

TOWN OF SUTTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

TOWN OF SUTTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sutton, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of June 30, 2015, 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, 2015, 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, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions 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 20, 2016 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

January 20, 2016

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, 2015. Unless otherwise noted, all amounts reported in this analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary 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 \$53,924 (i.e., net position), a change of \$4,099 in comparison to the prior year, as restated.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$8,093, a change of \$(7,854) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,792, a change of \$380 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$34,036, a change of \$(2,652) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

| | <u>NET POSITION</u> | | | | | |
|------------------------------------|------------------------------------|------------------|-------------------------------------|-----------------|------------------|------------------|
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Current and other assets | \$ 9,741 | \$ 19,496 | \$ 1,846 | \$ 1,835 | \$ 11,587 | \$ 21,331 |
| Capital assets | 90,450 | 78,937 | 8,782 | 9,136 | 99,232 | 88,073 |
| Deferred outflows | <u>7</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7</u> | <u>-</u> |
| Total assets and deferred outflows | 100,198 | 98,433 | 10,628 | 10,971 | 110,826 | 109,404 |
| Long-term liabilities outstanding | 49,723 | 37,671 | 5,414 | 5,630 | 55,137 | 43,301 |
| Other liabilities | <u>1,306</u> | <u>3,537</u> | <u>159</u> | <u>179</u> | <u>1,465</u> | <u>3,716</u> |
| Total liabilities | 51,029 | 41,208 | 5,573 | 5,809 | 56,602 | 47,017 |
| Net position: | | | | | | |
| Net investment in capital assets | 60,674 | 50,828 | 3,781 | 3,654 | 64,455 | 54,482 |
| Restricted | 2,470 | 2,692 | - | - | 2,470 | 2,692 |
| Unrestricted | <u>(14,275)</u> | <u>3,705</u> | <u>1,274</u> | <u>1,508</u> | <u>(13,001)</u> | <u>5,213</u> |
| Total net position | <u>\$ 48,869</u> | <u>\$ 57,225</u> | <u>\$ 5,055</u> | <u>\$ 5,162</u> | <u>\$ 53,924</u> | <u>\$ 62,387</u> |

CHANGES IN NET POSITION

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|------------------------------------|------------------|-------------------------------------|-----------------|------------------|------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,114 | \$ 1,774 | \$ 967 | \$ 1,007 | \$ 3,081 | \$ 2,781 |
| Operating grants and contributions | 8,554 | 9,238 | - | - | 8,554 | 9,238 |
| Capital grants and contributions | 5,443 | 5,208 | - | - | 5,443 | 5,208 |
| General revenues: | | | | | | |
| Property taxes | 20,031 | 19,894 | - | - | 20,031 | 19,894 |
| Excises | 1,501 | 1,441 | - | - | 1,501 | 1,441 |
| Penalties, interest, and other taxes | 258 | 132 | - | - | 258 | 132 |
| Grants and contributions not restricted to specific programs | 855 | 821 | 1 | - | 856 | 821 |
| Investment income | 52 | 102 | 7 | - | 59 | 102 |
| Miscellaneous | 237 | 38 | - | - | 237 | 38 |
| Total revenues | <u>39,045</u> | <u>38,648</u> | <u>975</u> | <u>1,007</u> | <u>40,020</u> | <u>39,655</u> |
| Expenses: | | | | | | |
| General government | 1,727 | 1,409 | - | - | 1,727 | 1,409 |
| Public safety | 2,938 | 2,540 | - | - | 2,938 | 2,540 |
| Education | 20,947 | 20,441 | - | - | 20,947 | 20,441 |
| Public works | 2,086 | 1,476 | - | - | 2,086 | 1,476 |
| Human services | 362 | 358 | - | - | 362 | 358 |
| Culture and recreation | 337 | 289 | - | - | 337 | 289 |
| Employee benefits | 4,626 | 4,206 | - | - | 4,626 | 4,206 |
| Insurance | 270 | 252 | - | - | 270 | 252 |
| Interest on long-term debt | 1,195 | 1,263 | - | - | 1,195 | 1,263 |
| Intergovernmental | 80 | 73 | - | - | 80 | 73 |
| Sewer | - | - | 1,202 | 1,172 | 1,202 | 1,172 |
| Nonmajor transfer station | - | - | 151 | 148 | 151 | 148 |
| Total expenses | <u>34,568</u> | <u>32,307</u> | <u>1,353</u> | <u>1,320</u> | <u>35,921</u> | <u>33,627</u> |
| Change in net position before transfers | 4,477 | 6,341 | (378) | (313) | 4,099 | 6,028 |
| Transfers in (out) | <u>(522)</u> | <u>(527)</u> | <u>522</u> | <u>527</u> | <u>-</u> | <u>-</u> |
| Change in net position | 3,955 | 5,814 | 144 | 214 | 4,099 | 6,028 |
| * Net position - beginning of year | <u>44,914</u> | <u>51,411</u> | <u>4,911</u> | <u>4,948</u> | <u>49,825</u> | <u>56,359</u> |
| Net position - end of year | <u>\$ 48,869</u> | <u>\$ 57,225</u> | <u>\$ 5,055</u> | <u>\$ 5,162</u> | <u>\$ 53,924</u> | <u>\$ 62,387</u> |

* Restated, as described in Note 25

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 \$53,924, a change of \$4,099 from the prior year.

The largest portion of net position \$64,455 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, \$2,470, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(13,001) primarily resulting from the Town's net pension liability.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$3,955. Key elements of this change are as follows:

| | |
|---|-----------------|
| MSBA grant to finance school construction | \$ 4,958 |
| Depreciation in excess of current year principal debt service | (674) |
| Other | <u>(329)</u> |
| Total | \$ <u>3,955</u> |

Business-type activities. Business-type activities for the year resulted in a change in net position of \$144. Key elements of this change are as follows:

| | |
|--|---------------|
| Sewer operations, before transfers | \$ (375) |
| Sewer debt service paid from the general fund, net | 545 |
| Nonmajor Transfer Station operations | <u>(26)</u> |
| Total | \$ <u>144</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 \$8,093, a change of \$(7,854) in comparison to the prior year. Key elements of this change are as follows:

| | |
|--|-------------------|
| General fund revenues and other financing sources | |
| in excess of expenditures and transfers out | \$ 953 |
| Middle and High School Construction fund expenditures in | |
| excess of current year revenues | (8,573) |
| Special revenue funds expenditures and transfers out | |
| in excess of revenues and transfers in | (195) |
| Permanent Trust Funds expenditures and transfers out | |
| in excess of revenues and transfers in | <u>(39)</u> |
| Total | <u>\$ (7,854)</u> |

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,792, while total fund balance was \$5,560. 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>6/30/15</u> | <u>6/30/14</u> | <u>Change</u> | <u>% of Total General Fund Expenditures</u> |
|--------------------------------------|----------------|----------------|---------------|---|
| Unassigned fund balance ¹ | \$ 3,792 | \$ 3,412 | \$ 380 | 13.30% |
| Total fund balance ² | \$ 5,560 | \$ 4,607 | \$ 953 | 19.51% |

¹Includes General Stabilization of \$1,912.

²Includes General and Capital Stabilization fund balance.

The total fund balance of the general fund changed by \$953 during the current fiscal year. Key factors in this change are as follows:

| | |
|---|---------------|
| Use of free cash as a funding source | \$ (780) |
| Use of other reserves as a funding source | (90) |
| BAN proceeds less than budget | (90) |
| Revenues in excess of budget | 757 |
| Expenditures less than budget | 241 |
| Excess tax collections over net assessment | 317 |
| Increase in year-end encumbrances | 409 |
| Unbudgeted activity | 8 |
| Stabilization revenues and transfers in excess of | |
| transfers out | <u>181</u> |
| Total | <u>\$ 953</u> |

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

| | <u>6/30/15</u> | <u>6/30/14</u> | <u>Change</u> |
|------------------------------------|-----------------|-----------------|---------------|
| General stabilization (unassigned) | \$ 1,912 | \$ 1,896 | \$ 16 |
| Capital stabilization (committed) | <u>340</u> | <u>175</u> | <u>165</u> |
| Total | <u>\$ 2,252</u> | <u>\$ 2,071</u> | <u>\$ 181</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 \$1,274, a change of \$(234) in comparison to the prior year. The decrease primarily results from the recognition of the net pension liability.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$433. Major reasons for these amendments include:

- \$ 17 To increase appropriation funded by state aid.
- \$ 129 To increase appropriation funded by taxes.
- \$ (50) Reduce use of free cash
- \$ 37 To fund the purchase of a vehicle for the cemetery/highway department funded by a transfer from the cemetery general care account
- \$ 200 To fund the FY2015 snow and ice account and FY2015 unemployment account funded by free cash (\$150k) and Overlay Surplus (\$50k)
- \$ 100 To supplement the FY2015 school department budget funded by a transfer from free cash

The School Department actual expenditures exceeded the budgeted amount due to an increase in school choice expenditures.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$99,232 (net of accumulated depreciation), a change of \$11,160 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, various equipment and vehicles for the public works department, and vehicles for the police department.

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 \$34,036 all of which was backed by the full faith and credit of the government.

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

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

- According to the Commonwealth of Massachusetts Division of Employment and Training, the unemployment rate for the Town of Sutton was 5.4% as of October, 2015, which compares favorably with the state rate of 3.9% and the national rate of 5.0% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2014 was \$113,967; the per capita income for the same time was \$44,310. This compares favorably with both state and national incomes.
- According to the Town's Board of Assessors, the average 2015 single family home in Sutton is valued at \$313,688; the average two-family home is valued at \$207,388; the average three-family home is valued at \$303,828; the average condominium is valued at \$307,778; the average commercial property is valued at \$542,482; and the average industrial property is valued at \$442,328. All properties compare favorably with state and national property values.
- The Town approved a fiscal year 2016 general fund budget of \$30,629,459, an increase of \$278,246 or 0.9% over the final fiscal year 2015 general fund budget.

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

| | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|--|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | |
| General government | \$ 1,726,802 | \$ 379,862 | \$ - | \$ (1,140,579) | \$ - | \$ (1,140,579) |
| Public safety | 2,938,235 | 441,123 | - | (2,461,871) | - | (2,461,871) |
| Education | 20,946,742 | 1,045,053 | 4,957,681 | (6,750,151) | - | (6,750,151) |
| Public works | 2,086,164 | 32,680 | 485,037 | (1,568,447) | - | (1,568,447) |
| Health and human services | 361,850 | 99,394 | - | (227,569) | - | (227,569) |
| Culture and recreation | 337,127 | 116,169 | - | (136,876) | - | (136,876) |
| Employee benefits | 4,625,683 | - | - | (4,625,683) | - | (4,625,683) |
| Insurance | 270,499 | - | - | (270,499) | - | (270,499) |
| Interest | 1,195,079 | - | - | (1,195,079) | - | (1,195,079) |
| Intergovernmental | 80,181 | - | - | (80,181) | - | (80,181) |
| Total Governmental Activities | 34,568,362 | 2,114,281 | 5,442,718 | (18,456,935) | - | (18,456,935) |
| Business-Type Activities: | | | | | | |
| Sewer services | 1,202,465 | 820,385 | - | - | (382,080) | (382,080) |
| Nonmajor Transfer Station services | 150,961 | 146,740 | - | - | (4,221) | (4,221) |
| Total Business-Type Activities | 1,353,426 | 967,125 | - | - | (386,301) | (386,301) |
| Total | \$ 35,921,788 | \$ 3,081,406 | \$ 5,442,718 | (18,456,935) | (386,301) | (18,843,236) |
| General Revenues and Transfers: | | | | | | |
| Property taxes | | | | 20,030,564 | - | 20,030,564 |
| Excises | | | | 1,501,174 | - | 1,501,174 |
| Penalties, interest and other taxes | | | | 258,022 | - | 258,022 |
| Grants and contributions not restricted to specific programs | | | | 854,824 | 750 | 855,574 |
| Investment income | | | | 52,314 | 7,454 | 59,768 |
| Miscellaneous | | | | 237,152 | - | 237,152 |
| Transfers, net | | | | (522,030) | 522,030 | - |
| Total general revenues and transfers | | | | 22,412,020 | 530,234 | 22,942,254 |
| Change in Net Position | | | | 3,955,085 | 143,933 | 4,099,018 |
| Net Position: | | | | | | |
| Beginning of year, as restated | | | | 44,914,475 | 4,910,931 | 49,825,406 |
| End of year | | | | \$ 48,869,560 | \$ 5,054,864 | \$ 53,924,424 |

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

| | <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 | \$ 4,548,228 | \$ 279,848 | \$ 1,432,904 | \$ 6,260,980 |
| Investments | 1,799,751 | - | 837,097 | 2,636,848 |
| Receivables: | | | | |
| Property taxes | 564,674 | - | - | 564,674 |
| Excises | 226,301 | - | - | 226,301 |
| Intergovernmental | - | - | 166,498 | 166,498 |
| TOTAL ASSETS | \$ 7,138,954 | \$ 279,848 | \$ 2,436,499 | \$ 9,855,301 |
| LIABILITIES | | | | |
| Warrants payable | \$ 465,923 | \$ - | \$ - | \$ 465,923 |
| Retainage payable | - | 184,000 | - | 184,000 |
| Accrued liabilities | 419,791 | - | - | 419,791 |
| TOTAL LIABILITIES | 885,714 | 184,000 | - | 1,069,714 |
| DEFERRED INFLOWS OF RESOURCES | 692,952 | - | - | 692,952 |
| FUND BALANCES | | | | |
| Nonspendable | - | - | 499,050 | 499,050 |
| Restricted | 216,513 | 95,848 | 1,971,384 | 2,283,745 |
| Committed | 1,004,286 | - | - | 1,004,286 |
| Assigned | 547,438 | - | - | 547,438 |
| Unassigned | 3,792,051 | - | (33,935) | 3,758,116 |
| TOTAL FUND BALANCES | 5,560,288 | 95,848 | 2,436,499 | 8,092,635 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 7,138,954 | \$ 279,848 | \$ 2,436,499 | \$ 9,855,301 |

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, 2015

| | |
|---|-----------------------------|
| Total governmental fund balances | \$ 8,092,635 |
| <ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 90,450,114 |
| <ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 578,540 |
| <ul style="list-style-type: none"> • Deferred outflows of resources related to pensions resulting from projected vs. actual earnings will be recognized as a reduction of the net pension liability in the years ending June 30, 2016 through June 30, 2019. | 7,583 |
| <ul style="list-style-type: none"> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (236,414) |
| <ul style="list-style-type: none"> • Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | |
| Notes payable | (1,018,000) |
| Bonds payable | (29,033,805) |
| Net OPEB obligation | (6,602,115) |
| Net pension liability | (12,608,522) |
| Compensated absences liability | (510,651) |
| Capital leases | (73,805) |
| Landfill liability | (176,000) |
| Net position of governmental activities | <u><u>\$ 48,869,560</u></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, 2015

| | <u>General</u> | <u>Middle and High School Construction</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------|--|--|---|
| Revenues: | | | | |
| Property taxes | \$ 20,293,240 | \$ - | \$ - | \$ 20,293,240 |
| Excises | 1,429,484 | - | - | 1,429,484 |
| Penalties, interest, and other taxes | 258,022 | - | - | 258,022 |
| Charges for services | 585,146 | - | 1,358,385 | 1,943,531 |
| Intergovernmental | 6,176,750 | 4,957,681 | 1,983,669 | 13,118,100 |
| Licenses and permits | 94,670 | - | - | 94,670 |
| Fines and forfeitures | 76,079 | - | - | 76,079 |
| Investment income | 46,635 | - | 5,680 | 52,315 |
| Miscellaneous | 235,445 | - | 1,707 | 237,152 |
| Contributions | - | - | 73,074 | 73,074 |
| Total Revenues | 29,195,471 | 4,957,681 | 3,422,515 | 37,575,667 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,364,984 | - | 248,339 | 1,613,323 |
| Public safety | 2,831,159 | - | 65,165 | 2,896,324 |
| Education | 15,379,231 | - | 2,609,988 | 17,989,219 |
| Public works | 1,118,290 | - | 499,073 | 1,617,363 |
| Health and human services | 276,539 | - | 71,681 | 348,220 |
| Culture and recreation | 215,051 | - | 122,077 | 337,128 |
| Employee benefits | 3,353,337 | - | - | 3,353,337 |
| Insurance | 270,499 | - | - | 270,499 |
| Debt service | 3,613,108 | - | - | 3,613,108 |
| Intergovernmental | 80,181 | - | - | 80,181 |
| Capital outlay | - | 13,530,934 | - | 13,530,934 |
| Total Expenditures | 28,502,379 | 13,530,934 | 3,616,323 | 45,649,636 |
| Excess (deficiency) of revenues over expenditures | 693,092 | (8,573,253) | (193,808) | (8,073,969) |
| Other Financing Sources (Uses): | | | | |
| Issuance of notes | 742,000 | - | - | 742,000 |
| Transfers in | 151,531 | - | - | 151,531 |
| Transfers out | (633,769) | - | (39,792) | (673,561) |
| Total Other Financing Sources (Uses) | 259,762 | - | (39,792) | 219,970 |
| Change in fund balance | 952,854 | (8,573,253) | (233,600) | (7,853,999) |
| Fund Equity, at Beginning of Year | 4,607,434 | 8,669,101 | 2,670,099 | 15,946,634 |
| Fund Equity, at End of Year | \$ 5,560,288 | \$ 95,848 | \$ 2,436,499 | \$ 8,092,635 |

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

FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

| | Original <u>Budget</u> | Final <u>Budget</u> | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|---------------------------|------------------------|---|---|
| Revenues and transfers in: | | | | |
| Property taxes | \$ 19,839,450 | \$ 19,968,350 | \$ 19,968,350 | \$ - |
| Excises | 1,320,400 | 1,320,400 | 1,429,484 | 109,084 |
| Penalties, interest, and other taxes | 135,000 | 135,000 | 258,022 | 123,022 |
| Charges for services | 321,577 | 321,577 | 585,146 | 263,569 |
| Intergovernmental | 6,111,533 | 6,128,543 | 6,176,750 | 48,207 |
| Licenses and permits | 71,000 | 71,000 | 94,670 | 23,670 |
| Fines and forfeitures | 74,700 | 74,700 | 76,079 | 1,379 |
| Investment income | 40,000 | 40,000 | 28,790 | (11,210) |
| Miscellaneous | 15,000 | 15,000 | 235,445 | 220,445 |
| Transfers in | 537,592 | 574,592 | 553,461 | (21,131) |
| Total Revenues and transfers in | 28,466,252 | 28,649,162 | 29,406,197 | 757,035 |
| Expenditures and transfers out: | | | | |
| General government | 1,439,226 | 1,425,045 | 1,356,480 | 68,565 |
| Public safety | 3,306,648 | 3,327,900 | 3,238,559 | 89,341 |
| Education (see page 10) | 15,258,332 | 15,366,762 | 15,391,074 | (24,312) |
| Public works | 916,233 | 1,167,791 | 1,121,621 | 46,170 |
| Health and human services | 290,179 | 290,199 | 276,539 | 13,660 |
| Culture and recreation | 214,148 | 214,424 | 208,966 | 5,458 |
| Employee benefits | 3,387,193 | 3,402,193 | 3,354,633 | 47,560 |
| Insurance | 270,000 | 270,499 | 270,499 | - |
| Debt service | 4,198,547 | 4,248,547 | 4,246,877 | 1,670 |
| Intergovernmental | 73,171 | 73,227 | 80,181 | (6,954) |
| Transfers out | 564,626 | 564,626 | 564,626 | - |
| Total Expenditures and transfers out | 29,918,303 | 30,351,213 | 30,110,055 | 241,158 |
| Excess of revenues and transfers in over expenditures and transfers out | (1,452,051) | (1,702,051) | (703,858) | 998,193 |
| Other Financing Sources: | | | | |
| Use of fund balance (free cash) | 580,051 | 780,051 | - | (780,051) |
| Use of other reserves | 40,000 | 90,000 | - | (90,000) |
| BAN proceeds | 832,000 | 832,000 | 742,000 | (90,000) |
| Excess of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ 38,142 | \$ 38,142 |

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

| | Business-Type Activities Enterprise Funds | | |
|--|--|--------------------------------------|--------------|
| | Sewer Fund | Nonmajor Transfer Station Fund | Total |
| ASSETS | | | |
| Current: | | | |
| Cash and short-term investments | \$ 976,794 | \$ 33,832 | \$ 1,010,626 |
| User fees, net of allowance for uncollectibles | 98,368 | - | 98,368 |
| Intergovernmental receivable | 100,959 | - | 100,959 |
| Other assets | - | 5,432 | 5,432 |
| Total current assets | 1,176,121 | 39,264 | 1,215,385 |
| Noncurrent: | | | |
| Intergovernmental receivable | 630,122 | - | 630,122 |
| Capital assets, net of accumulated depreciation | 8,767,977 | 14,305 | 8,782,282 |
| Total noncurrent assets | 9,398,099 | 14,305 | 9,412,404 |
| DEFERRED OUTFLOWS OF RESOURCES | 155 | - | 155 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 10,574,375 | 53,569 | 10,627,944 |
| LIABILITIES | | | |
| Current: | | | |
| Accrued liabilities | 152,137 | - | 152,137 |
| Other current liabilities | 7,068 | - | 7,068 |
| Current portion of long-term liabilities: | | | |
| Bonds payable | 495,546 | - | 495,546 |
| Compensated absences | 1,060 | - | 1,060 |
| Total current liabilities | 655,811 | - | 655,811 |
| Noncurrent: | | | |
| Bonds payable, net of current portion | 4,507,053 | - | 4,507,053 |
| OPEB liability | 124,411 | 18,948 | 143,359 |
| Net pension liability | 257,317 | - | 257,317 |
| Compensated absences | 9,540 | - | 9,540 |
| Total noncurrent liabilities | 4,898,321 | 18,948 | 4,917,269 |
| TOTAL LIABILITIES | 5,554,132 | 18,948 | 5,573,080 |
| NET POSITION | | | |
| Net investment in capital assets | 3,766,131 | 14,305 | 3,780,436 |
| Unrestricted | 1,254,112 | 20,316 | 1,274,428 |
| TOTAL NET POSITION | \$ 5,020,243 | \$ 34,621 | \$ 5,054,864 |

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, 2015

| | Business-Type Activities Enterprise Funds | | |
|--|--|--------------------------------------|--------------|
| | Sewer Fund | Nonmajor Transfer Station Fund | Total |
| Operating Revenues: | | | |
| Charges for services | \$ 820,385 | \$ 146,740 | \$ 967,125 |
| Total Operating Revenues | 820,385 | 146,740 | 967,125 |
| Operating Expenses: | | | |
| Personnel services | 179,757 | 46,220 | 225,977 |
| Non-personnel services | 450,452 | 71,519 | 521,971 |
| Depreciation | 320,276 | 33,222 | 353,498 |
| Total Operating Expenses | 950,485 | 150,961 | 1,101,446 |
| Operating Income / (Loss) | (130,100) | (4,221) | (134,321) |
| Nonoperating Revenues (Expenses): | | | |
| Intergovernmental revenue | - | 750 | 750 |
| Other nonoperating income | 7,454 | - | 7,454 |
| Interest expense | (251,980) | - | (251,980) |
| Total Nonoperating Revenues (Expenses) | (244,526) | 750 | (243,776) |
| Income / (Loss) Before Transfers | (374,626) | (3,471) | (378,097) |
| Transfers: | | | |
| Transfers in | 633,769 | - | 633,769 |
| Transfers out | (89,164) | (22,575) | (111,739) |
| Change in Net Position | 169,979 | (26,046) | 143,933 |
| Net Position at Beginning of Year, as restated | 4,850,264 | 60,667 | 4,910,931 |
| Net Position at End of Year | \$ 5,020,243 | \$ 34,621 | \$ 5,054,864 |

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, 2015

| | Business-Type Activities Enterprise Funds | | |
|--|--|------------------------------|---------------------|
| | Sewer Fund | Nonmajor Transfer Station | Total |
| | <u>Fund</u> | <u>Fund</u> | <u></u> |
| <u>Cash Flows From Operating Activities:</u> | | | |
| Receipts from customers and users | \$ 819,280 | \$ 149,063 | \$ 968,343 |
| Payments to vendors | (459,240) | (83,879) | (543,119) |
| Payments to employees | <u>(171,189)</u> | <u>(43,162)</u> | <u>(214,351)</u> |
| Net Cash Provided By Operating Activities | 188,851 | 22,022 | 210,873 |
| <u>Cash Flows From Noncapital Financing Activities:</u> | | | |
| Other nonoperating revenues | 7,454 | 750 | 8,204 |
| Transfer in | 633,769 | - | 633,769 |
| Transfer out | <u>(89,164)</u> | <u>(22,575)</u> | <u>(111,739)</u> |
| Net Cash Provided by (Used For) Noncapital Financing Activities | 552,059 | (21,825) | 530,234 |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | | |
| Principal payments on bonds and notes | (479,447) | - | (479,447) |
| Interest expense | <u>(144,801)</u> | <u>-</u> | <u>(144,801)</u> |
| Net Cash (Used For) Capital and Related Financing Activities | <u>(624,248)</u> | <u>-</u> | <u>(624,248)</u> |
| Net Change in Cash and Short-Term Investments | 116,662 | 197 | 116,859 |
| Cash and Short-Term Investments, Beginning of Year | <u>860,132</u> | <u>33,635</u> | <u>893,767</u> |
| Cash and Short-Term Investments, End of Year | <u>\$ 976,794</u> | <u>\$ 33,832</u> | <u>\$ 1,010,626</u> |
| <u>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</u> | | | |
| Operating income / (loss) | \$ (130,100) | \$ (4,221) | \$ (134,321) |
| Adjustments to reconcile operating (loss) to net cash provided by operating activities: | | | |
| Depreciation | 320,276 | 33,222 | 353,498 |
| Changes in assets and liabilities: | | | |
| User fees | (1,104) | 2,323 | 1,219 |
| Other assets | - | (630) | (630) |
| Warrants payable | (8,788) | (10,370) | (19,158) |
| Net pension liability | 5,932 | - | 5,932 |
| Other liabilities | <u>2,635</u> | <u>1,698</u> | <u>4,333</u> |
| Net Cash Provided By Operating Activities | <u>\$ 188,851</u> | <u>\$ 22,022</u> | <u>\$ 210,873</u> |

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

| | Other Post- Employment Benefits <u>Trust Fund</u> | Agency <u>Funds</u> |
|--|--|------------------------|
| <u>ASSETS</u> | | |
| Cash and short-term investments | \$ 2,201 | \$ 138,737 |
| Investments | <u>528,993</u> | <u>-</u> |
| Total Assets | 531,194 | 138,737 |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Deposits held in custody | - | 49,917 |
| Other liabilities | <u>-</u> | <u>88,820</u> |
| Total Liabilities | <u>-</u> | <u>138,737</u> |
| <u>NET POSITION</u> | | |
| Total net position held in trust for other post employment benefits | \$ <u><u>531,194</u></u> | \$ <u><u>-</u></u> |

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2015

| | Other Post- Employment Benefits <u>Trust Fund</u> |
|----------------------|--|
| Additions: | |
| Contributions | \$ 141,900 |
| Investment income | <u>3,696</u> |
| Total additions | 145,596 |
| Net position: | |
| Beginning of year | <u>385,598</u> |
| End of year | \$ <u><u>531,194</u></u> |

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

TOWN OF SUTTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2015, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the 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 *other post-employment insurance liability trust fund* is used to account for funds to offset the anticipated cost of premium payments for or direct payments to be made to retired employees of the Town, and to any eligible surviving spouse of or dependents of deceased employees of the Town.

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund

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> | Revenues and Other <u>Financing Sources</u> | Expenditures and Other <u>Financing Uses</u> |
|---|---|--|
| Revenues/Expenditures (GAAP Basis) | \$ 29,195,471 | \$ 28,502,379 |
| Other financing sources/uses (GAAP Basis) | <u>893,531</u> | <u>633,769</u> |
| Subtotal (GAAP Basis) | 30,089,002 | 29,136,148 |
| Adjust tax revenue to accrual basis | (316,907) | - |
| Reverse beginning of year appropriation carryforwards from expenditures | - | (226,237) |
| Add end of year appropriation carryforwards to expenditures | - | 635,519 |
| To reverse nonbudgeted activity | <u>376,102</u> | <u>564,625</u> |
| Budgetary Basis | <u>\$ 30,148,197</u> | <u>\$ 30,110,055</u> |

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

| | |
|----------------------|--------------------|
| Non-Major Funds: | |
| Shaw Farm Trails | \$ (1,733) |
| Doer Green Community | (25,208) |
| Police 911 Training | (1,964) |
| Police EMPG Grant | <u>(5,030)</u> |
| Total Non-Major | \$ <u>(33,935)</u> |
| Agency Funds: | |
| Police Off Duty | \$ <u>(34,807)</u> |
| Total Agency | \$ <u>(34,807)</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, 2015, the Town's bank balance of \$7,128,698 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>Aaa</u> | <u>AA+</u> | <u>A+</u> | <u>A-</u> | <u>BBB+</u> | |
| Certificates of deposits | \$ 982 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 982 |
| Corporate bonds | 414 | - | 194 | 90 | 50 | 80 | - |
| Mutual funds | 798 | - | - | - | - | - | 798 |
| Federal agency securities | 691 | 277 | 414 | - | - | - | - |
| Equities | 281 | - | - | - | - | - | 281 |
| Total investments | <u>\$ 3,166</u> | <u>\$ 277</u> | <u>\$ 608</u> | <u>\$ 90</u> | <u>\$ 50</u> | <u>\$ 80</u> | <u>\$ 2,061</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 \$3,165,839, the government has a custodial credit risk exposure of \$2,183,484 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:

| | |
|---------------------------|-------------------|
| Ally BK Midvale Utah CD | \$ 175,310 |
| Firstbank PR Santurce | 175,467 |
| Discover BK Greenwood Del | <u>175,318</u> |
| Total | <u>\$ 526,095</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> |
| Debt-related Securities: | | | |
| Certificates of deposit | \$ 982 | \$ 927 | \$ 55 |
| Corporate bonds | 414 | 92 | 322 |
| Federal agency securities | <u>691</u> | <u>-</u> | <u>691</u> |
| Total | <u>\$ 2,087</u> | <u>\$ 1,019</u> | <u>\$ 1,068</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, 2015 consist of the following (in thousands):

| | | |
|-------------------|-----------|---------------|
| Real Estate | | |
| 2015 | \$ 307 | |
| 2014 | 22 | |
| 2013 and prior | <u>7</u> | |
| | | 336 |
| Personal Property | | |
| 2015 | 10 | |
| 2014 | 1 | |
| 2013 | 1 | |
| 2012 | 2 | |
| Prior | <u>37</u> | |
| | | 51 |
| Tax Liens | | <u>177</u> |
| Total | | <u>\$ 564</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 | \$ 69 |

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015. 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, 2015 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------------|--------------------|-------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 35,145 | \$ 57,360 | \$ (968) | \$ 91,537 |
| Machinery, equipment, and furnishings | 2,546 | 334 | (98) | 2,782 |
| Motor Vehicles | 3,753 | 535 | (179) | 4,109 |
| Infrastructure | 14,500 | 304 | - | 14,804 |
| Total capital assets, being depreciated | 55,944 | 58,533 | (1,245) | 113,232 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (16,875) | (2,249) | 968 | (18,156) |
| Machinery, equipment, and furnishings | (2,316) | (89) | 98 | (2,307) |
| Motor Vehicles | (2,721) | (244) | 179 | (2,786) |
| Infrastructure | (5,190) | (495) | - | (5,685) |
| Total accumulated depreciation | (27,102) | (3,077) | 1,245 | (28,934) |
| Total capital assets, being depreciated, net | 28,842 | 55,456 | - | 84,298 |
| Capital assets, not being depreciated: | | | | |
| Land | 6,152 | - | - | 6,152 |
| Construction in progress | 43,942 | 13,387 | (57,329) | - |
| Total capital assets, not being depreciated | 50,094 | 13,387 | (57,329) | 6,152 |
| Governmental activities capital assets, net | \$ <u>78,936</u> | \$ <u>68,843</u> | \$ <u>(57,329)</u> | \$ <u>90,450</u> |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Business-Type Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Sewer treatment plant | \$ 10,011 | \$ - | \$ - | \$ 10,011 |
| Millbury pumping station | 1,665 | - | - | 1,665 |
| Sewer pipes | 307 | - | - | 307 |
| Machinery, equipment and furnishings | 582 | - | - | 582 |
| Total capital assets, being depreciated | 12,565 | - | - | 12,565 |
| Less accumulated depreciation for: | | | | |
| Sewer treatment plant | (2,236) | (252) | - | (2,488) |
| Millbury pumping station | (405) | (56) | - | (461) |
| Sewer pipes | (307) | - | - | (307) |
| Machinery, equipment and furnishings | (481) | (46) | - | (527) |
| Total accumulated depreciation | (3,429) | (354) | - | (3,783) |
| Total capital assets, being depreciated, net | 9,136 | (354) | - | 8,782 |
| Business-type activities capital assets, net | \$ <u>9,136</u> | \$ <u>(354)</u> | \$ <u>-</u> | \$ <u>8,782</u> |

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

| | |
|---|-----------------|
| Governmental Activities: | |
| General government | \$ 37 |
| Public safety | 226 |
| Education | 2,224 |
| Public works | 579 |
| Health and human services | <u>11</u> |
| Total depreciation expense - governmental activities | <u>\$ 3,077</u> |
| Business-Type Activities: | |
| Sewer | \$ 321 |
| Nonmajor Transfer Station | <u>33</u> |
| Total depreciation expense - business-type activities | <u>\$ 354</u> |

9. Deferred Outflows of Resources

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

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

| | Entity-wide Basis | |
|---|-----------------------------------|------------------------------------|
| | Governmental <u>Activities</u> | Business-type <u>Activities</u> |
| Net difference between projected and actual pension investment earnings | \$ 7,583 | \$ 155 |

10. Warrants and Accounts Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015.

11. Notes Payable

The Town had the following notes outstanding at June 30, 2015:

| | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Balance at 6/30/15</u> | |
|------------------------|--------------------------|--------------------------|-----------------------------|-------------------------------|----------------|
| ELC Solar Panels | 0.50% | 06/19/15 | 05/19/16 | \$ 180,000 | ⁽¹⁾ |
| 2014 Capital Plan | 0.50% | 06/19/15 | 05/19/16 | 96,000 | ⁽¹⁾ |
| Departmental Equipment | 0.50% | 06/19/15 | 05/19/16 | 742,000 | ⁽¹⁾ |
| Total Notes Payable | | | | <u>\$ 1,018,000</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 \$300,000 annually through fiscal year 2019.

The following summarizes activity in notes payable during fiscal year 2015:

| | <u>Balance Beginning of Year</u> | <u>New Issues</u> | <u>Maturities</u> | <u>Balance End of Year</u> |
|------------------------|--|-----------------------|---------------------|------------------------------------|
| ELC Solar Panels | \$ 260,000 | \$ 180,000 | \$ (260,000) | \$ 180,000 |
| 2014 Capital Plan | 246,000 | 96,000 | (246,000) | 96,000 |
| Departmental Equipment | - | 742,000 | - | 742,000 |
| Total Notes Payable | <u>\$ 506,000</u> | <u>\$ 1,018,000</u> | <u>\$ (506,000)</u> | <u>\$ 1,018,000</u> |

12. Capital Lease Obligations

The Town is the lessee of certain equipment under capital lease expiring in 2016. Future minimum lease payments under capital lease consisted of the following as of June 30, 2013:

| <u>Fiscal Year</u> | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2016 | <u>\$ 76,344</u> |
| Total minimum lease payments | 76,344 |
| Less amounts representing interest | <u>(2,539)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 73,805</u> |

13. Long-Term Debt

A. General Obligation Bonds

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

| <u>Governmental Activities:</u> | <u>Serial Maturities Through</u> | <u>Interest Rate(s) %</u> | <u>Amount Outstanding as of 6/30/15</u> |
|---------------------------------|--|-------------------------------|---|
| Title V Septic Program | 02/01/17 | 0.00% | \$ 13,805 |
| Shaw Land | 11/15/26 | 4.00 - 5.00% | 2,820,000 |
| Capital Plan | 11/15/26 | 4.00 - 5.00% | 120,000 |
| ELC Roof | 06/15/19 | 2.50 - 5.00% | 520,000 |
| Whitter Farms | 04/01/17 | 2.00 - 3.75% | 110,000 |
| 2010 Capital Plan | 04/01/17 | 2.00 - 3.75% | 90,000 |
| 2011 Capital Plan | 06/30/16 | 3.00 - 5.00% | 65,000 |
| MS/HS Construction | 06/30/31 | 3.00 - 5.00% | 20,745,000 |
| General Obligation School Bonds | 02/15/33 | 2.00 - 2.50% | 4,550,000 |
| Total Governmental Activities: | | | <u>\$ 29,033,805</u> |

| <u>Business-Type Activities:</u> | <u>Serial Maturities Through</u> | <u>Interest Rate(s) %</u> | <u>Amount Outstanding as of 6/30/15</u> |
|----------------------------------|--|-------------------------------|---|
| Municipal Purpose | 06/15/18 | 3.00 - 4.00% | \$ 300,000 |
| Manchaug Treatment Plant | 08/01/24 | 2.00% | 4,702,599 |
| | | | <u>\$ 5,002,599</u> |

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|----------------------|---------------------|----------------------|
| 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 | 1,912,761 | 905,118 | 2,817,879 |
| 2020 | 1,782,761 | 833,601 | 2,616,362 |
| 2021 - 2025 | 8,900,000 | 3,108,928 | 12,008,928 |
| 2026 - 2030 | 8,215,000 | 1,395,478 | 9,610,478 |
| 2031 - 2033 | 2,050,000 | 459,000 | 2,509,000 |
| Total | <u>\$ 29,033,805</u> | <u>\$ 9,836,179</u> | <u>\$ 38,869,984</u> |

| <u>Business-Type</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-------------------|---------------------|
| 2016 | \$ 495,546 | \$ 134,459 | \$ 630,005 |
| 2017 | 510,196 | 108,421 | 618,617 |
| 2018 | 529,729 | 87,216 | 616,945 |
| 2019 | 444,378 | 66,166 | 510,544 |
| 2020 | 495,520 | 49,145 | 544,665 |
| 2021 - 2025 | <u>2,527,230</u> | <u>61,692</u> | <u>2,588,922</u> |
| Total | <u>\$ 5,002,599</u> | <u>\$ 507,099</u> | <u>\$ 5,509,698</u> |

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

| | Total Balance <u>7/1/14</u> | <u>Additions</u> | <u>Reductions</u> | Total Balance <u>6/30/15</u> | Less Current Portion | Equals Long-Term Portion <u>6/30/15</u> |
|---------------------------------|-----------------------------------|------------------|-------------------|------------------------------------|----------------------------|--|
| <u>Governmental Activities</u> | | | | | | |
| Notes payable | \$ 506 | \$ 1,018 | \$ (506) | \$ 1,018 | \$ (300) | \$ 718 |
| Bonds payable | 31,207 | - | (2,173) | 29,034 | (2,163) | 26,871 |
| Net OPEB obligation | 5,620 | 1,644 | (662) | 6,602 | - | 6,602 |
| Net pension liability | 12,310 | 298 | - | 12,608 | - | 12,608 |
| Compensated absences | 506 | 18 | (14) | 510 | (77) | 433 |
| Capital leases | 145 | - | (71) | 74 | (74) | - |
| Landfill liability | <u>192</u> | <u>-</u> | <u>(16)</u> | <u>176</u> | <u>(16)</u> | <u>160</u> |
| Totals | <u>\$ 50,486</u> | <u>\$ 2,978</u> | <u>\$ (3,442)</u> | <u>\$ 50,022</u> | <u>\$ (2,630)</u> | <u>\$ 47,392</u> |
| <u>Business-Type Activities</u> | | | | | | |
| Bonds payable | \$ 5,482 | \$ - | \$ (479) | \$ 5,003 | \$ (496) | \$ 4,507 |
| Net OPEB obligation | 138 | 40 | (35) | 143 | - | 143 |
| Net pension liability | 251 | 6 | - | 257 | - | 257 |
| Compensated absences | <u>10</u> | <u>1</u> | <u>-</u> | <u>11</u> | <u>(1)</u> | <u>10</u> |
| Totals | <u>\$ 5,881</u> | <u>\$ 47</u> | <u>\$ (514)</u> | <u>\$ 5,414</u> | <u>\$ (497)</u> | <u>\$ 4,917</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 \$176,000 as the estimate of the remaining postclosure care liability at June 30, 2015 in the Governmental Activities Statement of Net Position. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets 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, 2015 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

16. Restricted Net Position

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

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

17. Governmental Funds - Balances

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

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

The following types of fund balances are reported at June 30, 2015:

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 vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54).

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

Unassigned funds are available to be spent in future periods.

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, 2015:

| | General Fund | Middle and High School Construction Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------|-----------------|---|-----------------------------------|--------------------------------|
| Nonspendable | | | | |
| Nonexpendable permanent funds | \$ - | \$ - | \$ 499,050 | \$ 499,050 |
| Total Nonexpendable | - | - | 499,050 | 499,050 |
| Restricted | | | | |
| MS/HS Construction | - | 95,848 | - | 95,848 |
| Town revolving funds: | | | | |
| Manchaug Dam gift | - | - | 360,080 | 360,080 |
| Other | - | - | 466,233 | 466,233 |
| School revolving funds: | | | | |
| School choice | - | - | 253,335 | 253,335 |
| School bus fees | - | - | 61,629 | 61,629 |
| SPED transportation | - | - | 88,764 | 88,764 |
| After school program | - | - | 71,013 | 71,013 |
| Other | - | - | 373,830 | 373,830 |
| Town grants | - | - | 286,027 | 286,027 |
| School grants | - | - | 10,473 | 10,473 |
| Debt service | 216,513 | - | - | 216,513 |
| Total Restricted | 216,513 | 95,848 | 1,971,384 | 2,283,745 |

(continued)

(continued)

| | General Fund | Middle and High School Construction Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------------|---|-----------------------------------|--------------------------------|
| Committed | | | | |
| Capital purchase articles | 29,150 | - | - | 29,150 |
| Reserve for fire engine | 367,596 | - | - | 367,596 |
| Reserve for Goddard Lodge | 50,000 | - | - | 50,000 |
| Other reserves for cont. appropriation | 217,923 | - | - | 217,923 |
| Capital acquisitions | 339,617 | - | - | 339,617 |
| Total Committed | 1,004,286 | - | - | 1,004,286 |
| Assigned | | | | |
| For next year's expenditures | 547,438 | - | - | 547,438 |
| Total Assigned | 547,438 | - | - | 547,438 |
| Unassigned | ⁽¹⁾ 3,792,051 | - | (33,935) | 3,758,116 |
| Total Unassigned | 3,792,051 | - | (33,935) | 3,758,116 |
| Total Fund Balance | \$ 5,560,288 | \$ 95,848 | \$ 2,436,499 | \$ 8,092,635 |

⁽¹⁾ Includes General Stabilization Fund Balance of \$1,911,885.

18. General Fund Unassigned Fund Balances

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

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

| | |
|--------------------------|---------------------|
| GAAP basis balance | \$ 3,792,051 |
| Stabilization fund | <u>(1,911,885)</u> |
| Statutory (UMAS) Balance | \$ <u>1,880,166</u> |

19. 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 2014:

| <u>Governmental Funds:</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------------|---------------------|----------------------|
| General Fund | \$ 151,531 | \$ 633,769 |
| Nonmajor Funds: ⁽¹⁾ | | |
| Special Revenue Funds: | | |
| Town Revolving Funds | - | 7,242 |
| Town Grants | 25,000 | 11,000 |
| Trust Funds: | | |
| Cemetery Funds | 4,450 | 37,000 |
| Library | - | 14,000 |
| Subtotal Nonmajor Funds | 29,450 | 69,242 |
| <u>Business-Type Funds</u> | | |
| Sewer Fund | 633,769 | 89,164 |
| Transfer Station | - | 22,575 |
| Grand Total | <u>\$ 814,750</u> | <u>\$ 814,750</u> |

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

The \$633,769 transfer from the General Fund to the Sewer Fund represents the annual transfer of the monies for sewer debt service that is appropriated in the General Fund.

The 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.

20. 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.

**21. 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 in Note 22, 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, 2014, the actuarial valuation date, approximately 203 retirees and 132 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 2015 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, 2015, 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, 2014.

| | |
|---|----------------------------|
| Annual Required Contribution (ARC) | \$ 1,423,335 |
| Interest on net OPEB obligation | 260,794 |
| Adjustment to ARC | <u>(257,505)</u> |
| Annual OPEB cost | 1,426,624 |
| Contributions made | (293,843) |
| Additional Contributions made | <u>(145,596)</u> |
| Increase in net OPEB obligation | 987,185 |
| Net OPEB obligation - beginning of year | <u>5,758,289</u> |
| Net OPEB obligation - end of year | <u><u>\$ 6,745,474</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> |
|--------------------------|-------------------------|--|----------------------------|
| 2015 | \$ 1,426,624 | 31% | \$ 6,745,474 |
| 2014 | \$ 1,368,694 | 30% | \$ 5,758,289 |
| 2013 | \$ 1,717,851 | 45% | \$ 4,793,579 |
| 2012 | \$ 1,624,980 | 49% | \$ 3,850,565 |
| 2011 | \$ 1,943,947 | 29% | \$ 3,027,852 |
| 2010 | \$ 1,396,781 | 33% | \$ 1,677,670 |
| 2009 | \$ 1,316,321 | 44% | \$ 742,289 |

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the date of the most recent actuarial valuation was as follows:

| | |
|---|----------------------|
| Actuarial accrued liability (AAL) | \$ 15,109,900 |
| Actuarial value of plan assets | <u>(385,598)</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 14,724,302</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>2.60%</u> |
| Covered payroll (active plan members) | <u>\$ 14,210,449</u> |
| UAAL as a percentage of covered payroll | <u>104%</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, 2014 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

22. Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Worcester Regional Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The

System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 23 Midstate Drive, Suite 106 Midstate Office Park, Auburn, MA 01501.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979

contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

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

The Town's contribution to the System for the year ended June 30, 2015 was \$854,433, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

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

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

At June 30, 2015, the Town reported a liability of \$12,865,839 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014, rolled forward to the measurement date of December 31, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the Town's proportion was 2.162079%.

For the year ended June 30, 2015, the Town recognized pension expense of \$1,151,052. Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Inflows of Resources</u> |
|--|--|
| Net difference between projected and actual earnings on pension plan investments | \$ <u>7,738</u> |

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

Year ended June 30:

| | |
|-------|-----------------|
| 2016 | \$ 1,935 |
| 2017 | 1,935 |
| 2018 | 1,934 |
| 2019 | <u>1,934</u> |
| Total | \$ <u>7,738</u> |

Actuarial assumptions: The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|----------------------------------|
| Inflation | 3% of the first \$14,000 |
| Salary increases | 3% per year, including longevity |
| Investment rate of return | 8% |

Mortality rates were based on the RP-2000 mortality table projected to 2014 with scale AA. For disabled lives, the mortality rates were based on the RP-2000 mortality table set forward two years.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2013 through December 31, 2013.

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

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------------|--|---|
| Global Equity | 43.00% | 8.23% |
| Fixed income | 23.00% | 5.05% |
| Private equity | 10.00% | 9.75% |
| Real Estate | 10.00% | 6.50% |
| Timber/Natural Resources | 4.00% | 6.88% |
| Hedge Funds | 10.00% | 7.00% |
| Total | <u>100.00%</u> | |

Discount Rate: The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

| <u>Fiscal Year Ended</u> | <u>1% Decrease (7.0%)</u> | <u>Current Discount Rate (8.0%)</u> | <u>1% Increase (9.0%)</u> |
|--------------------------|-------------------------------|---|-------------------------------|
| June 30, 2015 | \$ 15,664,696 | \$ 12,865,839 | \$ 10,489,163 |

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

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-

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

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

B. Benefits Provided

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

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

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

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | |
|---------------------------|------------------------------|---|-------------|
| | | <u>2014</u> | <u>2013</u> |
| Global equity | 43.0% | 7.2% | 7.70% |
| Core fixed income | 13.0% | 2.5% | 2.00% |
| Hedge funds | 10.0% | 5.5% | 4.75% |
| Private equity | 10.0% | 8.8% | 9.00% |
| Real estate | 10.0% | 6.3% | 6.00% |
| Value added fixed income | 10.0% | 6.3% | 6.30% |
| Timeber/natural resources | 4.0% | 5.0% | 5.00% |
| Total | 100.0% | | |

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

| <u>Fiscal Year Ended</u> | <u>1% Decrease to 7%</u> | <u>Current Discount Rate 8%</u> | <u>1% Increase to 9%</u> |
|------------------------------|------------------------------|-------------------------------------|------------------------------|
| June 30, 2013 | \$ 21,426 | \$ 17,234 | \$ 13,672 |
| June 30, 2014 | \$ 20,247 | \$ 15,896 | \$ 12,200 |

G. Special Funding Situation

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

contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2014 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$23,905,002 and \$1,660,795 respectively, based on a proportionate share of 0.150380%.

24. 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.

25. Beginning Net Position Restatement

The Town's beginning net position for fiscal year 2015 has been restated from the previous fiscal year to conform to GASB Statement 68. Fiscal year 2014 and prior periods have not been restated due to the impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement does not recognize beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions per GASB 71. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:

| | Governmental Activities | Business-Type Activities Enterprise Funds |
|------------------------|----------------------------|--|
| As previously reported | \$ 57,224,727 | \$ 5,162,161 |
| GASB 68 Implementation | <u>(12,310,252)</u> | <u>(251,230)</u> |
| As restated | <u>\$ 44,914,475</u> | <u>\$ 4,910,931</u> |

Fund Financial Statements:

| | Sewer Enterprise Fund |
|------------------------|--------------------------|
| As previously reported | \$ 5,101,494 |
| GASB 68 Implementation | <u>(251,230)</u> |
| As restated | <u>\$ 4,850,264</u> |

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

June 30, 2015
(Unaudited)

| Other Post-Employment Benefits | | | | | | |
|---------------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percent- age of Covered Payroll [(b-a)/c] |
| 07/01/14 | \$ 385,598 | \$ 15,109,900 | \$ 14,724,302 | 2.55% | \$ 14,210,449 | 104% |
| 07/01/13 | \$ 189,247 | \$ 14,541,229 | \$ 14,351,982 | 1.30% | \$ 14,210,449 | 101% |
| 06/30/12 | \$ 84,922 | \$ 17,346,775 | \$ 17,261,853 | 0.49% | N/A | N/A |
| 06/30/10 | \$ - | \$ 22,114,790 | \$ 22,114,790 | 0.0% | N/A | N/A |
| 06/30/07 | \$ - | \$ 14,747,895 | \$ 14,747,895 | 0.0% | N/A | N/A |

See Independent Auditors' Report.

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

JUNE 30, 2015
(Unaudited)

| | |
|--|----------------------|
| <u>Worcester Regional Retirement System:</u> | <u>2015</u> |
| Proportion of the net pension liability for the most recent measurement date | 2.16% |
| Proportionate share of the net pension liability for the most recent measurement date | \$ 12,865,839 |
| Covered-employee payroll for the most recent measurement date | \$ 5,829,511 |
| Proportionate share of the net pension | 220.70% |
| Plan fiduciary net position as a percentage of the total pension liability | 47.9% |
| <u>Massachusetts Teachers' Retirement System:</u> | <u>2015</u> |
| Proportion of the net pension liability for the most recent measurement date | 0.15% |
| The Town's proportionate share of the net pension liability for the most recent measurement date | \$ - |
| proportionate share of the net pension liability that is associated with the Town | <u>23,905,002</u> |
| Total net pension liability associated with the Town | <u>\$ 23,905,002</u> |
| Covered-employee payroll for the most recent measurement date | \$ 9,340,394 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 0% |
| Plan fiduciary net position as a percentage of the total pension liability | 61.64% |

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

See Independent Auditors' Report.

TOWN OF SUTTON, MASSACHUSETTS

SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015
(Unaudited)

| | |
|--|--------------------|
| <u>Worcester Regional Retirement Retirement System:</u> | <u>2015</u> |
| Contractually required contribution for the current fiscal year | \$ 854,433 |
| Contributions in relation to the contractually required contribution | <u>854,433</u> |
| Contribution deficiency (excess) | \$ <u><u>-</u></u> |
| Covered-employee payroll for the current fiscal year | \$ 2,753,764 |
| Contributions as a percentage of covered-employee payroll | 31.0% |

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

See Independent Auditors' Report.