

TOWN OF SUTTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of June 30, 2013, and for the year then ended, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson, Heath + Company P.C.

Andover, Massachusetts
January 21, 2014

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, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include Sewer and Transfer Station activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Proprietary funds. Proprietary 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 information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$56,359,786 (i.e., net position), a change of \$9,856,049 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$16,704,367, a change of \$(1,874,988) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,834,598, a change of \$(80,060) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$39,438,197, a change of \$2,763,080 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>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 20,011	\$ 23,527	\$ 1,847	\$ 1,810	\$ 21,858	\$ 25,337
Capital assets	73,726	57,931	9,378	9,721	83,104	67,652
Total assets	93,737	81,458	11,225	11,531	104,962	92,989
Long-term liabilities outstanding	39,114	34,731	6,088	6,512	45,202	41,243
Other liabilities	3,212	5,078	189	164	3,401	5,242
Total liabilities	42,326	39,809	6,277	6,676	48,603	46,485
Net position:						
Net investment in capital assets	40,155	31,927	3,432	3,324	43,587	35,251
Restricted	2,780	2,708	-	-	2,780	2,708
Unrestricted	8,476	7,014	1,516	1,531	9,992	8,545
Total net position	\$ 51,411	\$ 41,649	\$ 4,948	\$ 4,855	\$ 56,359	\$ 46,504

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,821	\$ 1,779	\$ 896	\$ 857	\$ 2,717	\$ 2,636
Operating grants and contributions	9,455	9,010	-	-	9,455	9,010
Capital grants and contributions	615	408	-	-	615	408
General revenues:						
Property taxes	18,209	17,283	-	-	18,209	17,283
Excises	1,408	1,294	-	-	1,408	1,294
Penalties, interest, and other taxes	130	127	-	-	130	127
Grants and contributions not restricted to specific programs	10,439	8,897	-	-	10,439	8,897
Investment income	178	171	-	-	178	171
Miscellaneous	99	35	-	-	99	35
Total revenues	<u>42,354</u>	<u>39,004</u>	<u>896</u>	<u>857</u>	<u>43,250</u>	<u>39,861</u>
Expenses:						
General government	964	1,355	-	-	964	1,355
Public safety	2,660	2,361	-	-	2,660	2,361
Education	19,950	19,871	-	-	19,950	19,871
Public works	1,980	1,386	-	-	1,980	1,386
Human services	313	323	-	-	313	323
Culture and recreation	242	303	-	-	242	303
Employee benefits	4,368	4,200	-	-	4,368	4,200
Insurance	246	250	-	-	246	250
Interest on long-term debt	1,267	1,263	-	-	1,267	1,263
Intergovernmental	71	70	-	-	71	70
Sewer	-	-	1,188	1,177	1,188	1,177
Nonmajor transfer station	-	-	146	149	146	149
Total expenses	<u>32,061</u>	<u>31,382</u>	<u>1,334</u>	<u>1,326</u>	<u>33,395</u>	<u>32,708</u>
Change in net position before transfers	10,293	7,622	(438)	(469)	9,855	7,153
Transfers in (out)	<u>(531)</u>	<u>(537)</u>	<u>531</u>	<u>537</u>	<u>-</u>	<u>-</u>
Change in net position	9,762	7,085	93	68	9,855	7,153
Net position - beginning 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>
Net position - end of year	<u>\$ 51,411</u>	<u>\$ 41,649</u>	<u>\$ 4,948</u>	<u>\$ 4,855</u>	<u>\$ 56,359</u>	<u>\$ 46,504</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$56,359,786, a change of \$9,856,049 from the prior year.

The largest portion of net position \$43,587,523 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$2,780,247, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$9,992,016 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 position of \$9,762,710. Key elements of this change are as follows (in thousands):

MSBA grant to finance school construction	\$ 9,623
Operating contribution for Manchaug Dam	350
Principal debt service in excess of current year depreciation	411
Increase in net OPEB obligation	(914)
Other	<u>293</u>
Total	<u>\$ 9,763</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$93,339. Key elements of this change are as follows (in thousands):

Sewer operations, before transfers	\$ (424)
Sewer debt service paid from the general fund, net	553
Nonmajor Transfer Station operations	<u>(36)</u>
Total	<u>\$ 93</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 \$16,704,367, a change of \$(1,874,988) 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	\$ (242)
Middle and High School Construction fund expenditures in excess of current year revenues and other financing sources	(1,787)
Special revenue funds revenues and transfers in excess of expenditures and transfers out	139
Permanent Trust Funds revenues and transfers in excess of expenditures	<u>15</u>
Total	\$ <u>(1,875)</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 \$2,834,598, while total fund balance was \$4,047,669. 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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 2,834,598	\$ 2,914,658	\$ (80,060)	9.85%
Total fund balance ²	4,047,669	4,289,317	(241,648)	14.06%

¹Includes General Stabilization of \$1,794,092

²Includes General and Capital Stabilization fund balance

The total fund balance of the general fund changed by \$(241,648) during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash as a funding source	\$ (666)
Use of other reserves as a funding source	(240)
Revenues in excess of budget	464
Expenditures less than budget	355
Other	<u>(155)</u>
Total	\$ <u>(242)</u>

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

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
General stabilization (unassigned)	\$ 1,794,092	\$ 1,805,411	\$ (11,319)
Capital stabilization (committed)	<u>111,948</u>	<u>147,646</u>	<u>(35,698)</u>
Total	\$ <u>1,906,040</u>	\$ <u>1,953,057</u>	\$ <u>(47,017)</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,516,056, a change of \$(15,316) 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 \$304,480. Major reasons for these amendments include:

- \$ 60,880 To increase school department appropriation, funded by the tax levy.
- \$ 5,000 To increase Council on Aging appropriation for heating costs, funded by the tax levy.
- \$ 3,600 To increase Finance Department appropriation for wages, funded by the tax levy.
- \$ 50,000 To increase Debt Service appropriation, funded by the tax levy.
- \$ 100,000 To fund the OPEB Trust by a transfer from Free Cash.
- \$ 85,000 To fund the FY13 Snow and Ice account 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 \$83,104,400 (net of accumulated depreciation), a change of \$15,452,065 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 \$39,438,197 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 6.3% as of October, 2013, which compares favorably with the state rate of 6.8% and the national rate of 7.3% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2011 was \$115,966; the per capita income for the same time was \$43,319. This compares favorably with both state and national incomes.
- According to the Town’s Board of Assessors, the average 2014 single family home in Sutton is valued at \$303,854; the average two-family home is valued at \$201,958; the average three-family home is valued at \$302,486; the average condominium is valued at \$279,815; the average commercial property is valued at \$589,855; and the average industrial property is valued at \$432,787. All properties compare favorably with state and national property values.
- The Town approved a fiscal year 2014 general fund budget of \$27,922,488, an increase of \$920,062 or 3.4% over the final fiscal year 2013 general fund budget.
- The total property tax levy for fiscal year 2014 is \$19,587,866, an increase of \$1,199,029 or 6.5% (due to school construction project). Local receipts are anticipated to be 6.9% less than fiscal year 2013 due to a decrease in investment income and state aid is anticipated to be 1.04% more than fiscal year 2013.

REQUESTS FOR INFORMATION

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

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

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 11,036,370	\$ 791,530	\$ 11,827,900
Investments	7,587,690	-	7,587,690
Receivables, net of allowance for uncollectibles:			
Property taxes	400,465	-	400,465
Excises	102,875	-	102,875
User fees	-	100,433	100,433
Intergovernmental	602,026	110,881	712,907
Other assets	-	6,652	6,652
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	281,218	-	281,218
Intergovernmental	-	837,102	837,102
Capital assets not being depreciated	43,854,824	-	43,854,824
Capital assets, net of accumulated depreciation	29,871,126	9,378,450	39,249,576
TOTAL ASSETS	93,736,594	11,225,048	104,961,642
LIABILITIES			
Current:			
Warrants payable	249,340	-	249,340
Accounts payable	375,517	26,092	401,609
Retainage payable	1,615,569	-	1,615,569
Accrued liabilities	631,145	155,506	786,651
Notes Payable	340,000	-	340,000
Other current liabilities	-	7,068	7,068
Current portion of long-term liabilities:			
Bonds payable	2,284,774	464,761	2,749,535
Compensated absences	52,872	1,162	54,034
Capital leases	76,344	-	76,344
Landfill liability	16,000	-	16,000
Noncurrent:			
Bonds payable	31,206,616	5,482,046	36,688,662
Net OPEB obligation	4,664,077	129,502	4,793,579
Compensated absences	475,850	10,459	486,309
Capital leases	145,156	-	145,156
Landfill liability	192,000	-	192,000
TOTAL LIABILITIES	42,325,260	6,276,596	48,601,856
NET POSITION			
Net investment in capital assets	40,155,127	3,432,396	43,587,523
Restricted for:			
Grants and other statutory restrictions	2,255,370	-	2,255,370
Permanent funds	524,877	-	524,877
Unrestricted	8,475,960	1,516,056	9,992,016
TOTAL NET POSITION	\$ 51,411,334	\$ 4,948,452	\$ 56,359,786

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

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	Total
	<u>Expenses</u>	<u>Services</u>	<u>Grants and Contributions</u>	<u>Grants and Contributions</u>	<u>Activities</u>	<u>Type Activities</u>	
Governmental Activities:							
General government	\$ 964,299	\$ 448,070	\$ 131,957	\$ -	\$ (384,272)	\$ -	\$ (384,272)
Public safety	2,659,564	305,573	33,781	-	(2,320,210)	-	(2,320,210)
Education	19,950,310	887,284	8,779,837	-	(10,283,189)	-	(10,283,189)
Public works	1,979,690	26,251	3,978	614,720	(1,334,741)	-	(1,334,741)
Health and human services	312,317	72,672	26,939	-	(212,706)	-	(212,706)
Culture and recreation	241,487	80,898	478,210	-	317,621	-	317,621
Employee benefits	4,367,471	-	-	-	(4,367,471)	-	(4,367,471)
Insurance	246,200	-	-	-	(246,200)	-	(246,200)
Interest	1,267,292	-	-	-	(1,267,292)	-	(1,267,292)
Intergovernmental	70,401	-	-	-	(70,401)	-	(70,401)
Total Governmental Activities	32,059,031	1,820,748	9,454,702	614,720	(20,168,861)	-	(20,168,861)
Business-Type Activities:							
Sewer services	1,187,576	763,472	-	-	-	(424,104)	(424,104)
Nonmajor Transfer Station services	146,085	132,927	-	-	-	(13,158)	(13,158)
Total Business-Type Activities	1,333,661	896,399	-	-	-	(437,262)	(437,262)
Total	\$ 33,392,692	\$ 2,717,147	\$ 9,454,702	\$ 614,720	(20,168,861)	(437,262)	(20,606,123)
General Revenues and Transfers:							
Property taxes					18,208,850	-	18,208,850
Excises					1,407,721	-	1,407,721
Penalties, interest and other taxes					129,780	-	129,780
Grants and contributions not restricted to specific programs					10,438,903	-	10,438,903
Investment income					177,878	-	177,878
Miscellaneous					99,040	-	99,040
Transfers, net					(530,601)	530,601	-
Total general revenues and transfers					29,931,571	530,601	30,462,172
Change in Net Position					9,762,710	93,339	9,856,049
Net Position:							
Beginning of year					41,648,624	4,855,113	46,503,737
End of year					\$ 51,411,334	\$ 4,948,452	\$ 56,359,786

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	<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	\$ 2,445,486	\$ 6,356,214	\$ 2,234,670	\$ 11,036,370
Investments	2,083,592	5,006,000	498,098	7,587,690
Receivables:				
Property taxes	725,723	-	-	725,723
Excises	167,098	-	-	167,098
Intergovernmental	-	512,626	89,400	602,026
TOTAL ASSETS	\$ 5,421,899	\$ 11,874,840	\$ 2,822,168	\$ 20,118,907
LIABILITIES				
Liabilities:				
Warrants payable	\$ 200,116	\$ -	\$ 49,224	\$ 249,340
Accounts payable	-	375,517	-	375,517
Retainage payable	-	1,615,569	-	1,615,569
Accrued liabilities	369,441	-	-	369,441
TOTAL LIABILITIES	569,557	1,991,086	49,224	2,609,867
DEFERRED INFLOWS OF RESOURCES	804,673	-	-	804,673
FUND BALANCES				
Nonspendable	-	-	524,877	524,877
Restricted	214,641	9,883,754	2,255,370	12,353,765
Committed	146,180	-	-	146,180
Assigned	852,250	-	-	852,250
Unassigned	2,834,598	-	(7,303)	2,827,295
TOTAL FUND BALANCES	4,047,669	9,883,754	2,772,944	16,704,367
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,421,899	\$ 11,874,840	\$ 2,822,168	\$ 20,118,907

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

TOWN OF SUTTON, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2013

Total governmental fund balances	\$ 16,704,367
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	73,725,950
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	696,410
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(261,704)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Notes payable (long term portion)	(340,000)
Bonds payable	(33,491,390)
Net OPEB obligation	(4,664,077)
Compensated absences liability	(528,722)
Capital leases	(221,500)
Landfill liability	<u>(208,000)</u>
Net position of governmental activities	\$ <u>51,411,334</u>

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Middle and High School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 18,146,384	\$ -	\$ -	\$ 18,146,384
Excises	1,383,950	-	-	1,383,950
Penalties, interest, and other taxes	129,780	-	-	129,780
Charges for services	551,981	-	1,087,755	1,639,736
Intergovernmental	8,411,512	9,623,188	1,936,078	19,970,778
Licenses and permits	84,874	-	-	84,874
Fines and forfeitures	96,138	-	-	96,138
Investment income	76,224	-	3,752	79,976
Miscellaneous	94,923	-	4,117	99,040
Contributions	-	-	447,746	447,746
Total Revenues	28,975,766	9,623,188	3,479,448	42,078,402
Expenditures:				
Current:				
General government	1,369,290	-	245,187	1,614,477
Public safety	2,225,516	-	52,694	2,278,210
Education	16,710,666	-	2,354,826	19,065,492
Public works	926,144	-	564,125	1,490,269
Health and human services	242,318	-	58,318	300,636
Culture and recreation	189,709	-	51,777	241,486
Employee benefits	3,453,147	-	-	3,453,147
Insurance	246,200	-	-	246,200
Miscellaneous	55,446	-	-	55,446
Debt service	3,294,498	-	-	3,294,498
Intergovernmental	70,401	-	-	70,401
Capital outlay	-	16,512,392	-	16,512,392
Total Expenditures	28,783,335	16,512,392	3,326,927	48,622,654
Excess (deficiency) of revenues over expenditures	192,431	(6,889,204)	152,521	(6,544,252)
Other Financing Sources (Uses):				
Issuance of bonds and notes	-	5,101,963	-	5,101,963
Premium on Borrowing	97,902	-	-	97,902
Transfers in	127,176	-	16,817	143,993
Transfers out	(659,157)	-	(15,437)	(674,594)
Total Other Financing Sources (Uses)	(434,079)	5,101,963	1,380	4,669,264
Change in fund balance	(241,648)	(1,787,241)	153,901	(1,874,988)
Fund Equity, at Beginning of Year	4,289,317	11,670,995	2,619,043	18,579,355
Fund Equity, at End of Year	\$ 4,047,669	\$ 9,883,754	\$ 2,772,944	\$ 16,704,367

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

TOWN OF SUTTON, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances - Total governmental funds \$ (1,874,988)

- 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 17,440,935

Depreciation (1,646,453)

- 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.

86,238

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Issuance of bonds (5,101,963)

Repayments of debt (Bonds and Notes) 2,057,811

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

(30,605)

- 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 (914,324)

Increase in compensated absences liability (48,441)

Increase in capital leases (221,500)

Decrease in landfill liability 16,000

Change in net position of governmental activities \$ 9,762,710

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

TOWN OF SUTTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and transfers in:				
Property taxes	\$ 18,039,772	\$ 18,243,469	\$ 18,243,469	\$ -
Excises	1,240,400	1,240,400	1,383,950	143,550
Penalties, interest, and other taxes	100,000	100,000	129,780	29,780
Charges for services	422,577	422,577	551,981	129,404
Intergovernmental	6,016,335	6,016,335	6,037,841	21,506
Licenses and permits	64,000	64,000	84,874	20,874
Fines and forfeitures	74,700	74,700	96,138	21,438
Investment income	75,000	75,000	76,011	1,011
Miscellaneous	6,000	6,000	94,923	88,923
Transfers in	692,861	692,861	700,506	7,645
Total Revenues and transfers in	26,731,645	26,935,342	27,399,473	464,131
Expenditures and transfers out:				
General government	1,480,637	1,473,571	1,305,089	168,482
Public safety	2,300,833	2,287,233	2,241,524	45,709
Education	14,254,732	14,324,911	14,314,504	10,407
Public works	817,427	941,464	919,059	22,405
Health and human services	239,644	246,544	236,355	10,189
Culture and recreation	188,032	192,862	177,016	15,846
Employee benefits	3,463,518	3,543,518	3,484,621	58,897
Insurance	260,000	252,200	246,200	6,000
Debt service	3,898,018	3,945,018	3,936,838	8,180
Intergovernmental	71,074	71,074	70,401	673
Transfers out	562,331	562,331	554,236	8,095
Total Expenditures and transfers out	27,536,246	27,840,726	27,485,843	354,883
Excess of revenues and transfers in over expenditures and transfers out	(804,601)	(905,384)	(86,370)	819,014
Other Financing Sources:				
Use of fund balance (free cash)	565,000	665,783	-	(665,783)
Use of other reserves	239,601	239,601	-	(239,601)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (86,370)	\$ (86,370)

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 779,096	\$ 12,434	\$ 791,530
User fees, net of allowance for uncollectibles	100,433	-	100,433
Intergovernmental receivable	110,881	-	110,881
Other assets	-	6,652	6,652
Total current assets	990,410	19,086	1,009,496
Noncurrent:			
Intergovernmental receivable	837,102	-	837,102
Capital assets, net of accumulated depreciation	9,297,701	80,749	9,378,450
Total noncurrent assets	10,134,803	80,749	10,215,552
TOTAL ASSETS	11,125,213	99,835	11,225,048
LIABILITIES			
Current:			
Accounts Payable	17,786	8,306	26,092
Accrued liabilities	155,506	-	155,506
Other current liabilities	7,068	-	7,068
Current portion of long-term liabilities:			
Bonds payable	464,761	-	464,761
Compensated absences	1,162	-	1,162
Total current liabilities	646,283	8,306	654,589
Noncurrent:			
Bonds payable, net of current portion	5,482,046	-	5,482,046
OPEB liability	116,546	12,956	129,502
Compensated absences	10,459	-	10,459
Total noncurrent liabilities	5,609,051	12,956	5,622,007
TOTAL LIABILITIES	6,255,334	21,262	6,276,596
NET POSITION			
Net investment in capital assets	3,351,647	80,749	3,432,396
Unrestricted	1,518,232	(2,176)	1,516,056
TOTAL NET POSITION	\$ 4,869,879	\$ 78,573	\$ 4,948,452

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 763,472	\$ 132,927	\$ 896,399
Total Operating Revenues	763,472	132,927	896,399
Operating Expenses:			
Personnel services	221,763	40,110	261,873
Non-personnel services	357,161	72,753	429,914
Depreciation	309,195	33,222	342,417
Total Operating Expenses	888,119	146,085	1,034,204
Operating (Loss)	(124,647)	(13,158)	(137,805)
Nonoperating Revenues (Expenses):			
Interest expense	(299,457)	-	(299,457)
Total Nonoperating Revenues (Expenses), Net	(299,457)	-	(299,457)
(Loss) Before Transfers	(424,104)	(13,158)	(437,262)
Transfers:			
Transfers in	642,340	-	642,340
Transfers out	(89,164)	(22,575)	(111,739)
Change in Net Position	129,072	(35,733)	93,339
Net Position at Beginning of Year	4,740,807	114,306	4,855,113
Net Position at End of Year	\$ 4,869,879	\$ 78,573	\$ 4,948,452

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

	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	\$ 757,389	\$ 132,927	\$ 890,316
Payments to vendors	(347,526)	(71,501)	(419,027)
Payments to employees	(196,622)	(38,421)	(235,043)
Net Cash Provided By Operating Activities	213,241	23,005	236,246
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfer in	642,340	-	642,340
Transfer out	(89,164)	(22,575)	(111,739)
Net Cash Provided by (Used For) Noncapital Financing Activities	553,176	(22,575)	530,601
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Principal payments on bonds and notes	(451,072)	-	(451,072)
Interest expense	(171,115)	-	(171,115)
Net Cash (Used For) Capital and Related Financing Activities	(622,187)	-	(622,187)
Net Change in Cash and Short-Term Investments	144,230	430	144,660
Cash and Short-Term Investments, Beginning of Year	634,866	12,004	646,870
Cash and Short-Term Investments, End of Year	\$ 779,096	\$ 12,434	\$ 791,530
<u>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</u>			
Operating (loss)	\$ (124,647)	\$ (13,158)	\$ (137,805)
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	(6,083)	(1,391)	(7,474)
Warrants payable	9,635	2,643	12,278
Other liabilities	25,141	1,689	26,830
Net Cash Provided By Operating Activities	\$ 213,241	\$ 23,005	\$ 236,246

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 1,612	\$ 115,309
Investments	<u>187,458</u>	<u>-</u>
Total Assets	189,070	115,309
<u>LIABILITIES AND NET POSITION</u>		
Deposits held in custody	-	49,800
Other liabilities	<u>-</u>	<u>65,509</u>
Total Liabilities	<u>-</u>	<u>115,309</u>
<u>NET POSITION</u>		
Total net position held in trust for other post employment benefits and other purposes	\$ <u>189,070</u>	\$ <u>-</u>

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

TOWN OF SUTTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2013

	Other Post- Employment Benefits <u>Trust Fund</u>
Additions:	
Contributions	\$ 100,000
Investment income	<u>4,148</u>
Total additions	104,148
Net position:	
Beginning of year	<u>84,922</u>
End of year	<u><u>\$ 189,070</u></u>

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

TOWN OF SUTTON, MASSACHUSETTS

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the 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.

The government reports the following major proprietary fund:

- Sewer Fund

The *post-employment insurance liability trust fund* is used to account for funds to offset the anticipated cost of premium payments for or direct payments to be made to retired employees of the Town, and to any eligible surviving spouse of or dependents of deceased employees of the Town.

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. *Agency funds* report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at 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 2½ percent (excluding new growth), unless an override is voted. The actual fiscal year 2013 tax levy reflected an excess capacity of \$2,881.

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.

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

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

I. Compensated Absences

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

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

K. Fund Equity

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

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

Net Position - Net position represents the difference between assets and liabilities/deferred inflows. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or

improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 28,975,766	\$ 28,783,335
Other financing sources/uses (GAAP Basis)	<u>225,078</u>	<u>659,157</u>
Subtotal (GAAP Basis)	29,200,844	29,442,492
Adjust tax revenue to accrual basis	101,408	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(263,766)
Add end of year appropriation carryforwards to expenditures	-	203,699
To reverse the effect of non- budgeted State contributions for teachers retirement	(2,373,671)	(2,373,671)
To reverse nonbudgeted activity	<u>470,892</u>	<u>477,089</u>
Budgetary Basis	\$ <u><u>27,399,473</u></u>	\$ <u><u>27,485,843</u></u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2013:

Non-Major Funds:	
After School - M.S.	\$ (2,297)
Fire Emergency Pft Gmt	(2,783)
Town Insurance Revolving	<u>(2,223)</u>
Total Non-Major	\$ <u><u>(7,303)</u></u>
Agency Funds:	
Police Off Duty	\$ <u>(4,730)</u>
Total Agency	\$ <u><u>(4,730)</u></u>

The deficits in these funds will be eliminated through future intergovernmental and 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, 2013, the Town's bank balance of \$11,329,532 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>Not Rated</u>
		<u>AA+</u>	<u>A-</u>	<u>BBB+</u>	
Certificates of deposits	\$ 6,457	\$ -	\$ -	\$ -	\$ 6,457
Corporate bonds	324	199	79	46	-
Mutual funds	602	-	-	-	602
Federal agency securities	<u>392</u>	<u>392</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 7,775</u>	<u>\$ 591</u>	<u>\$ 79</u>	<u>\$ 46</u>	<u>\$ 7,059</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 \$7,775,148, the government has a custodial credit risk exposure of \$1,318,235 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:

Lowell Five Savings Bank CD	<u>\$ 5,006,000</u>
Total	<u>\$ 5,006,000</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>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Certificates of deposit	\$ 6,457	\$ 5,006	\$ 1,451	\$ -
Corporate bonds	324	-	324	-
Federal agency securities	392	-	246	146
Total	<u>\$ 7,173</u>	<u>\$ 5,006</u>	<u>\$ 2,021</u>	<u>\$ 146</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, 2013 consist of the following (in thousands):

Real Estate		
2013	\$ 392	
2012	-	
2011	3	
2010	2	
Prior	<u>7</u>	
		404
Personal Property		
2013	1	
2012	2	
2011	1	
2010	1	
Prior	<u>35</u>	
		40
Tax Liens		<u>281</u>
Total		<u>\$ 725</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	\$ 44
Excises	\$ 64

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013, 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, 2013 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	\$ 34,930	\$ -	\$ -	\$ 34,930
Machinery, equipment, and furnishings	2,401	43	-	2,444
Motor Vehicles	3,577	142	(61)	3,658
Infrastructure	<u>13,803</u>	<u>544</u>	<u>-</u>	<u>14,347</u>
Total capital assets, being depreciated	54,711	729	(61)	55,379
Less accumulated depreciation for:				
Buildings and improvements	(15,297)	(795)	-	(16,092)
Machinery, equipment, and furnishings	(2,071)	(141)	-	(2,212)
Motor Vehicles	(2,316)	(239)	61	(2,494)
Infrastructure	<u>(4,238)</u>	<u>(472)</u>	<u>-</u>	<u>(4,710)</u>
Total accumulated depreciation	<u>(23,922)</u>	<u>(1,647)</u>	<u>61</u>	<u>(25,508)</u>
Total capital assets, being depreciated, net	30,789	(918)	-	29,871
Capital assets, not being depreciated:				
Land	5,953	199	-	6,152
Construction in progress	<u>21,189</u>	<u>16,513</u>	<u>-</u>	<u>37,702</u>
Total capital assets, not being depreciated	<u>27,142</u>	<u>16,712</u>	<u>-</u>	<u>43,854</u>
Governmental activities capital assets, net	<u>\$ 57,931</u>	<u>\$ 15,794</u>	<u>\$ -</u>	<u>\$ 73,725</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	(1,736)	(248)	-	(1,984)
Millbury pumping station	(294)	(56)	-	(350)
Sewer pipes	(307)	-	-	(307)
Machinery, equipment and furnishings	<u>(396)</u>	<u>(39)</u>	<u>-</u>	<u>(435)</u>
Total accumulated depreciation	<u>(2,733)</u>	<u>(343)</u>	<u>-</u>	<u>(3,076)</u>
Total capital assets, being depreciated, net	<u>9,721</u>	<u>(343)</u>	<u>-</u>	<u>9,378</u>
Business-type activities capital assets, net	<u>\$ 9,721</u>	<u>\$ (343)</u>	<u>\$ -</u>	<u>\$ 9,378</u>

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

Governmental Activities:	
General government	\$ 26
Public safety	200
Education	852
Public works	557
Health and human services	<u>12</u>
Total depreciation expense - governmental activities	\$ <u>1,647</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 2013 expenditures paid by July 15, 2013.
Accounts payable represent additional 2013 expenditures paid after July 15, 2013.

10. Notes Payable

The Town had the following notes outstanding at June 30, 2013:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/13</u>
ELC Solar Panels	0.50%	06/14/13	06/13/14	\$ 340,000 ⁽¹⁾
Total Notes Payable				\$ <u>340,000</u>

⁽¹⁾ 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.

The following summarizes activity in notes payable during fiscal year 2013:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
ELC Solar Panels	\$ 470,000	\$ 340,000	\$ (470,000)	\$ 340,000
2012 Capital Plan	40,000	-	(40,000)	-
Oct. Emerg. Storm Damage	<u>87,000</u>	<u>-</u>	<u>(87,000)</u>	<u>-</u>
Total Notes Payable	\$ <u>597,000</u>	\$ <u>340,000</u>	\$ <u>(597,000)</u>	\$ <u>340,000</u>

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital lease expiring in 2015. Future minimum lease payments under capital lease consisted of the following as of June 30, 2013:

<u>Fiscal</u> <u>Year</u>	<u>Governmental</u> <u>Activities</u>
2014	\$ 76,344
2015	76,344
2016	<u>76,344</u>
Total minimum lease payments	229,032
Less amounts representing interest	<u>(7,532)</u>
Present Value of Minimum Lease Payments	\$ <u>221,500</u>

12. 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:

<u>Governmental Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/13</u>
Title V Septic Program	02/01/17	0.00%	\$ 19,427
Shaw Land	11/15/26	4.00 - 5.00%	3,300,000
Capital Plan	11/15/26	4.00 - 5.00%	245,000
ELC Roof	06/15/19	2.50 - 5.00%	685,000
Fire Truck	06/15/19	2.50 - 5.00%	175,000
2009 Capital Plan	06/15/19	2.50 - 5.00%	25,000
Whitter Farms	04/01/17	2.00 - 3.75%	166,800
2010 Capital Plan	04/01/17	2.00 - 3.75%	233,200
2011 Capital Plan	06/30/16	3.00 - 5.00%	205,000
MS/HS Construction	06/30/31	3.00 - 5.00%	23,335,000
General Obligation School Bonds	02/15/33	2.00 - 2.50%	<u>5,101,963</u>
Total Governmental Activities:			\$ <u>33,491,390</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/13</u>
Municipal Purpose	06/15/18	3.00 - 4.00%	\$ 500,000
Manchaug Treatment Plant	08/01/24	2.00%	<u>5,446,807</u>
Total Business-Type Activities:			\$ <u><u>5,946,807</u></u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,284,774	\$ 1,271,764	\$ 3,556,538
2015	2,172,811	1,207,468	3,380,279
2016	2,162,761	1,126,668	3,289,429
2017	2,097,761	1,043,818	3,141,579
2018	1,912,761	963,568	2,876,329
2019-2023	9,035,522	3,811,413	12,846,935
2024-2028	8,675,000	2,074,086	10,749,086
2029-2031	<u>5,150,000</u>	<u>459,000</u>	<u>5,609,000</u>
Total	\$ <u><u>33,491,390</u></u>	\$ <u><u>11,957,785</u></u>	\$ <u><u>45,449,175</u></u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 464,761	\$ 173,555	\$ 638,316
2015	479,447	154,322	633,769
2016	495,546	134,459	630,005
2017	510,196	108,421	618,617
2018	529,729	87,216	616,945
2019-2023	2,459,450	175,384	2,634,834
2024-2025	<u>1,007,678</u>	<u>1,619</u>	<u>1,009,297</u>
Total	\$ <u><u>5,946,807</u></u>	\$ <u><u>834,976</u></u>	\$ <u><u>6,781,783</u></u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
<u>Governmental Activities</u>						
Bonds payable	\$ 30,277	\$ 5,102	\$ (1,888)	\$ 33,491	\$ (2,285)	\$ 31,206
Net OPEB obligation	3,750	1,665	(751)	4,664	-	4,664
Other:						
Compensated absences	480	49	-	529	(53)	476
Capital leases	-	222	-	222	(76)	146
Landfill closure	224	-	(16)	208	(16)	192
Totals	<u>\$ 34,731</u>	<u>\$ 7,038</u>	<u>\$ (2,655)</u>	<u>\$ 39,114</u>	<u>\$ (2,430)</u>	<u>\$ 36,684</u>

	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,398	\$ -	\$ (451)	\$ 5,947	\$ (465)	\$ 5,482
Net OPEB obligation	101	52	(23)	130	-	130
Other:						
Compensated absences	13	-	(2)	11	(1)	10
Totals	<u>\$ 6,512</u>	<u>\$ 52</u>	<u>\$ (476)</u>	<u>\$ 6,088</u>	<u>\$ (466)</u>	<u>\$ 5,622</u>

13. 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 \$208,000 as the estimate of the remaining postclosure care liability at June 30, 2013 in the Governmental Activities Statement of Net Position. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. Deferred Inflows of Resources

The Town implemented GASB 65, *Items Previously Reported as Assets and Liabilities*. Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

Governmental funds report *unavailable 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 *unavailable revenues* account is equal to the total of all June 30, 2013 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

15. Restricted Net Position

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

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

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, 2013:

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, 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, 2013:

	General Fund	Middle and High School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 524,877	\$ 524,877
Total Nonexpendable	-	-	524,877	524,877
Restricted				
Bonded projects - MS/HS Construction	-	9,883,754	-	9,883,754
Town revolving funds:				
Manchaug Dam Gift	-	-	351,437	351,437
Other	-	-	341,365	341,365
School revolving funds:				
School Choice	-	-	589,423	589,423
After School Program	-	-	95,280	95,280
Circuit Breaker	-	-	91,002	91,002
Other	-	-	504,378	504,378
Town grants	-	-	276,251	276,251
School grants	-	-	6,234	6,234
Debt service	214,641	-	-	214,641
Total Restricted	214,641	9,883,754	2,255,370	12,353,765
Committed				
Capital Stabilization Fund	146,180	-	-	146,180
Total Committed	146,180	-	-	146,180

(continued)

(continued)

	<u>General Fund</u>	<u>Middle and High School Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assigned				
Encumbrances	203,699	-	-	203,699
For next year's expenditures	<u>648,551</u>	<u>-</u>	<u>-</u>	<u>648,551</u>
Total Assigned	852,250	-	-	852,250
Unassigned ⁽¹⁾	<u>2,834,598</u>	<u>-</u>	<u>(7,303)</u>	<u>2,827,295</u>
Total Unassigned	<u>2,834,598</u>	<u>-</u>	<u>(7,303)</u>	<u>2,827,295</u>
Total Fund Balance	<u>\$ 4,047,669</u>	<u>\$ 9,883,754</u>	<u>\$ 2,772,944</u>	<u>\$ 16,704,367</u>

⁽¹⁾ Includes General Stabilization Fund Balance of \$1,794,092

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 2013:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 127,176	\$ 659,157
Nonmajor Funds:		
Special Revenue Funds:		
Town Revolving Funds	-	20,975
Town Grants	<u>16,817</u>	<u>2,762</u>
Subtotal Nonmajor Funds	16,817	23,737
Trust Funds:		
Cemetery Funds	8,300	-
<u>Business-Type Funds</u>		
Sewer Fund	642,340	89,164
Transfer Station	<u>-</u>	<u>22,575</u>
Grand Total	<u>\$ 794,633</u>	<u>\$ 794,633</u>

The \$642,340 transfer from the General Fund to the Sewer Fund represents the annual transfer of the monies appropriated for sewer debt service that is appropriated in the General Fund.

The other 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.

18. Commitments and Contingencies

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

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

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 Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee con-

tributions 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 2013 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, 2013, 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)	\$ 1,704,565
Interest on net OPEB obligation	180,923
Adjustment to ARC	<u>(167,637)</u>
Annual OPEB cost	1,717,851
Contributions made	(674,837)
Additional Contributions made	<u>(100,000)</u>
Increase in net OPEB obligation	943,014
Net OPEB obligation - beginning of year	<u>3,850,565</u>
Net OPEB obligation - end of year	<u>\$ 4,793,579</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>
2013	\$ 1,717,851	45%	\$ 4,793,579
2012	\$ 1,624,980	49%	\$ 3,850,565
2011	\$ 1,943,947	29%	\$ 3,027,852
2010	\$ 1,396,781	33%	\$ 1,677,670
2009	\$ 1,316,321	44%	\$ 742,289

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 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, 2013, 2012, and 2011 were \$749,518, \$720,100, and \$647,873, 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, 2013 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 2013, the Commonwealth of Massachusetts contributed \$2,373,671 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 Standard

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 Worcester Regional's actuarially accrued liability.

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

**June 30, 2013
(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]
06/30/12	\$ 84,922	\$ 17,346,775	\$ 17,261,853	0.49%	N/A	N/A
06/30/10	\$ -	\$ 22,114,790	\$ 22,114,790	0.0%	N/A	N/A
06/30/07	\$ -	\$ 14,747,895	\$ 14,747,895	0.0%	N/A	N/A

**WORCESTER REGIONAL RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/12	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,952,079	228.5%
01/01/10	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%

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

System Wide				Town of Sutton	
Plan Year End	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of System Contributions
12/31/12	\$ 35,056,320	\$ 35,056,320	100%	\$ 749,518	2.1%
12/31/11	\$ 33,072,000	\$ 33,072,000	100%	\$ 720,100	2.2%
12/31/10	\$ 31,199,999	\$ 31,199,999	100%	\$ 647,873	2.1%

See Independent Auditors' Report.