422</b>
Fund Balances:				
Nonspendable	-	-	509,941	509,941
Restricted	178,247	11,670,995	2,198,091	14,047,333
Committed	1,953,057	-	-	1,953,057
Assigned	1,048,766	-	-	1,048,766
Unassigned	1,109,247	-	(88,989)	1,020,258
<b>TOTAL FUND BALANCES</b>	<b>4,289,317</b>	<b>11,670,995</b>	<b>2,619,043</b>	<b>18,579,355</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,479,248</b>	<b>\$ 15,420,562</b>	<b>\$ 2,732,967</b>	<b>\$ 23,632,777</b>

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, 2012

<b>Total governmental fund balances</b>	<b>\$ 18,579,355</b>
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	57,931,468
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	610,172
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(231,099)
<ul style="list-style-type: none"><li>• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:</li></ul>	
Notes payable (long term portion)	(510,000)
Bonds payable	(30,277,238)
Net OPEB obligation	(3,749,753)
Compensated absences liability	(480,281)
Landfill liability	<u>(224,000)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>41,648,624</u></b>

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, 2012

	<u>General</u>	<u>Middle and High School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 17,158,747	\$ -	\$ -	\$ 17,158,747
Excises	1,290,888	-	-	1,290,888
Penalties, interest, and other taxes	126,608	-	-	126,608
Charges for services	460,118	-	1,147,255	1,607,373
Intergovernmental	8,240,666	6,023,500	1,944,373	16,208,539
Licenses and permits	80,827	-	-	80,827
Fines and forfeitures	90,834	-	-	90,834
Investment income	169,101	-	2,016	171,117
Miscellaneous	34,499	-	500	34,999
Contributions	-	-	86,683	86,683
Total Revenues	27,652,288	6,023,500	3,180,827	36,856,615
<b>Expenditures:</b>				
Current:				
General government	1,176,288	-	162,754	1,339,042
Public safety	2,163,314	-	79,848	2,243,162
Education	16,395,598	-	2,593,190	18,988,788
Public works	786,135	-	521,726	1,307,861
Health and human services	245,242	-	59,527	304,769
Culture and recreation	172,839	-	129,549	302,388
Employee benefits	3,402,776	-	-	3,402,776
Insurance	249,916	-	-	249,916
Debt service	2,940,503	-	-	2,940,503
Intergovernmental	69,581	-	-	69,581
Capital outlay	-	15,411,770	131,099	15,542,869
Total Expenditures	27,602,192	15,411,770	3,677,693	46,691,655
Excess (deficiency) of revenues over expenditures	50,096	(9,388,270)	(496,866)	(9,835,040)
<b>Other Financing Sources (Uses):</b>				
Issuance of bonds and notes	75,000	-	-	75,000
Transfers in	209,039	-	-	209,039
Transfers out	(649,054)	-	(97,300)	(746,354)
Total Other Financing Sources (Uses)	(365,015)	-	(97,300)	(462,315)
Change in fund balance	(314,919)	(9,388,270)	(594,166)	(10,297,355)
Fund Equity, at Beginning of Year	4,604,236	21,059,265	3,213,209	28,876,710
Fund Equity, at End of Year	\$ 4,289,317	\$ 11,670,995	\$ 2,619,043	\$ 18,579,355

See notes to 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, 2012

**NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (10,297,355)

- 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	18,037,203
Depreciation	(1,648,375)

- 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.

7,670

- 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	(75,000)
Repayments of debt (Bonds and Notes)	1,699,311

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

(21,887)

- 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	(797,683)
Decrease in compensated absences liability	11,372
Decrease in capital leases	33,515
Decrease in landfill liability	16,000
Decrease in tax refunds payable	<u>119,463</u>

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 7,084,234

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, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u> )	Variance with Final Budget Positive (Negative)
<b>Revenues and transfers in:</b>				
Property taxes	\$ 17,049,175	\$ 17,074,175	\$ 17,074,175	\$ -
Excises	1,213,500	1,213,500	1,290,888	77,388
Penalties, interest, and other taxes	100,000	100,000	126,608	26,608
Charges for services	338,606	338,606	437,036	98,430
Intergovernmental	5,933,750	5,933,750	6,027,768	94,018
Licenses and permits	71,000	71,000	80,827	9,827
Fines and forfeitures	84,700	84,700	90,834	6,134
Investment income	112,878	112,878	145,815	32,937
Miscellaneous	6,000	6,000	34,499	28,499
Transfers in	974,469	1,007,169	1,029,651	22,482
Total Revenues and transfers in	25,884,078	25,941,778	26,338,101	396,323
<b>Expenditures and transfers out:</b>				
General government	1,248,412	1,240,719	1,142,608	98,111
Public safety	2,209,949	2,223,538	2,160,955	62,583
Education	14,276,233	14,271,233	14,193,615	77,618
Public works	816,774	819,063	782,646	36,417
Health and human services	291,744	291,756	246,321	45,435
Culture and recreation	218,857	253,557	189,684	63,873
Employee benefits	3,445,283	3,445,283	3,486,058	(40,775)
Insurance	263,992	256,092	249,916	6,176
Debt service	3,565,002	3,590,002	3,586,854	3,148
Intergovernmental	87,609	87,609	69,581	18,028
Transfers out	524,311	527,014	593,478	(66,464)
Total Expenditures and transfers out	26,948,166	27,005,866	26,701,716	304,150
Excess of revenues and transfers in over expenditures and transfers out	(1,064,088)	(1,064,088)	(363,615)	700,473
<b>Other Financing Sources:</b>				
Use of fund balance (free cash)	797,600	797,600	-	(797,600)
Use of other reserves	191,488	191,488	-	(191,488)
Use of bond premiums	75,000	75,000	-	(75,000)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (363,615)	\$ (363,615)

See notes to financial statements.

## TOWN OF SUTTON, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
<b><u>ASSETS</u></b>			
Current:			
Cash and short-term investments	\$ 634,866	\$ 12,004	\$ 646,870
User fees, net of allowance for uncollectibles	94,350	-	94,350
Intergovernmental receivable	115,557	-	115,557
Other assets	-	5,261	5,261
Total current assets	844,773	17,265	862,038
Noncurrent:			
Intergovernmental receivable	947,983	-	947,983
Capital assets, net of accumulated depreciation	9,606,896	113,971	9,720,867
Total noncurrent assets	10,554,879	113,971	10,668,850
<b>TOTAL ASSETS</b>	11,399,652	131,236	11,530,888
<b><u>LIABILITIES</u></b>			
Current:			
Accounts Payable	8,151	5,663	13,814
Accrued liabilities	142,720	-	142,720
Other current liabilities	7,068	-	7,068
Current portion of long-term liabilities:			
Bonds payable	451,072	-	451,072
Compensated absences	1,286	62	1,348
Total current liabilities	610,297	5,725	616,022
Noncurrent:			
Bonds payable, net of current portion	5,946,807	-	5,946,807
OPEB liability	90,169	10,643	100,812
Compensated absences	11,572	562	12,134
Total noncurrent liabilities	6,048,548	11,205	6,059,753
<b>TOTAL LIABILITIES</b>	6,658,845	16,930	6,675,775
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	3,209,770	113,971	3,323,741
Unrestricted	1,531,037	335	1,531,372
<b>TOTAL NET ASSETS</b>	\$ 4,740,807	\$ 114,306	\$ 4,855,113

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, 2012

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 723,848	\$ 133,387	\$ 857,235
Total Operating Revenues	723,848	133,387	857,235
<b>Operating Expenses:</b>			
Personnel services	227,228	41,833	269,061
Non-personnel services	319,856	74,214	394,070
Depreciation	309,195	33,222	342,417
Total Operating Expenses	856,279	149,269	1,005,548
Operating (Loss)	(132,431)	(15,882)	(148,313)
<b>Nonoperating Revenues (Expenses):</b>			
Interest expense	(320,384)	-	(320,384)
Total Nonoperating Revenues (Expenses), Net	(320,384)	-	(320,384)
(Loss) Before Transfers	(452,815)	(15,882)	(468,697)
<b>Transfers:</b>			
Transfers in	648,435	619	649,054
Transfers out	(89,164)	(22,575)	(111,739)
Change in Net Assets	106,456	(37,838)	68,618
Net Assets at Beginning of Year	4,634,351	152,144	4,786,495
Net Assets at End of Year	\$ 4,740,807	\$ 114,306	\$ 4,855,113

See notes to financial statements.

## TOWN OF SUTTON, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds		
	Sewer Fund Fund	Nonmajor Transfer Station Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 715,406	\$ 133,387	\$ 848,793
Payments to vendors	(311,705)	(69,812)	(381,517)
Payments to employees	(202,835)	(39,191)	(242,026)
Net Cash Provided By Operating Activities	200,866	24,384	225,250
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Transfer in	648,435	619	649,054
Transfer out	(89,164)	(22,575)	(111,739)
Net Cash Provided by (Used For) Noncapital Financing Activities	559,271	(21,956)	537,315
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Principal payments on bonds and notes	(441,686)	-	(441,686)
Interest expense	(179,665)	-	(179,665)
Net Cash (Used For) Capital and Related Financing Activities	(621,351)	-	(621,351)
Net Change in Cash and Short-Term Investments	138,786	2,428	141,214
Cash and Short-Term Investments, Beginning of Year	496,080	9,576	505,656
Cash and Short-Term Investments, End of Year	\$ 634,866	\$ 12,004	\$ 646,870
<b><u>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</u></b>			
Operating (loss)	\$ (132,431)	\$ (15,882)	\$ (148,313)
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	(8,441)	(1,261)	(9,702)
Warrants payable	8,151	5,663	13,814
Other liabilities	24,392	2,642	27,034
Net Cash Provided By Operating Activities	\$ 200,866	\$ 24,384	\$ 225,250

See notes to financial statements.

TOWN OF SUTTON, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2012

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 16,928	\$ 121,435
Investments	<u>67,994</u>	<u>-</u>
Total Assets	84,922	121,435
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Deposits held in custody	-	54,699
Other liabilities	<u>-</u>	<u>66,736</u>
Total Liabilities	<u>-</u>	<u>121,435</u>
 <b><u>NET ASSETS</u></b>		
Total net assets held in trust for other post employment benefits and other purposes	\$ <u><u>84,922</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.



TOWN OF SUTTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2012

	Other Post- Employment Benefits <u>Trust Fund</u>
<b>Additions:</b>	
Contributions	\$ 84,755
Other	<u>167</u>
Total additions	84,922
<b>Net assets:</b>	
Beginning of year	<u>-</u>
End of year	\$ <u><u>84,922</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 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 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 2012 tax levy reflected an excess capacity of \$ 3,568.

#### *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)	\$ 27,652,288	\$ 27,602,192
Other financing sources/uses (GAAP Basis)	<u>284,039</u>	<u>649,054</u>
Subtotal (GAAP Basis)	27,936,327	28,251,246
Adjust tax revenue to accrual basis	(747)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(225,931)
Add end of year appropriation carryforwards to expenditures	-	263,766
To reverse the effect of non- budgeted State contributions for teachers retirement	(2,212,898)	(2,212,898)
To reverse nonbudgeted activity	<u>615,419</u>	<u>625,533</u>
Budgetary Basis	<u>\$ 26,338,101</u>	<u>\$ 26,701,716</u>



**D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2012:

Special Revenue Funds:	
After School - M.S.	\$ (2,298)
October 2011 Snow Storm	<u>(86,691)</u>
Total Non-Major	<u>\$ (88,989)</u>
Agency Funds:	
Police Off Duty	\$ <u>(9,620)</u>
Total Agency	<u>\$ (9,620)</u>

The deficits in these funds will be eliminated through future intergovernmental and departmental revenues and when short-term debt is permanently financed.

**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, 2012, the Town's bank balance of \$ 21,791,846 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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year-end</u>		
		<u>AA+</u>	<u>BBB+</u>	<u>Not Rated</u>
Certificates of deposits	\$ 611	\$ -	\$ -	\$ 611
Corporate bonds	156	110	46	-
Mutual funds	164	-	-	164
Federal agency securities	813	813	-	-
Equities	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total investments	<u>\$ 1,745</u>	<u>\$ 923</u>	<u>\$ 46</u>	<u>\$ 776</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 \$ 1,744,750, the government has a custodial credit risk exposure of \$ 1,133,293 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:

General Elec. Cap. Corp. Mtn Be	\$ 110,183
PBJ BK Louisville, Ky CD	125,253
CIT BK Salt Lake City CD	90,454
Federal Natl Mtg Assn Call Step	90,241
Federal Natl Mtg Assn	<u>90,137</u>
Total	<u>\$ 506,268</u>

**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>(in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Debt-related Securities:			
Certificates of deposit	\$ 611	\$ 165	\$ 446
Corporate bonds	156	-	156
Federal agency securities	<u>813</u>	<u>-</u>	<u>813</u>
Total	<u>\$ 1,580</u>	<u>\$ 165</u>	<u>\$ 1,415</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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 330	
2011	3	
2010	2	
2009	2	
Prior	<u>9</u>	
		346
Personal Property		
2012	3	
2011	1	
2010	1	
2009	2	
Prior	<u>35</u>	
		42
Tax Liens		<u>272</u>
Total		<u>\$ 660</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	\$ 45
Excises	\$ 61

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures. Intergovernmental receivables in the Sewer Fund represents Massachusetts Water Pollution Abatement Trust subsidy for the Manchaug Sewer Treatment Plant.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 34,930	\$ -	\$ -	\$ 34,930
Machinery, equipment, and furnishings	2,266	135	-	2,401
Motor Vehicles	3,506	209	(138)	3,577
Infrastructure	<u>11,485</u>	<u>2,318</u>	<u>-</u>	<u>13,803</u>
Total capital assets, being depreciated	52,187	2,662	(138)	54,711
Less accumulated depreciation for:				
Buildings and improvements	(14,478)	(819)	-	(15,297)
Machinery, equipment, and furnishings	(1,917)	(154)	-	(2,071)
Motor Vehicles	(2,210)	(230)	124	(2,316)
Infrastructure	<u>(3,793)</u>	<u>(445)</u>	<u>-</u>	<u>(4,238)</u>
Total accumulated depreciation	<u>(22,398)</u>	<u>(1,648)</u>	<u>124</u>	<u>(23,922)</u>
Total capital assets, being depreciated, net	29,789	1,014	(14)	30,789
Capital assets, not being depreciated:				
Land	5,953	-	-	5,953
Construction in progress	<u>5,801</u>	<u>15,388</u>	<u>-</u>	<u>21,189</u>
Total capital assets, not being depreciated	<u>11,754</u>	<u>15,388</u>	<u>-</u>	<u>27,142</u>
Governmental activities capital assets, net	<u>\$ 41,543</u>	<u>\$ 16,402</u>	<u>\$ (14)</u>	<u>\$ 57,931</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
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	(1,488)	(248)	-	(1,736)
Millbury pumping station	(239)	(55)	-	(294)
Sewer pipes	(307)	-	-	(307)
Machinery, equipment and furnishings	<u>(357)</u>	<u>(39)</u>	<u>-</u>	<u>(396)</u>
Total accumulated depreciation	<u>(2,391)</u>	<u>(342)</u>	<u>-</u>	<u>(2,733)</u>
Total capital assets, being depreciated, net	<u>10,063</u>	<u>(342)</u>	<u>-</u>	<u>9,721</u>
Business-type activities capital assets, net	<u>\$ 10,063</u>	<u>\$ (342)</u>	<u>\$ -</u>	<u>\$ 9,721</u>

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

Governmental Activities:	
General government	\$ 34
Public safety	207
Education	877
Public works	519
Health and human services	<u>11</u>
Total depreciation expense - governmental activities	<u>\$ 1,648</u>
Business-Type Activities:	
Sewer	\$ 309
Nonmajor Transfer Station	<u>33</u>
Total depreciation expense - business-type activities	<u>\$ 342</u>

#### 9. **Warrants and Accounts Payable**

Warrants payable represent 2012 expenditures paid by July 15, 2012. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

#### 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, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

#### 11. **Notes Payable**

The Town had the following notes outstanding at June 30, 2012:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>	
ELC Solar Panels	0.55%	06/15/12	06/14/13	\$ 470,000	<sup>(1)</sup>
2012 Capital Plan	0.45%	06/29/12	07/27/12	40,000	<sup>(2)</sup>
Oct. Emerg. Storm Damage	0.45%	06/15/12	07/13/13	87,000	
Total Notes Payable				<u>\$ 597,000</u>	

<sup>(1)</sup> The Town accounts for this note as long-term as the Town expects to continuously roll the note with incremental paydowns of approximately \$ 80,000 annually through fiscal year 2018.

<sup>(2)</sup> The Town accounts for this note as long-term as the final incremental payment was made in July 2012.

The following summarizes activity in notes payable during fiscal year 2012:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
ELC Solar Panels	\$ 550,000	\$ 470,000	\$ (550,000)	\$ 470,000
2012 Capital Plan	-	115,000	(75,000)	40,000
Oct. Emerg. Storm Damage	-	87,000	-	87,000
Total Notes Payable	<u>\$ 550,000</u>	<u>\$ 672,000</u>	<u>\$ (625,000)</u>	<u>\$ 597,000</u>

## 12. Capital Lease Obligations

The Town was the lessee of certain equipment. All capital leases expired in 2012.

## 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) % <u>Rate(s) %</u>	Amount Outstanding as of 6/30/12
<u>Governmental Activities:</u>			
Title V Septic Program	02/01/17	0.00%	\$ 22,238
Shaw Land	11/15/26	4.00 - 5.00%	3,540,000
Capital Plan	11/15/26	4.00 - 5.00%	365,000
ELC Roof	06/15/19	2.50 - 5.00%	720,000
Fire Truck	06/15/19	2.50 - 5.00%	350,000
2009 Capital Plan	06/15/19	2.50 - 5.00%	140,000
2010 Capital Plan	06/15/19	2.50 - 5.00%	15,000
Whitter Farms	04/01/17	2.00 - 3.75%	210,200
2010 Capital Plan	04/01/17	2.00 - 3.75%	304,800
2011 Capital Plan	06/30/16	3.00 - 5.00%	275,000
MS/HS Construction	06/30/31	3.00 - 5.00%	<u>24,335,000</u>
Total Governmental Activities:			<u>\$ 30,277,238</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of 6/30/12
<u>Business-Type Activities:</u>			
Municipal Purpose	06/15/18	3.00 - 4.00%	\$ 600,000
Manchaug Treatment Plant	08/01/24	2.00%	<u>5,797,879</u>
Total Business-Type Activities:			<u>\$ 6,397,879</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,887,811	\$ 1,216,738	\$ 3,104,549
2014	2,007,811	1,157,418	3,165,229
2015	1,897,811	1,094,718	2,992,529
2016	1,887,761	1,019,418	2,907,179
2017	1,822,761	942,068	2,764,829
2018 - 2022	7,918,283	3,725,862	11,644,145
2023 - 2027	7,655,000	2,127,953	9,782,953
2028 - 2030	<u>5,200,000</u>	<u>589,875</u>	<u>5,789,875</u>
Total	<u>\$ 30,277,238</u>	<u>\$ 11,874,050</u>	<u>\$ 42,151,288</u>



<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 451,072	\$ 191,268	\$ 642,340
2014	464,761	173,555	638,316
2015	479,447	154,322	633,769
2016	495,546	510,196	1,005,742
2017	510,196	108,421	618,617
2018 - 2022	2,485,002	252,656	2,737,658
2023 - 2027	<u>1,511,855</u>	<u>11,563</u>	<u>1,523,418</u>
Total	\$ <u>6,397,879</u>	\$ <u>1,401,981</u>	\$ <u>7,799,860</u>

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 31,861	\$ -	\$ (1,584)	\$ 30,277	\$ (1,888)	\$ 28,389
Net OPEB obligation	2,952	1,576	(778)	3,750	-	3,750
Other:						
Compensated absences	491	29	(40)	480	(48)	432
Capital lease	34	-	(34)	-	-	-
Landfill closure	<u>240</u>	<u>-</u>	<u>(16)</u>	<u>224</u>	<u>(16)</u>	<u>208</u>
Totals	\$ <u>35,578</u>	\$ <u>1,605</u>	\$ <u>(2,452)</u>	\$ <u>34,731</u>	\$ <u>(1,952)</u>	\$ <u>32,779</u>
	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,840	\$ -	\$ (442)	\$ 6,398	\$ (451)	\$ 5,947
Net OPEB obligation	76	49	(24)	101	-	101
Other:						
Compensated absences	<u>11</u>	<u>2</u>	<u>-</u>	<u>13</u>	<u>(1)</u>	<u>12</u>
Totals	\$ <u>6,927</u>	\$ <u>51</u>	\$ <u>(466)</u>	\$ <u>6,512</u>	\$ <u>(452)</u>	\$ <u>6,060</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 \$ 224,000 as the estimate of the remaining postclosure care liability at June 30, 2012 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.

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, 2012:

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, 2012:

	General <u>Fund</u>	Middle and High School Construction <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 509,941	\$ 509,941
Total Nonexpendable	-	-	509,941	509,941
Restricted				
Bonded projects - MS/HS Construction	-	11,670,995	-	11,670,995
Town revolving funds	-	-	340,040	340,040
School revolving funds	-	-	1,505,040	1,505,040
Town grants	-	-	347,433	347,433
School grants	-	-	5,578	5,578
Debt service	178,247	-	-	178,247
Total Restricted	178,247	11,670,995	2,198,091	14,047,333

(continued)

(continued)

	<u>General Fund</u>	<u>Middle and High School Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Committed				
Stabilization fund	<u>1,953,057</u>	<u>-</u>	<u>-</u>	<u>1,953,057</u>
Total Committed	<u>1,953,057</u>	<u>-</u>	<u>-</u>	<u>1,953,057</u>
Assigned				
Encumbrances	<u>263,766</u>	<u>-</u>	<u>-</u>	<u>263,766</u>
For next year's expenditures	<u>785,000</u>	<u>-</u>	<u>-</u>	<u>785,000</u>
Total Assigned	<u>1,048,766</u>	<u>-</u>	<u>-</u>	<u>1,048,766</u>
Unassigned	<u>1,109,247</u>	<u>-</u>	<u>(88,989)</u>	<u>1,020,258</u>
Total Unassigned	<u>1,109,247</u>	<u>-</u>	<u>(88,989)</u>	<u>1,020,258</u>
Total Fund Balance	<u>\$ 4,289,317</u>	<u>\$ 11,670,995</u>	<u>\$ 2,619,043</u>	<u>\$ 18,579,355</u>

## 17. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2012:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 209,039	\$ 649,054
Nonmajor Funds:		
Special Revenue Funds:		
Town Revolving Funds	-	29,270
School Grants	-	261
Capital Project Funds:		
Fire Quint Ladder/Engine	<u>-</u>	<u>74,819</u>
Subtotal Nonmajor Funds	<u>-</u>	<u>104,350</u>
Trust Funds:		
Cemetery Funds	7,050	-
<u>Business-Type Funds</u>		
Sewer Fund	648,435	89,164
Transfer Station	<u>619</u>	<u>22,575</u>
Grand Total	<u>\$ 865,143</u>	<u>\$ 865,143</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations, (3) to recognize the general fund payment of the Sewer funds and debt service.

## **18. 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.

## **19. 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, 2012, the actuarial valuation date, approximately 117 retirees and 188 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 2012 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, 2012, 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, 2012.

Annual Required Contribution (ARC)	\$ 1,614,974
Interest on net OPEB obligation	136,253
Adjustment to ARC	<u>(126,247)</u>
Annual OPEB cost	1,624,980
Contributions made	(717,512)
Additional Contributions made	<u>(84,755)</u>
Increase in net OPEB obligation	822,713
Net OPEB obligation - beginning of year	<u>3,027,852</u>
Net OPEB obligation - end of year	<u><u>\$ 3,850,565</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
2012	\$ 1,624,980	49%	\$ 3,850,565

**E. Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 17,346,775
Actuarial value of plan assets	<u>(84,922)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 17,261,853</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.49%</u>
Covered payroll (active plan members)	<u>\$ N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to 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, 2012 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 %.

## **20. 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, 2012, 2011, and 2010 were \$ 720,100, \$ 647,873, and \$ 627,330, 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, 2012 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 2012, the Commonwealth of Massachusetts contributed \$ 2,212,898 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **21. 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.

## **22. Implementation of New GASB Standards**

- The GASB has issued Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by eliminating the

deferred charges. The Town anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.

- The GASB has issued Statement No. 68 Accounting and Financial Reporting for Pensions, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the County's actuarially accrued liability.

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

**June 30, 2012**  
**(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
06/30/12	\$ 84,922	\$ 17,346,775	\$ 17,261,853	0.49%	N/A	N/A

See Independent Auditors' Report.