

TOWN OF SUTTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

TOWN OF SUTTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sutton, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB schedules appearing on pages 58 to 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town's internal control over financial reporting and compliance.

Melanson Heath

February 22, 2019

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 for the fiscal year ended June 30, 2018. 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 comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of

spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$35,559,183 (i.e., net position), a change of \$(1,006,044) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$16,756,037, a change of \$7,073,373 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,565,355, a change of \$708,911 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 19,157	\$ 10,939	\$ 1,513	\$ 1,426	\$ 20,670	\$ 12,365
Capital assets	<u>90,025</u>	<u>88,654</u>	<u>8,019</u>	<u>8,204</u>	<u>98,044</u>	<u>96,858</u>
Total assets	109,182	99,593	9,532	9,630	118,714	109,223
Deferred outflows of resources	9,768	2,510	64	51	9,832	2,561
Long-term liabilities outstanding	82,476	50,754	3,283	4,264	85,759	55,018
Other liabilities	<u>4,237</u>	<u>755</u>	<u>573</u>	<u>128</u>	<u>4,810</u>	<u>883</u>
Total liabilities	86,713	51,509	3,856	4,392	90,569	55,901
Deferred inflows of resources	2,409	1,074	9	22	2,418	1,096
Net position:						
Net investment in capital assets	59,260	63,209	4,552	4,307	63,812	67,516
Restricted	3,406	3,641	-	-	3,406	3,641
Unrestricted	<u>(32,838)</u>	<u>(17,330)</u>	<u>1,179</u>	<u>960</u>	<u>(31,659)</u>	<u>(16,370)</u>
Total net position	<u>\$ 29,828</u>	<u>\$ 49,520</u>	<u>\$ 5,731</u>	<u>\$ 5,267</u>	<u>\$ 35,559</u>	<u>\$ 54,787</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$35,559,183, a change of \$(1,006,044) from the prior year.

The largest portion of net position \$63,811,625 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt

must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$3,406,169, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position represents a deficit of \$(31,658,611) primarily resulting from unfunded liabilities for Pension and OPEB (see Notes 17 and 19).

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,232	\$ 2,259	\$ 1,119	\$ 1,170	\$ 3,351	\$ 3,429
Operating grants and contributions	10,570	10,320	89	-	10,659	10,320
Capital grants and contributions	303	1,916	-	-	303	1,916
General revenues:						
Property taxes	23,016	21,984	-	-	23,016	21,984
Excises	1,850	1,557	-	-	1,850	1,557
Penalties, interest, and other taxes	146	239	-	-	146	239
Grants and contributions not restricted to specific programs	905	919	3	7	908	926
Investment income	102	36	3	6	105	42
Miscellaneous	493	108	-	-	493	108
Total revenues	<u>39,617</u>	<u>39,338</u>	<u>1,214</u>	<u>1,183</u>	<u>40,831</u>	<u>40,521</u>
Expenses:						
General government	2,039	1,941	-	-	2,039	1,941
Public safety	3,648	3,479	-	-	3,648	3,479
Education	31,060	28,652	-	-	31,060	28,652
Public works	1,565	1,801	-	-	1,565	1,801
Human services	491	471	-	-	491	471
Culture and recreation	448	400	-	-	448	400
Insurance	389	367	-	-	389	367
Interest on long-term debt	956	1,054	-	-	956	1,054
Intergovernmental	73	82	-	-	73	82
Sewer	-	-	986	1,090	986	1,090
Nonmajor transfer station	-	-	182	93	182	93
Total expenses	<u>40,669</u>	<u>38,247</u>	<u>1,168</u>	<u>1,183</u>	<u>41,837</u>	<u>39,430</u>
Change in net position before transfers	(1,052)	1,091	46	-	(1,006)	1,091
Transfers in (out)	<u>(507)</u>	<u>(399)</u>	<u>507</u>	<u>399</u>	<u>-</u>	<u>-</u>
Change in net position	(1,559)	692	553	399	(1,006)	1,091
Net position - beginning of year, as restated	<u>31,387</u>	<u>48,828</u>	<u>5,178</u>	<u>4,868</u>	<u>36,565</u>	<u>53,696</u>
Net position - end of year	<u>\$ 29,828</u>	<u>\$ 49,520</u>	<u>\$ 5,731</u>	<u>\$ 5,267</u>	<u>\$ 35,559</u>	<u>\$ 54,787</u>

Fiscal year 2017 amounts were not restated as the Town applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,559,535). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 835,263
Non-bonded capital asset acquisitions	1,866,265
Principal debt service in excess of depreciation expense	(739,353)
Change in other post employment benefits liability and related deferred outflows/inflows	(2,839,939)
Change in net pension liability and related deferred outflows/inflows	(1,022,091)
Other GAAP accruals	<u>340,320</u>
Total	<u>\$ (1,559,535)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$553,491. Key elements of this change are as follows:

Sewer operations, before transfers	\$ 71,080
Sewer debt service paid with a general fund subsidy	507,422
Nonmajor transfer station operations	<u>(25,011)</u>
Total	<u>\$ 553,491</u>

D. FINANCIAL ANALYSIS OF FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$16,756,037, a change of \$7,073,373 in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 835,263
Police station operations	6,251,362
Non-major operations	<u>(13,252)</u>
Total	<u>\$ 7,073,373</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 \$4,565,355, while total fund balance was \$6,624,123. 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>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 4,565,355	\$ 3,856,444	\$ 708,911	13.90%
Total fund balance ²	\$ 6,624,123	\$ 5,788,860	\$ 835,263	20.17%

¹Includes General Stabilization of \$2,141,125.

²Includes General, Capital and SPED Stabilization fund balances.

The total fund balance of the general fund changed by \$835,263 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,609,000)
Use of other funding sources	(67,414)
Revenue surplus	987,927
Appropriation turnbacks by departments	781,198
Current year encumbrances to be spent in the subsequent year, in excess of prior year encumbrances spent in the current year	647,892
Change in stabilization	212,947
Other	<u>(118,287)</u>
Total	<u>\$ 835,263</u>

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

	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
General stabilization (unassigned)	\$ 2,141,125	\$ 2,056,319	\$ 84,806
Capital stabilization (committed)	423,172	295,961	127,211
Special education stabilization (committed)	<u>202,571</u>	<u>201,641</u>	<u>930</u>
Total	<u>\$ 2,766,868</u>	<u>\$ 2,553,921</u>	<u>\$ 212,947</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 \$1,179,551, a change of \$308,355 in comparison to the prior year, as restated.

The increase in the unrestricted net position results primarily from the transfer in from the general fund for debt service.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,222,220. Major reasons for these amendments include:

- \$ 600,000 To increase public safety appropriations for communication equipment
- \$ 309,000 To fund various capital articles
- \$ 184,000 To fund deficits in snow and ice
- \$ 100,000 To fund general stabilization transfers

Of this increase, \$913,000 was funded through the use of free cash, \$295,612 through an increase in real estate and property taxes, decrease of \$(1,392) in intergovernmental revenues, and a transfer in from the cemetery perpetual care fund of \$15,000. Additionally, there were other budgetary reclassifications during the fiscal year which has no impact on the Town's total budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$98,044,275 (net of accumulated depreciation), a change of \$1,186,787 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 in progress on the police station, Chapter 90 road resurfacing, vehicles and equipment for the school department, and vehicles and equipment for the police and fire departments.

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

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$34,232,650 all of which was backed by the full faith and credit of the government.

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

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

- According to the Commonwealth of Massachusetts Division of Employment and Training, the unemployment rate for the Town of Sutton was 2.3% as of December 2018, which compares favorably with the state rate of 2.7% and the national rate of 3.9% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2017 was \$101,315; the per capita income for the same time was \$43,451. This compares favorably with both state and national incomes.
- According to the Town's Board of Assessors, the average 2019 single-family home in Sutton is valued at \$363,824; the average two-family home is valued at \$240,703; the average three-family home is valued at \$347,546; the average condominium is valued at \$324,054; the average commercial property is valued at \$594,560; and the average industrial property is valued at \$637,437. All properties compare favorably with state and national property values.
- The Town approved a fiscal year 2019 general fund budget of \$33,514,811, an increase of \$969,549 or 2.98% over the final fiscal year 2018 general fund budget.
- The total property tax levy for fiscal year 2020 is \$24,663,554, an increase of \$503,116 or 2.08%. Local receipts are anticipated to be 4.39% more than fiscal year 2019 and state aid is anticipated to be 1.63% more than fiscal year 2019.

REQUESTS FOR INFORMATION

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

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

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 13,809,460	\$ 1,268,401	\$ 15,077,861
Investments	4,569,470	-	4,569,470
Receivables, net of allowance for uncollectibles:			
Property taxes	263,790	-	263,790
Excises	148,756	-	148,756
User fees	-	240,913	240,913
Other assets	-	4,000	4,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	365,545	-	365,545
Capital assets:			
Land and construction in progress	9,944,656	-	9,944,656
Other capital assets, net of accumulated depreciation	80,080,410	8,019,209	88,099,619
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	1,725,743	8,150	1,733,893
Related to OPEB	8,041,945	55,863	8,097,808
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	118,949,775	9,596,536	128,546,311
LIABILITIES			
Current:			
Warrants payable	1,123,283	-	1,123,283
Accrued liabilities	665,086	115,856	780,942
Other current liabilities	5,347	11,428	16,775
Current portion of long-term liabilities:			
Bonds payable	2,322,761	444,378	2,767,139
Other	119,461	572	120,033
Noncurrent:			
Bonds payable, net of current portion	28,442,761	3,022,750	31,465,511
Net pension liability	15,505,286	73,219	15,578,505
Net OPEB liability	37,828,909	177,167	38,006,076
Other	699,716	10,862	710,578
Total liabilities	86,712,610	3,856,232	90,568,842
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	1,298,600	6,132	1,304,732
Related to OPEB	372,800	2,540	375,340
Other	738,214	-	738,214
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	89,122,224	3,864,904	92,987,128
NET POSITION			
Net investment in capital assets	59,259,544	4,552,081	63,811,625
Restricted for:			
Grants and other statutory restrictions	3,125,681	-	3,125,681
Permanent funds:			
Nonexpendable	88,806	-	88,806
Expendable	191,682	-	191,682
Unrestricted	(32,838,162)	1,179,551	(31,658,611)
TOTAL NET POSITION	\$ 29,827,551	\$ 5,731,632	\$ 35,559,183

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

TOWN OF SUTTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Program Revenues					Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
	Expenses	Services	Grants and	Grants and	Activities	Type	Total
			Contributions	Contributions		Activities	
GOVERNMENTAL ACTIVITIES:							
General government	\$ 2,038,648	\$ 498,689	\$ 321,636	\$ -	\$ (1,218,323)	\$ -	\$ (1,218,323)
Public safety	3,648,327	335,091	66,551	-	(3,246,685)	-	(3,246,685)
Education	31,059,503	1,162,804	10,100,044	-	(19,796,655)	-	(19,796,655)
Public works	1,565,426	24,132	-	303,394	(1,237,900)	-	(1,237,900)
Health and human services	491,131	134,330	36,140	-	(320,661)	-	(320,661)
Culture and recreation	448,292	77,080	45,405	-	(325,807)	-	(325,807)
Insurance	389,502	-	-	-	(389,502)	-	(389,502)
Interest	956,011	-	-	-	(956,011)	-	(956,011)
Intergovernmental	73,007	-	-	-	(73,007)	-	(73,007)
Total Governmental Activities	40,669,847	2,232,126	10,569,776	303,394	(27,564,551)	-	(27,564,551)
BUSINESS-TYPE ACTIVITIES:							
Sewer services	986,145	965,261	89,152	-	-	68,268	68,268
Nonmajor Transfer Station services	181,756	153,595	-	-	-	(28,161)	(28,161)
Total Business-Type Activities	1,167,901	1,118,856	89,152	-	-	40,107	40,107
Total	\$ 41,837,748	\$ 3,350,982	\$ 10,658,928	\$ 303,394	(27,564,551)	40,107	(27,524,444)
GENERAL REVENUES AND TRANSFERS:							
Property taxes					23,016,106	-	23,016,106
Excises					1,849,976	-	1,849,976
Penalties, interest and other taxes					146,404	-	146,404
Grants and contributions not restricted to specific programs					905,319	3,150	908,469
Investment income					102,078	2,812	104,890
Miscellaneous					492,555	-	492,555
Transfers, net					(507,422)	507,422	-
Total general revenues and transfers					26,005,016	513,384	26,518,400
Change in Net Position					(1,559,535)	553,491	(1,006,044)
NET POSITION:							
Beginning of year, as restated					31,387,086	5,178,141	36,565,227
End of year					\$ 29,827,551	\$ 5,731,632	\$ 35,559,183

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Major Police Station Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 4,390,961	\$ 6,388,118	\$ 3,030,381	\$ 13,809,460
Investments	3,713,952	-	855,518	4,569,470
Receivables:				
Property taxes	684,495	-	-	684,495
Excises	229,693	-	-	229,693
TOTAL ASSETS	\$ 9,019,101	\$ 6,388,118	\$ 3,885,899	\$ 19,293,118
LIABILITIES				
Warrants payable	\$ 1,123,283	\$ -	\$ -	\$ 1,123,283
Accrued liabilities	408,951	136,756	-	545,707
Other liabilities	-	-	5,347	5,347
TOTAL LIABILITIES	1,532,234	136,756	5,347	1,674,337
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	862,744	-	-	862,744
FUND BALANCES				
Nonspendable	-	-	88,806	88,806
Restricted	94,240	6,251,362	3,813,059	10,158,661
Committed	1,964,528	-	-	1,964,528
Unassigned	4,565,355	-	(21,313)	4,544,042
TOTAL FUND BALANCES	6,624,123	6,251,362	3,880,552	16,756,037
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 9,019,101	\$ 6,388,118	\$ 3,885,899	\$ 19,293,118

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, 2018

Total governmental fund balances	\$ 16,756,037
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	90,025,066
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	726,647
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension liability and related deferred outflows/inflows, net OPEB liability and related deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(77,560,820)
<ul style="list-style-type: none">• Other	<u>(119,379)</u>
Net position of governmental activities	<u><u>\$ 29,827,551</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, 2018

	<u>General</u>	<u>Major Police Station Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property taxes	\$ 23,018,974	\$ -	\$ -	\$ 23,018,974
Excises	1,839,002	-	-	1,839,002
Penalties, interest, and other taxes	146,404	-	-	146,404
Charges for services	643,454	-	1,416,701	2,060,155
Intergovernmental	8,135,069	-	1,878,679	10,013,748
Licenses and permits	98,694	-	-	98,694
Fines and forfeitures	73,277	-	-	73,277
Investment income (loss)	111,377	-	(9,299)	102,078
Miscellaneous	99,555	-	25,000	124,555
Contributions	-	-	127,754	127,754
Total Revenues	34,165,806	-	3,438,835	37,604,641
EXPENDITURES:				
Current:				
General government	1,468,830	-	273,747	1,742,577
Public safety	3,051,315	2,816,638	75,524	5,943,477
Education	18,574,204	-	2,712,632	21,286,836
Public works	1,050,066	-	8,623	1,058,689
Health and human services	300,828	-	78,369	379,197
Culture and recreation	234,907	-	290,864	525,771
Employee benefits	3,998,846	-	-	3,998,846
Insurance	389,502	-	-	389,502
Debt service	3,693,944	-	-	3,693,944
Intergovernmental	73,007	-	-	73,007
Total Expenditures	32,835,449	2,816,638	3,439,759	39,091,846
Excess (deficiency) of revenues over expenditures	1,330,357	(2,816,638)	(924)	(1,487,205)
OTHER FINANCING SOURCES (USES):				
Issuance of bonds	-	8,700,000	-	8,700,000
Issuance of refunding bonds	18,577,689	-	-	18,577,689
Payments to refunded escrow agent	(18,577,689)	-	-	(18,577,689)
Bond premiums	-	368,000	-	368,000
Transfers in	17,879	-	5,551	23,430
Transfers out	(512,973)	-	(17,879)	(530,852)
Total Other Financing Sources (Uses)	(495,094)	9,068,000	(12,328)	8,560,578
Change in fund balance	835,263	6,251,362	(13,252)	7,073,373
Fund Balance, at Beginning of Year	5,788,860	-	3,893,804	9,682,664
Fund Balance, at End of Year	\$ 6,624,123	\$ 6,251,362	\$ 3,880,552	\$ 16,756,037

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

TOWN OF SUTTON, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net changes in fund balances - Total governmental funds	\$ 7,073,373																				
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay</td><td style="text-align: right;">4,696,155</td></tr> <tr> <td>Loss on disposal of assets</td><td style="text-align: right;">(1,661)</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(3,323,114)</td></tr> </table> The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Issuance of debt</td><td style="text-align: right;">(8,700,000)</td></tr> <tr> <td>Repayments of debt, net of refunding</td><td style="text-align: right;">1,912,761</td></tr> <tr> <td>Repayments of notes</td><td style="text-align: right;">671,000</td></tr> <tr> <td>Other</td><td style="text-align: right;">56,786</td></tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right;">37,847</div> Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td>Net pension liability and related deferred outflows and inflows of resources</td><td style="text-align: right;">(1,022,091)</td></tr> <tr> <td>Net/total OPEB liability and related deferred outflows and inflows of resources</td><td style="text-align: right;">(2,839,939)</td></tr> <tr> <td>Other</td><td style="text-align: right;">(188,297)</td></tr> </table> Other differences. <div style="text-align: right;"><u>67,645</u></div> 	Capital outlay	4,696,155	Loss on disposal of assets	(1,661)	Depreciation	(3,323,114)	Issuance of debt	(8,700,000)	Repayments of debt, net of refunding	1,912,761	Repayments of notes	671,000	Other	56,786	Net pension liability and related deferred outflows and inflows of resources	(1,022,091)	Net/total OPEB liability and related deferred outflows and inflows of resources	(2,839,939)	Other	(188,297)	
Capital outlay	4,696,155																				
Loss on disposal of assets	(1,661)																				
Depreciation	(3,323,114)																				
Issuance of debt	(8,700,000)																				
Repayments of debt, net of refunding	1,912,761																				
Repayments of notes	671,000																				
Other	56,786																				
Net pension liability and related deferred outflows and inflows of resources	(1,022,091)																				
Net/total OPEB liability and related deferred outflows and inflows of resources	(2,839,939)																				
Other	(188,297)																				
Change in net position of governmental activities	\$ <u>(1,559,535)</u>																				

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

TOWN OF SUTTON, MASSACHUSETTS
GENERAL FUND
STATEMENT OF REVENUES AND OTHER SOURCES,
AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts (Budgetary <u>Basis</u>)	Variance with Final Budget Positive (Negative)
Revenues and Transfers In:				
Property taxes	\$ 22,571,208	\$ 22,866,820	\$ 23,088,959	\$ 222,139
Excises and other taxes	1,522,500	1,522,500	1,839,002	316,502
Intergovernmental	6,402,172	6,400,780	6,381,008	(19,772)
Licenses and permits, fees and fines	402,987	402,987	560,307	157,320
Investment income	72,000	72,000	227,091	155,091
Miscellaneous	199,000	199,000	355,647	156,647
Transfers in	<u>597,761</u>	<u>612,761</u>	<u>612,761</u>	<u>-</u>
Total Revenues and Transfers In	31,767,628	32,076,848	33,064,775	987,927
Expenditures and Transfers Out:				
General government	1,724,703	1,826,889	1,696,395	130,494
Public safety	2,719,780	3,317,328	3,114,328	203,000
Education	16,911,670	17,069,890	16,969,468	100,422
Public works	983,057	1,212,057	1,182,636	29,421
Health and human services	354,645	334,557	300,828	33,729
Culture and recreation	296,440	341,531	333,907	7,624
Employee benefits	4,182,291	4,187,003	3,997,036	189,967
Insurance	400,000	400,000	389,502	10,498
Debt service	4,267,774	4,267,774	4,201,366	66,408
Intergovernmental	82,642	82,642	73,007	9,635
Transfers out	<u>608,040</u>	<u>713,591</u>	<u>713,591</u>	<u>-</u>
Total expenditures and Transfers Out	<u>32,531,042</u>	<u>33,753,262</u>	<u>32,972,064</u>	<u>781,198</u>
Excess of revenues over expenditures	(763,414)	(1,676,414)	92,711	1,769,125
OTHER FINANCING SOURCES (USES):				
Use of free cash	696,000	1,609,000	1,609,000	-
Other sources	<u>67,414</u>	<u>67,414</u>	<u>67,414</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>763,414</u>	<u>1,676,414</u>	<u>1,676,414</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,769,125</u>	<u>\$ 1,769,125</u>

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 1,200,786	\$ 67,615	\$ 1,268,401
User fees, net of allowance for uncollectibles	240,913	-	240,913
Other assets	-	4,000	4,000
Total current assets	1,441,699	71,615	1,513,314
Noncurrent:			
Capital assets, net of accumulated depreciation	7,994,088	25,121	8,019,209
Total noncurrent assets	7,994,088	25,121	8,019,209
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	3,815	4,335	8,150
Related to OPEB	32,911	22,952	55,863
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	9,472,513	124,023	9,596,536
LIABILITIES			
Current:			
Accrued liabilities	115,856	-	115,856
Other current liabilities	7,068	4,360	11,428
Current portion of long-term liabilities:			
Bonds payable	444,378	-	444,378
Compensated absences	572	-	572
Total current liabilities	567,874	4,360	572,234
Noncurrent:			
Bonds payable, net of current portion	3,022,750	-	3,022,750
Net pension liability	34,273	38,946	73,219
Net OPEB liability	82,524	94,643	177,167
Compensated absences, net of current portion	10,862	-	10,862
Total noncurrent liabilities	3,150,409	133,589	3,283,998
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	2,870	3,262	6,132
Related to OPEB	1,474	1,066	2,540
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,722,627	142,277	3,864,904
NET POSITION			
Net investment in capital assets	4,526,960	25,121	4,552,081
Unrestricted	1,222,926	(43,375)	1,179,551
TOTAL NET POSITION	\$ 5,749,886	\$ (18,254)	\$ 5,731,632

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, 2018

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 965,261	\$ 153,595	\$ 1,118,856
Total Operating Revenues	965,261	153,595	1,118,856
OPERATING EXPENSES:			
Salaries and benefits	62,407	106,933	169,340
Other operating expenses	437,988	72,287	510,275
Depreciation	327,909	2,536	330,445
Total Operating Expenses	828,304	181,756	1,010,060
Operating Income / (Loss)	136,957	(28,161)	108,796
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental revenue	89,152	3,150	92,302
Other nonoperating income	2,812	-	2,812
Interest expense	(157,841)	-	(157,841)
Total Nonoperating Revenues (Expenses)	(65,877)	3,150	(62,727)
Income / (Loss) Before Transfers	71,080	(25,011)	46,069
TRANSFERS:			
Transfers in	507,422	-	507,422
Change in Net Position	578,502	(25,011)	553,491
Net Position at Beginning of Year, as restated	5,171,384	6,757	5,178,141
Net Position at End of Year	\$ 5,749,886	\$ (18,254)	\$ 5,731,632

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, 2018

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 995,211	\$ 153,595	\$ 1,148,806
Payments to vendor for goods and services	(437,988)	(67,967)	(505,955)
Payments to employees for services	(313,048)	(76,580)	(389,628)
Net Cash Provided By Operating Activities	244,175	9,048	253,223
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Intergovernmental receipt	89,152	3,150	92,302
Transfer in	507,422	-	507,422
Other nonoperating revenues	2,812	-	2,812
Net Cash Provided by Noncapital Financing Activities	599,386	3,150	602,536
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets, net of disposals	(139,052)	(6,800)	(145,852)
Principal payments on bonds	(429,729)	-	(429,729)
Interest expense	(162,414)	-	(162,414)
Net Cash Used For Capital and Related Financing Activities	(731,195)	(6,800)	(737,995)
Net Change in Cash and Short-Term Investments	112,366	5,398	117,764
Cash and Short-Term Investments, Beginning of Year	1,088,420	62,217	1,150,637
Cash and Short-Term Investments, End of Year	\$ 1,200,786	\$ 67,615	\$ 1,268,401
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 136,957	\$ (28,161)	\$ 108,796
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	327,909	2,536	330,445
Changes in assets, deferred outflows, liabilities, and deferred inflows:			
User fees	29,950	-	29,950
Deferred outflows - related to pensions	47,405	(4,335)	43,070
Deferred outflows - related to OPEB	(32,911)	(22,952)	(55,863)
Net pension liability	(281,891)	38,946	(242,945)
Net OPEB liability	34,047	14,366	48,413
Deferred inflows - related to pensions	(19,043)	3,262	(15,781)
Deferred inflows - related to OPEB	1,474	1,066	2,540
Other liabilities	278	4,320	4,598
Net Cash Provided By Operating Activities	\$ 244,175	\$ 9,048	\$ 253,223

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS		
Cash and short-term investments	\$ 2,504	\$ 166,582
Investments	<u>1,021,875</u>	<u>-</u>
Total Assets	1,024,379	166,582
 LIABILITIES		
Deposits held in custody	-	91,698
Other liabilities	<u>-</u>	<u>74,884</u>
Total Liabilities	<u>-</u>	<u>166,582</u>
 NET POSITION		
Total net position held in trust for other post employment benefits	<u><u>\$ 1,024,379</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, 2018

	Other Post- Employment Benefits <u>Trust Fund</u>
ADDITIONS:	
Employer Contributions	\$ 837,954
Investment income	<u>48,262</u>
Total additions	886,216
DEDUCTIONS:	
Benefit payments	682,954
NET POSITION RESTRICTED FOR OTHER POST-EMPLOYMENT BENEFITS:	
Beginning of year	<u>821,117</u>
End of year	<u><u>\$ 1,024,379</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 2018, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town 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 *police station fund* accounts for funds used in the construction and capital improvements of the Town's police station.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this

method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

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

The Town reports the sewer fund as a major proprietary funds.

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

The Town reports the following fiduciary funds:

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2½ percent (excluding new growth), unless an override is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$12,866.

G. Inventories

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

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital

assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

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

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

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.

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

L. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds.

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 34,165,806	\$ 32,835,449
Other financing sources/uses (GAAP Basis)	<u>17,879</u>	<u>512,973</u>
Subtotal (GAAP Basis)	34,183,685	33,348,422
Remove effect of combining stabilization and general fund	495,093	708,040
Reverse beginning of year appropriation carryforwards from expenditures	-	(606,087)
Add end-of-year appropriation carryforwards from expenditures	-	1,253,979
To eliminate gross up of MTRS	(1,753,986)	(1,753,986)
To record use of free cash	1,609,000	-
To record use of overlay surplus and other sources	67,414	-
Other reclassifications	111,739	111,739
Other timing issues	<u>28,244</u>	<u>(90,043)</u>
Budgetary Basis	<u>\$ 34,741,189</u>	<u>\$ 32,972,064</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2018.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2018, \$49,750 of the Town's bank balance of \$15,881,848 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year-end</u>					<u>Not Rated</u>
		<u>Aaa</u>	<u>A3</u>	<u>Baa</u>	<u>B2</u>		
Certificates of deposits	\$ 2,591,630	\$ -	\$ -	\$ -	\$ -	\$ 2,591,630	
Corporate bonds	905,428	-	380,096	525,332	-	-	
Bond mutual funds	328,581	186,318	-	115,179	27,084	-	
Federal agency securities	766,991	766,991	-	-	-	-	
Equity securities	998,715	-	-	-	-	998,715	
Total investments	<u>\$ 5,591,345</u>	<u>\$ 953,309</u>	<u>\$ 380,096</u>	<u>\$ 640,511</u>	<u>\$ 27,084</u>	<u>\$ 3,590,345</u>	

B. Custodial Credit Risk

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

Of the Town's investments of \$5,591,345, the government has a custodial credit risk exposure of \$3,971,936 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town has one investment (other than U.S. Treasury securities and mutual funds) that represent 5% or more of the total investments, a certificate of deposit with Millbury Savings Bank for \$1,619,409, which represents 29% of total investments.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u> <u>(in Years)</u>			
		<u>Less</u>			
		<u>Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>N/A</u>
Debt-related securities:					
Certificates of deposit	\$ 2,591,630	\$ -	\$ -	\$ -	\$ 2,591,630
Corporate bonds	905,428	119,196	786,232	-	-
Bond Mutual funds	328,581	-	206,754	121,827	-
Federal agency securities	766,991	-	766,991	-	-
Equity securities	998,715	-	-	-	998,715
Total	<u>\$ 5,591,345</u>	<u>\$ 119,196</u>	<u>\$ 1,759,977</u>	<u>\$ 121,827</u>	<u>\$ 3,590,345</u>

E. Foreign Currency Risk

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

F. Fair Value

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

The Town has the following fair value measurements as of June 30, 2018:

<u>Fair Value Measurements Using:</u>			
<u>Description</u>		Quoted prices in active markets for identical assets (<u>Level 1</u>)	Significant observable inputs (<u>Level 2</u>)
Investments by fair value level:			
Debt securities:			
Corporate bonds	\$ 905,428	\$ -	\$ 905,428
Bond mutual funds	328,581	-	328,581
Federal agency securities	766,991	-	766,991
Equity securities			
Utilities	37,250	37,250	-
Technology	155,053	155,053	-
Financial Services	131,764	131,764	-
Industrials	183,413	183,413	-
Healthcare	117,853	117,853	-
Consumer staples	308,601	308,601	-
Other sectors	64,781	64,781	-
Total	\$ <u>2,999,715</u>	\$ <u>998,715</u>	\$ <u>2,001,000</u>

5. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a

quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

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

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

Property taxes and excise receivables at June 30, 2018 consist of the following, net of an estimated allowance for doubtful account in the government-wide financial statements:

	Amount (fund basis)	Allowance for Doubtful Accounts	Amount (accrual basis)
Real estate taxes	\$ 270,076	\$ (12,913)	\$ 257,163
Personal property taxes	48,874	(42,247)	6,627
Tax liens	<u>365,545</u>	<u>-</u>	<u>365,545</u>
Total property taxes	\$ <u>684,495</u>	\$ <u>(55,160)</u>	629,335
Less current portion			<u>(263,790)</u>
Noncurrent taxes receivable			\$ <u>365,545</u>
Motor vehicle excise	\$ 223,209	\$ (74,453)	\$ 148,756
Boat excise	4,530	(4,530)	-
Farm animal excise	<u>1,954</u>	<u>(1,954)</u>	<u>-</u>
Total excises	\$ <u>229,693</u>	\$ <u>(80,937)</u>	\$ <u>148,756</u>

6. User Fees Receivable

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

7. Interfund Transfers

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

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 17,879	\$ 512,973
Nonmajor Funds: ⁽¹⁾		
Special Revenue Funds:		
Town Revolving Funds	5,551	13,849
Trust Funds:		
Cemetery Funds	<u>10,970</u>	<u>15,000</u>
Subtotal Nonmajor Funds	16,521	28,849
<u>Business-Type Funds</u>		
Sewer Fund	<u>507,422</u>	<u>-</u>
Subtotal Business-Type Funds	<u>507,422</u>	<u>-</u>
Grand Total	<u>\$ 541,822</u>	<u>\$ 541,822</u>

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

Of the \$512,973 transfer from the General Fund, \$507,422 represents the annual transfer of the monies to the Sewer Fund for sewer debt service that is appropriated in the General Fund. The Town's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

8. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 93,281	\$ -	\$ -	\$ 93,281
Machinery, equipment, and furnishings	2,718	663	-	3,381
Motor vehicles	4,507	260	(277)	4,490
Infrastructure	15,888	318	-	16,206
Total capital assets, being depreciated	116,394	1,241	(277)	117,358
Less accumulated depreciation for:				
Buildings and improvements	(22,768)	(2,312)	-	(25,080)
Machinery, equipment, and furnishings	(2,090)	(131)	-	(2,221)
Motor vehicles	(2,612)	(313)	275	(2,650)
Infrastructure	(6,759)	(567)	-	(7,326)
Total accumulated depreciation	(34,229)	(3,323)	275	(37,277)
Total capital assets, being depreciated, net	82,165	(2,082)	(2)	80,081
Capital assets, not being depreciated:				
Land	6,251	22	-	6,273
Construction in progress	238	3,433	-	3,671
Total capital assets, not being depreciated	6,489	3,455	-	9,944
Governmental activities capital assets, net	<u>\$ 88,654</u>	<u>\$ 1,373</u>	<u>\$ (2)</u>	<u>\$ 90,025</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	663	146	-	809
Total capital assets, being depreciated	12,646	146	-	12,792
Less accumulated depreciation for:				
Sewer treatment plant	(2,990)	(250)	-	(3,240)
Millbury pumping station	(571)	(56)	-	(627)
Sewer pipes	(307)	-	-	(307)
Machinery, equipment, and furnishings	(574)	(25)	-	(599)
Total accumulated depreciation	(4,442)	(331)	-	(4,773)
Total capital assets, being depreciated, net	8,204	(185)	-	8,019
Business-type activities capital assets, net	<u>\$ 8,204</u>	<u>\$ (185)</u>	<u>\$ -</u>	<u>\$ 8,019</u>

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

Governmental Activities:	
General government	\$ 69
Public safety	239
Education	2,353
Public works	649
Health and human services	<u>13</u>
Total depreciation expense - governmental activities	\$ <u>3,323</u>
Business-Type Activities:	
Sewer	\$ 328
Nonmajor Transfer Station	<u>3</u>
Total depreciation expense - business-type activities	\$ <u>331</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

10. Warrants Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018.

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in 2021. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2018:

<u>Fiscal Year</u>	<u>Governmental Activities</u>
2019	\$ 80,508
2020	80,508
2021	<u>80,508</u>
Total minimum lease payments	241,524
Less amounts representing interest	<u>(9,405)</u>
Present Value of Minimum Lease Payments	\$ <u>232,119</u>

12. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
ELC Roof	06/15/19	3.68%	\$ 130,000
Title V Septic Program	08/01/19	0.00%	5,522
Shaw Land	06/30/27	1.86%	1,910,000
MS/HS Construction	06/30/31	2.24%	14,975,000
MS/HS Construction	06/30/31	4.10%	1,295,000
MS/HS Construction	06/30/33	2.29%	3,750,000
Police Station	06/30/38	2.71%	8,700,000
Total Governmental Activities			<u>\$ 30,765,522</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
Manchaug Treatment Plant	02/01/25	2.00%	\$ 3,467,128
Total Business-Type Activities			<u>\$ 3,467,128</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,322,761	\$ 1,095,754	\$ 3,418,515
2020	2,142,761	1,001,502	3,144,263
2021	2,150,000	902,003	3,052,003
2022	2,145,000	800,752	2,945,752
2023	2,165,000	700,378	2,865,378
2024 - 2028	10,665,000	2,141,656	12,806,656
2029 - 2033	7,000,000	810,350	7,810,350
2034 - 2038	2,175,000	195,750	2,370,750
Total	<u>\$ 30,765,522</u>	<u>\$ 7,648,145</u>	<u>\$ 38,413,667</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 444,378	\$ 61,299	\$ 505,677
2020	495,520	44,955	540,475
2021	506,655	28,093	534,748
2022	508,720	15,774	524,494
2023	504,177	7,948	512,125
2024 - 2025	<u>1,007,678</u>	<u>-</u>	<u>1,007,678</u>
Total	<u>\$ 3,467,128</u>	<u>\$ 158,069</u>	<u>\$ 3,625,197</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/18</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/18</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 24,774	\$ 8,700	\$ (2,708)	\$ 30,766	\$ (2,323)	\$ 28,443
Net pension liability	15,492	13	-	15,505	-	15,505
Net OPEB liability	27,320	10,509	-	37,829	-	37,829
Other:						
Landfill liability	144	-	(16)	128	(16)	112
Compensated absences	487	24	(52)	459	(23)	436
Capital Leases	<u>-</u>	<u>232</u>	<u>-</u>	<u>232</u>	<u>(81)</u>	<u>151</u>
Subtotal - other	<u>631</u>	<u>256</u>	<u>(68)</u>	<u>819</u>	<u>(120)</u>	<u>699</u>
Totals	<u>\$ 68,217</u>	<u>\$ 19,478</u>	<u>\$ (2,776)</u>	<u>\$ 84,919</u>	<u>\$ (2,443)</u>	<u>\$ 82,476</u>

	Total Balance <u>7/1/17</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/18</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/18</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,897	\$ -	\$ (430)	\$ 3,467	\$ (444)	\$ 3,023
Net pension liability	316	-	(243)	73	-	73
Net OPEB liability	129	48	-	177	-	177
Other:						
Compensated absences	<u>12</u>	<u>-</u>	<u>(1)</u>	<u>11</u>	<u>(1)</u>	<u>10</u>
Subtotal - other	<u>12</u>	<u>-</u>	<u>(1)</u>	<u>11</u>	<u>(1)</u>	<u>10</u>
Totals	<u>\$ 4,354</u>	<u>\$ 48</u>	<u>\$ (674)</u>	<u>\$ 3,728</u>	<u>\$ (445)</u>	<u>\$ 3,283</u>

D. Advance and Current Refundings

Current Year

On November 15, 2017, the Town issued general obligation bonds in the amount of \$25,585,000 with fixed interest rates ranging from 2.05% to 5.00%. Of that amount, \$1,910,000 (the "2007 Refunding Bonds") was issued to

current refund \$2,115,000 of serial bonds (the “2007 Refunded Bonds”) with interest rates ranging from 4.05 % to 4.30%. The 2007 Refunded Bonds mature on May 15, 2019, through May 15, 2027, and were callable any time on or after May 15, 2017. The 2007 Refunding Bonds were issued at 2.05% to 5.00% and, after paying issuance costs of \$13,247, the net proceeds, including original issue premium, were \$2,357,7001. The net proceeds from the issuance of the 2007 Refunding Bonds were held by the Town until the 2007 Refunded Bonds were called for early redemption on December 15, 2017. The current refunding met the requirements of an in-substance debt defeasance.

As a result of the current refunding, the Town reduced its total debt service cash flow requirements by \$282,935, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$258,030.

In addition to the current refunding, \$14,975,000 (the “2011 Refunding Bonds”) was issued to advance refund \$15,565,000 of serial bonds (the “2011 Refunded Bonds”) with interest rates ranging from 4.00% to 5.00%. The 2011 Refunded Bonds mature on April 15, 2020, through April 15, 2031 and are first callable on April 15, 2019. The 2011 Refunding Bonds were issued at 2.05% to 5.00% and, after paying issuance costs of \$103,862, the net proceeds, including original issue premium, were \$16,226,432. The net proceeds from the issuance of the 2011 Refunding Bonds were invested in a portfolio of U.S. Treasury State and Local Government Series (SLGs) and were held by U.S. Bank, National Association, as escrow agent, until the 2011 Refunded Bonds were called for early redemption on April 15, 2019. The advance refunding met the requirements of an in-substance debt defeasance, and the 2011 Refunded Bonds were removed from the Town’s financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$1,995,226, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,742,634.

Defeased debt outstanding as of June 30, 2018 is \$15,565,000.

13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$128,000 reported as landfill postclosure care liability at June 30, 2018 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

15. 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, 2018:

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

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

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

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

specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

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

Following is a breakdown of the Town's fund balances at June 30, 2018:

	General Fund	Major Police Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 88,806	\$ 88,806
Total Nonexpendable	-	-	88,806	88,806
Restricted				
MS/HS Construction	-	-	287,569	287,569
Police Station Construction	-	6,251,362	-	6,251,362
Town revolving funds:				
Manchaug dam gift	-	-	370,119	370,119
Goddard Lodge donations	-	-	105,654	105,654
Cable access fees	-	-	344,631	344,631
Other	-	-	387,967	387,967
School revolving funds:				
School choice	-	-	796,877	796,877
School lunch	-	-	134,141	134,141
SPED Circuit Breaker	-	-	130,025	130,025
After school program	-	-	156,840	156,840
Other	-	-	484,087	484,087
Town grants	-	-	198,824	198,824
School grants	-	-	16,519	16,519
Expendable permanent funds	-	-	191,682	191,682
Other Trust Funds	-	-	208,124	208,124
Debt service	94,240	-	-	94,240
Total Restricted	94,240	6,251,362	3,813,059	10,158,661
Committed				
Other reserves for cont. appropriation	1,253,979	-	-	1,253,979
Capital and special education stabilization	710,549	-	-	710,549
Total Committed	1,964,528	-	-	1,964,528
Unassigned				
General stabilization fund	2,141,125	-	-	2,141,125
General fund	2,424,230	-	(21,313)	2,402,917
Total Unassigned	4,565,355	-	(21,313)	4,544,042
Total Fund Balance	\$ 6,624,123	\$ 6,251,362	\$ 3,880,552	\$ 16,756,037

16. General Fund Unassigned Fund Balances

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

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

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

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

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

GAAP basis balance	\$ 4,565,355
General Stabilization fund	<u>(2,141,125)</u>
Statutory (UMAS) Balance	<u><u>\$ 2,424,230</u></u>

17. Retirement System

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

A. Plan Description

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

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member’s highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average

annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 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. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

Participants Refunds

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

Participants Contributions

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

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

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2018 was \$966,685, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2018, the Town reported a liability of \$15,578,505 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016, rolled forward to the measurement date of December 31, 2017. 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, 2017, the Town's proportion was 1.91%.

For the year ended June 30, 2018, the Town recognized pension expense of \$1,773,121. The Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 103,634	\$ -
Changes of assumptions	1,484,585	-
Net difference between projected and actual investment earnings	-	485,742
Changes in allocated proportion	<u>145,674</u>	<u>818,990</u>
Total	<u>\$ 1,733,893</u>	<u>\$ 1,304,732</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:

2018	\$ 155,142
2019	153,433
2020	(5,666)
2021	102,393
2022	<u>23,859</u>
Total	<u>\$ 429,161</u>

D. Actuarial Assumptions

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

Cost of living adjustment	3% of the first \$16,000
Salary increases	4.25% per year, including longevity
Inflation	3.0% per year
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

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

the mortality rates were based on the RP-2000 mortality table (base year 2012) with full generational mortality improvement using Scale BB.

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.00%	4.91%
Fixed income	22.00%	2.04%
Private equity	11.00%	6.50%
Real estate	10.00%	3.70%
Timber/Natural resources	4.00%	3.25%
Hedge funds	13.00%	3.40%
Total	<u>100.00%</u>	

E. Discount Rate

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

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the

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

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 18,986,847	\$ 15,578,505	\$ 12,700,139

G. Pension Plan Fiduciary Net Position

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

18. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five

consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

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

C. Contributions

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

<u>Membership 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.

- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	5.00%
Portfolio completion strategies	13.00%	3.60%
Core fixed income	12.00%	1.10%
Private equity	11.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.60%
Timber/natural resources	4.00%	3.20%
Hedge funds	0.00%	3.60%
Total	<u>100.00%</u>	

E. Discount Rate

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

was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. 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):

1% Decrease to 6.50%	Current Discount Rate 7.50%	1% Increase to 8.50%
\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

G. Special Funding Situation

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

H. Town Proportions

In fiscal year 2017 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$32,489,014 and \$3,390,973 respectively, based on a proportionate share of 0.141964%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

19. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2012, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment*

Benefits Other Than Pensions. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Fallon and FCC Healthcare. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	94
Active employees	<u>300</u>
Total	<u><u>394</u></u>

B. Investments

The OPEB trust fund assets consist of money market accounts, equities, and fixed income.

Rate of return. For the year ended December 31, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 5.15%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60%
Salary increases	3.00%, average, including inflation
Investment rate of return	7.50%, net of OPEB plan investment expense
Municipal bond rate	3.87%
Discount rate	3.88%
Healthcare cost trend rates	8.0% for 2017, fluctuating 0.5% to an ultimate rate of 3.80% as of 2075 and later years

Mortality rates were based on the following:

Pre-retirement Mortality – General and Public Safety employees	RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using Scale BB.
Post-retirement Mortality – General and Public Safety employees	RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using Scale BB.
Pre-retirement Mortality – Teachers	RP-2014 White Collar Mortality Table, base year 2014, projected with generational mortality improvement using Scale MP-2016.
Post-retirement Mortality – Teachers	RP-2014 White Collar Mortality Table, base year 2014, projected with generational mortality improvement using Scale MP-2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	33.00%	6.11%
Domestic bond	23.00%	3.82%
International equity	17.00%	2.78%
Alternative	20.00%	3.67%
International bond	7.00%	3.94%
Cash and equivalents	<u>0.00%</u>	0.00%
Total	<u>100.00%</u>	

D. Discount Rate

The discount rate used to measure the net OPEB liability was 3.88%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used based on a combination of the investment rate of return of 7.50% and municipal bond rate of 3.87% (based on index provided by the Bond Buyer 20-Bond GO Index published on June 28, 2018) on 20-year municipal bond rate as of June 30, 2018).

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 39,030,455
Plan fiduciary net position	<u>1,024,379</u>
Net OPEB liability	<u>\$ 38,006,076</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.62%

F. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 28,269,696	\$ 821,117	\$ 27,448,579
Changes for the year:			
Service cost	1,240,103	-	1,240,103
Interest	912,968	-	912,968
Contributions - employer	-	837,954	(837,954)
Net investment income	-	48,262	(48,262)
Changes of benefit terms	574,690	-	574,690
Differences between expected and actual experience	9,140,420	-	9,140,420
Changes in assumptions or other inputs	(424,468)	-	(424,468)
Benefit payments	<u>(682,954)</u>	<u>(682,954)</u>	<u>-</u>
Net Changes	<u>10,760,759</u>	<u>203,262</u>	<u>10,557,497</u>
Balances, end of year	\$ <u>39,030,455</u>	\$ <u>1,024,379</u>	\$ <u>38,006,076</u>

Changes of benefit terms reflect the inclusion of the Patient Protection and Affordable Care Act that applies a 40% excise tax, commonly referred to the "Cadillac Tax," to the cost of plan benefits in excess of statutory thresholds beginning in 2022.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13% in 2017 to 3.88% in 2018.

G. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease	Current Discount Rate	1% Increase
\$ 46,552,709	\$ 38,006,076	\$ 31,458,541

H. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it as calculated using healthcare cost trend rates that are

one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 30,039,371	\$ 38,006,076	\$ 49,625,275

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$3,672,983. At June 30, 2018, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 8,082,501	\$ -
Change in assumptions	-	375,340
Net difference between projected and actual OPEB investment earnings	<u>15,307</u>	<u>-</u>
Total	<u>\$ 8,097,808</u>	<u>\$ 375,340</u>

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

<u>Year Ended June 30:</u>	
2019	\$ 1,012,618
2020	1,012,618
2021	1,012,618
2022	1,012,617
2023	1,008,791
Thereafter	<u>2,663,206</u>
Total	<u>\$ 7,722,468</u>

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. **Beginning Net Position Restatement**

The beginning (July 1, 2017) net position of the Town has been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental</u>	<u>Business-Type Activities</u>		
			Transfer Station Fund	Total
		<u>Sewer Fund</u>		
As previously reported	\$ 49,520,230	\$ 5,179,581	\$ 87,034	\$ 5,266,615
Implementation of GASB 75 OPEB	<u>(18,133,144)</u>	<u>(8,197)</u>	<u>(80,277)</u>	<u>(88,474)</u>
As restated	<u>\$ 31,387,086</u>	<u>\$ 5,171,384</u>	<u>\$ 6,757</u>	<u>\$ 5,178,141</u>

TOWN OF SUTTON, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE (GASB 68)
OF THE NET PENSION LIABILITY

JUNE 30, 2018
(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	1.91%	\$15,578,505	\$ 6,087,190	255.92%	46.40%
June 30, 2017	December 31, 2016	1.89%	\$15,808,187	\$ 6,249,073	252.97%	42.00%
June 30, 2016	December 31, 2015	1.88%	\$13,378,396	\$ 6,062,691	220.67%	44.52%
June 30, 2015	December 31, 2014	2.16%	\$12,865,839	\$ 5,829,511	220.70%	47.90%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	June 30, 2017	0.141964%	\$ -	\$ 32,489,014	\$ 32,489,014	\$ 9,640,020	0.00%	54.25%
June 30, 2017	June 30, 2016	0.143686%	\$ -	\$ 32,125,185	\$ 32,125,185	\$ 9,451,169	0.00%	52.73%
June 30, 2016	June 30, 2015	0.148094%	\$ -	\$ 30,343,834	\$ 30,343,834	\$ 9,387,513	0.00%	55.38%
June 30, 2015	June 30, 2014	0.150380%	\$ -	\$ 23,905,002	\$ 23,905,002	\$ 9,340,394	0.00%	61.64%

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

See Independent Auditors' Report.

TOWN OF SUTTON, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2018
(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$ 966,685	\$ 966,685	\$ -	\$ 6,087,190	15.88%
June 30, 2017	December 31, 2016	\$ 916,769	\$ 916,769	\$ -	\$ 6,249,073	14.67%
June 30, 2016	December 31, 2015	\$ 847,894	\$ 847,894	\$ -	\$ 6,062,691	13.99%
June 30, 2015	December 31, 2014	\$ 854,433	\$ 854,433	\$ -	\$ 5,829,511	14.66%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$ 1,753,986	\$ 1,753,986	\$ -	\$ 9,640,020	0.00%
June 30, 2017	June 30, 2016	\$ 1,615,867	\$ 1,615,867	\$ -	\$ 9,451,169	0.00%
June 30, 2016	June 30, 2015	\$ 1,513,412	\$ 1,513,412	\$ -	\$ 9,387,513	0.00%
June 30, 2015	June 30, 2014	\$ 1,409,635	\$ 1,409,635	\$ -	\$ 9,340,394	0.00%

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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74 and 75)

(Unaudited)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 1,240,103	\$ 1,192,407
Interest on unfunded liability - time value of \$	912,968	867,890
Changes of benefit terms	574,690	-
Differences between expected and actual experience	9,140,420	-
Changes of assumptions	(424,468)	-
Benefit payments, including refunds of member contributions	<u>(682,954)</u>	<u>(326,299)</u>
Net change in total OPEB liability	10,760,759	1,733,998
Total OPEB liability - beginning	<u>28,269,696</u>	<u>26,535,698</u>
Total OPEB liability - ending (a)	39,030,455	28,269,696
Plan fiduciary net position		
Contributions - employer	837,954	431,299
Contributions - member	-	-
Net investment income	48,262	59,099
Benefit payments, including refunds of member contributions	(682,954)	(326,299)
Administrative expense	-	-
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	203,262	164,099
Plan fiduciary net position - beginning	<u>821,117</u>	<u>657,018</u>
Plan fiduciary net position - ending (b)	<u>1,024,379</u>	<u>821,117</u>
Net OPEB liability (asset) - ending (a-b)	<u><u>\$ 38,006,076</u></u>	<u><u>\$ 27,448,579</u></u>

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

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

See Independent Auditors' Report.

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

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74 and 75)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 39,030,455	\$ 28,269,696
Plan fiduciary net position	<u>1,024,379</u>	<u>821,117</u>
Net OPEB liability (asset)	<u>\$ 38,006,076</u>	<u>\$ 27,448,579</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.62%	2.90%

Schedule of Contributions

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 2,239,805	\$ 1,682,197
Contributions in relation to the actuarially determined contribution	<u>837,954</u>	<u>431,299</u>
Contribution deficiency (excess)	<u>\$ 1,401,851</u>	<u>\$ 1,250,898</u>

Schedule of Investment Returns

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	5.15%	8.00%

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

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

See Independent Auditors' Report.

Additional Offices:

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

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

Independent Auditors' Report

To the Board of Selectmen
Town of Sutton, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive, flowing style.

February 22, 2019