

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2015

# TOWN OF SOUTHBRIDGE, MASSACHUSETTS

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Town Council  
Town of Southbridge, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Southbridge, Massachusetts, (the Town) as of and for the year ended June 30, 2015, (except for the Pension Trust Fund which is as of December 31, 2014), 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**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2015, (except for the Town of

Southbridge Contributory Retirement System, which is as of December 31, 2014) and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note III. F., the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion was not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Town's proportionate share of net pension liability, the Town's contributions to pension plan, the Commonwealth's collective share of net pension liability – Massachusetts Teacher's Retirement System, the funding progress and contributions for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers this 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 sufficient evidence 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 March 3, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Roselli Clark & Associates*

Roselli, Clark and Associates  
Certified Public Accountants  
Woburn, Massachusetts  
March 3, 2016

## Management's Discussion and Analysis

As the management of the Town we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Town and its component unit for the fiscal year ended June 30, 2015.

### Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$90.8 million (*total net position*). This represented a decrease of approximately \$0.2 million from the preceding year and was caused by reductions of over \$1.0 million in *governmental activities* and an increase of about \$0.8 million in *business-type activities*. The decrease of governmental activities was due primarily to a combination of the recognition of depreciation, net pension liabilities and other postemployment benefits costs offset by an operating surplus. The increase in business-type activities was due to continued favorable operations of the water and sewer enterprise funds.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund surplus of approximately \$17.6 million. This was approximately \$1.8 million higher than the prior year. Approximately \$1.1 million was due to the receipt of grant and other special revenues not yet expended by the end of the fiscal year in the aggregate nonmajor funds. Approximately \$0.7 million was due to better than anticipated intergovernmental and departmental revenues within the General Fund combined with below budget spending of offsetting expenditures.
- The Town's unassigned fund balance reported in the General Fund was approximately \$4.8 million (9.4% of General Fund expenditures). Total fund balance in the General Fund was approximately \$6.2 million (12.3% of General Fund expenditures). Furthermore, the Town reported restricted fund balances of approximately \$1.4 million in the Debt Service Fund; nonspendable and restricted amounts of nearly \$2.0 million and \$1.1 million, respectively, in the Library Fund; and nearly \$6.8 million in total fund balances in the Nonmajor Fund.
- The Town's total bonded debt is approximately \$45.7 million. Approximately \$31.8 million relates to debt of the governmental funds and \$13.9 million relates to debt of the business-type funds. Total net debt decreased by approximately \$2.9 million as a result of regular scheduled maturities and reductions of Massachusetts Clean Water Trust (MCWT) debt from the utilization of unspent proceeds. No new long-term debt was issued during fiscal year 2015.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the 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 the Town's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (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 of the Town include general government, public safety, education, highways and streets, sanitation, health and human services, culture and recreation, community development, fringe benefits, and debt service. The business-type activities of the Town include water and sewer enterprise funds.

**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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Nonspendable —amounts cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund

**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. Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

The Town maintains a number of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Library Fund. Data from the other three governmental funds are combined into a single, aggregated presentation under the heading of Nonmajor governmental funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The schedule is presented as required supplementary information and is located after the notes to the financial statements.

**Proprietary Funds** – The Town maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The proprietary fund financial statements provide separate information for the individual Water and Sewer Enterprise Fund activities.

**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 statement 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. The Town maintains fiduciary funds for other postemployment benefits, private purpose use such as scholarships and citizens in need benefits, and agency accounts.

Additionally, the System is a pension trust that is a legally separate entity reported separately within the fiduciary funds. Because the System services almost entirely to the Town it is presented as part of the primary government as a blended component unit due to the significance of its operations.

**Notes to the 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.

**New Significant Accounting Standards Implemented** – In fiscal year 2015, the Town adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards board (GASB) that relate to pension activity:

- Statement No. 68, “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*,” and
- Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*”

Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the Town’s defined benefit pension plans. This statement replaces the requirements of prior GASB statements impacting account and disclosure of pensions.

The significant impact to the Town of implementing Statement No. 68 is the reporting of the Town’s unfunded pension liability on the Town’s full accrual basis of accounting government-wide financial statements. There are also new note disclosure requirements and supplementary schedules required by the Statement.

In order to implement the Statement, a prior period adjustment was made to the Town’s July 1, 2014 net position. This prior period adjustment decreased the Town’s net position by nearly \$26.7 million (nearly \$26.4 million within governmental funds and \$0.3 million in the Sewer Enterprise Fund).

The adoption of Statement No. 68 has no impact on the Town's governmental fund financial statements, which continue to report expenditures equal to the amount of the Town's actuarially determined contribution (formerly referred to as the "annual required contribution").

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's proportionate share of its net pension liability and contributions to its pension plan, the Commonwealth's share of the net pension liability of the Massachusetts Teacher's Retirement System, the Town's progress in funding its obligation to provide other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

### **Government-wide Financial Analysis**

Condensed net position data is presented as follows:

	<b>Governmental activities</b>		<b>Business -type activities</b>		<b>Total</b>	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<b><u>Assets</u></b>						
Current and other assets	\$ 24,128,808	\$ 22,930,870	\$ 10,137,290	\$ 9,296,032	\$ 34,266,098	\$ 32,226,902
Capital assets, net	105,579,509	109,718,842	41,765,692	42,552,009	147,345,201	152,270,851
<b>Total assets</b>	<b>129,708,317</b>	<b>132,649,712</b>	<b>51,902,982</b>	<b>51,848,041</b>	<b>181,611,299</b>	<b>184,497,753</b>
<b>Deferred outflows of resources</b>	<b>483,707</b>	<b>-</b>	<b>1,293</b>	<b>-</b>	<b>485,000</b>	<b>-</b>
<b><u>Liabilities</u></b>						
Long term liabilities	71,522,807	45,501,289	14,984,049	16,313,313	86,506,856	61,814,602
Other liabilities	3,520,276	4,573,533	1,222,255	350,053	4,742,531	4,923,586
<b>Total liabilities</b>	<b>75,043,083</b>	<b>50,074,822</b>	<b>16,206,304</b>	<b>16,663,366</b>	<b>91,249,387</b>	<b>66,738,188</b>
<b><u>Net Position</u></b>						
Net investment in capital assets	73,809,889	76,641,296	26,522,668	26,385,846	100,332,557	103,027,142
Restricted	11,415,929	10,247,371	-	-	11,415,929	10,247,371
Unrestricted	(30,076,877)	(4,313,777)	9,175,303	8,798,829	(20,901,574)	4,485,052
<b>Net Position</b>	<b>\$ 55,148,941</b>	<b>\$ 82,574,890</b>	<b>\$ 35,697,971</b>	<b>\$ 35,184,675</b>	<b>\$ 90,846,912</b>	<b>\$ 117,759,565</b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by approximately \$90.8 million at the close of the most recent fiscal year.

By far the largest portion (approximately \$100.3 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its 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 the Town's net position, approximately \$11.4 million, represents resources that are subject to external restriction on how they may be used. The remaining net position balance consists of unrestricted net position, (a deficit of approximately \$20.9 million). Positive amounts represent funds that may be used to meet the government's ongoing obligations to citizens and creditors; whereas, negative amounts represent financial commitments that the Town is anticipated to be required to appropriate and pay over future periods.

Condensed changes in net position are presented as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 7,821,248	\$ 7,688,178	\$ 7,744,073	\$ 7,396,994	\$ 15,565,321	\$ 15,085,172
Operating grants and contributions	26,996,678	29,757,191	93,530	111,150	27,090,208	29,868,341
Capital grants and contributions	1,144,837	979,049	-	-	1,144,837	979,049
General revenues:						
Property taxes	18,441,155	17,607,195	-	-	18,441,155	17,607,195
Intergovernmental	3,167,681	3,045,519	-	-	3,167,681	3,045,519
Other	1,937,050	2,317,325	7,595	10,683	1,944,645	2,328,008
<b>Total revenues</b>	<b>59,508,649</b>	<b>61,394,457</b>	<b>7,845,198</b>	<b>7,518,827</b>	<b>67,353,847</b>	<b>68,913,284</b>
<b><u>Expenses</u></b>						
General government	2,073,211	3,067,540	-	-	2,073,211	3,067,540
Public safety	8,792,229	8,859,286	-	-	8,792,229	8,859,286
Education	40,811,167	44,115,287	-	-	40,811,167	44,115,287
Public works	4,597,927	4,540,360	-	-	4,597,927	4,540,360
Health and human services	1,344,208	1,197,753	-	-	1,344,208	1,197,753
Culture and recreation	1,035,194	1,010,300	-	-	1,035,194	1,010,300
Community development	1,012,319	498,230	-	-	1,012,319	498,230
Debt service	1,075,487	1,119,934	-	-	1,075,487	1,119,934
Water	-	-	3,462,726	2,816,631	3,462,726	2,816,631
Sewer	-	-	3,391,032	2,859,615	3,391,032	2,859,615
<b>Total expenses</b>	<b>60,741,742</b>	<b>64,408,690</b>	<b>6,853,758</b>	<b>5,676,246</b>	<b>67,595,500</b>	<b>70,084,936</b>
Increase (decrease) in net position before transfers	(1,233,093)	(3,014,233)	991,440	1,842,581	(241,653)	(1,171,652)
<b>Total transfers, net</b>	<b>169,000</b>	<b>1,090,330</b>	<b>(169,000)</b>	<b>(1,090,330)</b>	<b>-</b>	<b>-</b>
Change in net position	(1,064,093)	(1,923,903)	822,440	752,251	(241,653)	(1,171,652)
Net position, beginning of year	82,574,890	84,498,793	35,184,675	34,432,424	117,759,565	118,931,217
Restatement for net pension liability	(26,361,856)	-	(309,144)	-	(26,671,000)	-
Net position, end of year	<b>\$ 55,148,941</b>	<b>\$ 82,574,890</b>	<b>\$ 35,697,971</b>	<b>\$ 35,184,675</b>	<b>\$ 90,846,912</b>	<b>\$ 117,759,565</b>

Net position decreased by approximately \$0.2 million from the preceding year and was caused by reductions of over \$1.0 million in *governmental activities* and an increase of about \$0.8 million in *business-type activities*. The decrease of governmental activities was due primarily to a combination of the recognition of depreciation, net pension liabilities and other postemployment benefits costs offset by an operating surplus. The increase in business-type activities was due to continued favorable operations of the water and sewer enterprise funds.

### **Governmental Activities –**

#### **Revenues**

##### *Property taxes*

Town property taxes made up approximately 31.0% of total revenues, up from 28.7% of total revenues in the prior year. In dollar to dollar comparisons, the amount actually increased by about 4.7% reflecting

proposition 2 ½ increases as well as new growth. The ratios improved due to the decreased amount of approximately \$3.8 million in pension on-behalf payments by the MTRS as a result of GASB 68 allocation methodology changes which caused a one-time year to year change in total base revenues.

#### *Charges for services*

Charges for services generated 13.1% of total revenues, up from 12.5% in the prior year period; this also primarily resulted from the change in MTRS on-behalf pension payment allocation methodology. Actual charges for services were nearly \$0.1 million higher than the prior year primarily due to increases in some one-time receipts, landfill royalty payments, and notable but lesser growth in a variety of activity fee programs.

#### *Operating grants and contributions*

Operating grants and contributions comprised around 45.4% of total revenues, down from 48.5% in the prior year period; this category is the direct classification that experienced the reduction year to year of approximately \$3.8 million in on-behalf MTRS pension payments allocated to the Town as a result of GASB 68 methodology and allocation changes. Actual operating grants and contributions were nearly \$1.0 million higher than the prior year due to changes in local aid receipts.

No other revenues were greater than 10% of total revenues in 2015 or 2014.

#### Expenses

##### *Education*

Education expenses made up approximately 67.2% of total expenses, down from 68.5% in the prior year as the Town continues to devote substantial internal resources to this critical cost, actual dollar spending increased nearly \$0.5 million after taking into considering the \$3.8 million reduction in the offsetting MTRS on-behalf pension expenditure payments previously noted in revenues above. A majority of the Town's educational costs are funded through Chapter 70 and various other federal and state grants.

##### *Public safety*

Public Safety expenses made up 14.5% of total expenses, up from 13.8% in the prior year. The actual amounts expended were consistent (within less than \$0.1 million) with those in fiscal year 2014; overall, expenditures within this function are primarily salary and capital outlay driven.

No other expense types were greater than 10% of total expenses in 2015 or 2014.

**Business-type Activities** – Business-type activities increased net position by approximately \$0.8 million, which is consistent with the prior year. Net position increased by nearly \$0.6 million in the Water Enterprise Fund and also increased by over \$0.2 million in the Sewer Enterprise Fund. Consumption based, usage fees represent nearly 90.9% of the revenues of both the Water and Sewer Enterprise Funds.

#### Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the Town’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town’s financing requirements. In particular, *unrestricted 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 close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund surplus of approximately \$17.6 million. This was approximately \$1.8 million higher than the prior year. As previously discussed, this was primarily due to multiple special revenue fund accounts within the Nonmajor Fund accumulating financial resources for their various designated activities prior to spending down these resources in future periods.

Unassigned fund balance in the General Fund was approximately \$4.8 million or 9.4% of General Fund expenditures. Total fund balance in the General Fund was approximately \$6.2 million or 12.3% of General Fund expenditures. Fund balance in the General Fund increased approximately \$0.7 million as certain revenues exceeded expectations and some expenditure functions spent notably less than their appropriation budgets.

The remainder of the governmental fund balances are categorized as: (1) nonspendable, due to being the corpus of endowments in the amount of approximately \$2.3 million; (2) restricted, by constraints placed externally by third-parties in the amount of approximately \$8.6 million; or (3) committed, as a result of Town Meeting allocations to multiple capital projects in an amount of approximately \$0.8 million.

In addition, there exists approximately \$0.1 million in deficit balances in the Nonmajor Funds due to expenditures having been recorded prior to receipt of grant funding. These have been classified as unassigned and are expected to be funded in future years from available grant funds.

**Proprietary Fund** – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, the net position of the Water and Sewer Enterprise Funds were approximately \$21.1 million and \$14.6 million, respectively.

**Fiduciary Fund** – The Town’s fiduciary fund is comprised primarily of the Town’s Pension Trust Fund whose net position approximated \$40.0 million. These assets are used strictly to pay retiree pensions and annuities and may not be used for Town operating purposes, and for the year ended December 31, 2014, the net position increased by \$3.9 million primarily due to continuing growth in market conditions. The remainder of net positions within the fiduciary funds is represented by nearly \$0.5 million in the Private Purpose Trust Fund and about \$0.5 million in the Other Postemployment Benefits (OPEB) Trust Fund.

### **General Fund Budgetary Highlights**

The original budget and the final amended budget were identical. Budget versus actual detail is provided as required supplementary information as noted within the table of contents.

### **Capital Asset and Debt Administration**

**Capital Assets** – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$147.3 million (net of accumulated depreciation). This decreased by \$4.9 million over the prior year as current year depreciation exceeded additions.

The Town continues to take advantage of the capital reimbursement programs available as school and road construction are subsidized to a large extent by the Massachusetts School Building Authority and Chapter 90 Highway reimbursements, respectively. The Town also receives subsidies from the MCWT for borrowing related to water and sewer infrastructure improvements.

Additional information on the Town capital assets can be found in Note II, Subsection D.

**Long-Term Debt** – The Town’s total bonded debt is approximately \$45.7 million. Approximately \$31.8 million relates to debt of the governmental funds and \$13.9 million relates to debt of the business-type funds. Total net debt decreased by approximately \$2.9 million as a result of regular scheduled maturities and reductions of MCWT debt from the utilization of unspent proceeds. No new long-term debt was issued during fiscal year 2015.

The Town anticipates being reimbursed approximately \$0.7 million of the business-type debt principal over the life of the loans from the MCWT. In addition, the MCWT will also reimburse the Town nearly \$0.3 million for interest over the life of the loans.

The Town maintained an “AA-” rating as set by Standard and Poor’s for general obligation debt.

The Town’s legal debt margin is approximately \$45.2 million based on an equalized valuation of over \$0.9 billion. The Town’s total debt inside the limit is approximately \$14.2 million, and outside the limit approximately \$31.5 million.

The Town holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town’s debt can be found in Note II, Subsections E and F.

### **Economic Factors and Next Year’s Budgets and Rates**

- Unemployment rates continue to improve, both nationally and at the local level. Rates are currently trending towards pre-recession levels.
- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2015 will be approximately 76.4% of the entire levy. The Town relies to a lesser, but moderate extent on its commercial, industrial and personnel property tax base which comprise the remainder of the levy. In addition, notwithstanding new growth, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy. The Town employs a practice of attempting to balance its budget without taxing to its levy limit. In fiscal 2016, the Town’s excess levy capacity is approximately \$873,000 and was approximately \$176,000, \$200,000, and \$165,000 for fiscal years 2015, 2014, and 2013, respectively.
- Across the Commonwealth, the housing market has stabilized from the recent downward trend and is approaching the 2005 peaks; however, within the Town and western Worcester County, real estate price recovery is lagging the eastern part of the State. The Town has residential developments in various stages of completion; these are expected to be completed upon such a housing rebound. However, the extent, timing or certainty of any housing rebound cannot be reasonably estimated at this time.
- The Town has identified parcels within its borders ideal for industrial and commercial development. With such resources open and available, the Town continues to hope to spur the creation of a broader tax base through the adoption of a three-fold approach by (1) promoting housing, (2) developing a green industrial park and (3) promoting revitalization of downtown.

- The Town qualifies as an entitlement community, and to that end, has completed a downtown revitalization plan that it intends to fund from its Community Development Block grant. In doing so, the Town hopes to enhance its commercial real estate tax base.
- Under its Landfill Extension Agreement, valuable new resources have been provided to the Town, which have helped maintain financial stability, as well as, enhance the Town's strategic reserves. The agreement is operated as a revenue sharing arrangement providing additional revenues to the Town; in fiscal year 2015, the Town received nearly \$2.8 million in royalties from this agreement.
- The Town's certified free cash amount based on results from June 30, 2016 was nearly \$1.8 million and is available for appropriation in fiscal year 2016.
- For fiscal year 2016, the Town anticipates receiving net local aid of approximately \$21.6 million from the Commonwealth, which is approximately \$0.6 million greater than fiscal year 2015.
- The Town set its 2016 tax rate at 20.21% per \$1,000 of valuation on December 17, 2015, and considered the above in completing this.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, 41 Elm Street Southbridge, Massachusetts, 01550.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 13,659,114	\$ 6,428,720	\$ 20,087,834
Investments	6,511,875	-	6,511,875
Receivables, net of allowance for uncollectibles:			
Property taxes	2,314,992	-	2,314,992
User fees	-	2,956,130	2,956,130
Departmental and other	433,208	101,631	534,839
Intergovernmental	882,323	650,809	1,533,132
Tax foreclosures	327,296	-	327,296
Capital assets, not being depreciated	5,238,279	4,367,910	9,606,189
Capital assets, net of depreciation	100,341,230	37,397,782	137,739,012
<b>Total Assets</b>	<b>129,708,317</b>	<b>51,902,982</b>	<b>181,611,299</b>
<b>Deferred Outflows of Resources</b>	<b>483,707</b>	<b>1,293</b>	<b>485,000</b>
<b>Liabilities</b>			
Warrants and accounts payable	1,241,896	562,255	1,804,151
Accrued payroll and withholdings	1,979,947	-	1,979,947
Other liabilities	183	-	183
Short-term notes payable	298,250	660,000	958,250
Noncurrent liabilities:			
Due in one year or less	2,760,974	1,518,752	4,279,726
Due in more than one year	68,761,833	13,465,297	82,227,130
<b>Total Liabilities</b>	<b>75,043,083</b>	<b>16,206,304</b>	<b>91,249,387</b>
<b>Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>			
Net investment in capital assets	73,809,889	26,522,668	100,332,557
Restricted:			
Perpetual permanent funds	2,261,768	-	2,261,768
Debt service	1,417,400	-	1,417,400
Library funds	1,148,794	-	1,148,794
Federal and state grants	1,171,262	-	1,171,262
Other purposes	5,416,705	-	5,416,705
Unrestricted	(30,076,877)	9,175,303	(20,901,574)
<b>Total Net Position</b>	<b>\$ 55,148,941</b>	<b>\$ 35,697,971</b>	<b>\$ 90,846,912</b>

See accompanying notes to financial statements.

TOWN OF SOUTHBRIDGE, MASSACHUSETTS

STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 2,073,211	\$ 974,142	\$ 17,685	\$ -	\$ (1,081,384)		\$ (1,081,384)
Public safety	8,792,229	1,465,130	91,072	73,724	(7,162,303)		(7,162,303)
Education	40,811,167	536,812	26,035,328	82,541	(14,156,486)		(14,156,486)
Public works	4,597,927	1,707,102	205	415,799	(2,474,821)		(2,474,821)
Health and human services	1,344,208	1,792,352	160,847	-	608,991		608,991
Culture and recreation	1,035,194	65,680	167,896	47,999	(753,619)		(753,619)
Community development	1,012,319	64,258	523,645	524,774	100,358		100,358
Debt service	1,075,487	1,215,772	-	-	140,285		140,285
Total Governmental Activities	60,741,742	7,821,248	26,996,678	1,144,837	(24,778,979)		(24,778,979)
<b>Business-Type Activities</b>							
Water	3,462,726	4,021,624	89,642	-	-	\$ 648,540	648,540
Sewer	3,391,032	3,722,449	3,888	-	-	335,305	335,305
Total Primary Government	\$ 67,595,500	\$ 15,565,321	\$ 27,090,208	\$ 1,144,837	(24,778,979)	983,845	(23,795,134)
<b>General Revenues</b>							
Real and personal property taxes					18,441,155	-	18,441,155
Grants and contributions not restricted to specific programs					3,167,681	-	3,167,681
Motor vehicle and other excise					1,653,247	-	1,653,247
Penalties and interest on taxes					209,502	-	209,502
Unrestricted investment income					74,301	7,595	81,896
<b>Transfers (net)</b>					169,000	(169,000)	-
<b>Total General Revenues and Transfers</b>					23,714,886	(161,405)	23,553,481
<b>Change in Net Position</b>					(1,064,093)	822,440	(241,653)
<b>Net Position</b>							
Beginning of year					82,574,890	35,184,675	117,759,565
Restatement (see note IV)					(26,361,856)	(309,144)	(26,671,000)
<b>End of year</b>					<b>\$ 55,148,941</b>	<b>\$ 35,697,971</b>	<b>\$ 90,846,912</b>

See accompanying notes to financial statements.

TOWN OF SOUTHBRIDGE, MASSACHUSETTS

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Debt Service	Library	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 6,951,241	\$ -	\$ 283,967	\$ 6,423,906	\$ 13,659,114
Investments	1,967,880	1,417,400	2,859,142	267,453	6,511,875
Receivables, net of allowance for uncollectibles					
Property taxes	859,010	-	-	-	859,010
Tax title	1,455,982	-	-	-	1,455,982
Other	415,436	-	-	17,772	433,208
Due from other government	49,039	-	-	833,284	882,323
Tax foreclosures	327,296	-	-	-	327,296
<b>Total Assets</b>	<u>12,025,884</u>	<u>1,417,400</u>	<u>3,143,109</u>	<u>7,542,415</u>	<u>24,128,808</u>
<b>Total Deferred Outflows of Resources</b>	-	-	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 12,025,884</u>	<u>\$ 1,417,400</u>	<u>\$ 3,143,109</u>	<u>\$ 7,542,415</u>	<u>\$ 24,128,808</u>
<b>Liabilities</b>					
Warrants and accounts payable	\$ 835,660	\$ -	\$ -	\$ 406,236	\$ 1,241,896
Accrued payroll and withholdings	1,911,698	-	-	68,249	1,979,947
Other liabilities	-	-	-	183	183
Bond anticipation notes payable	-	-	-	298,250	298,250
<b>Total Liabilities</b>	<u>2,747,358</u>	<u>-</u>	<u>-</u>	<u>772,918</u>	<u>3,520,276</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	2,314,992	-	-	-	2,314,992
Unavailable revenue - excise taxes and other	390,664	-	-	17,772	408,436
Unavailable revenue - tax foreclosures	327,296	-	-	-	327,296
<b>Total Deferred Inflows of Resources</b>	<u>3,032,952</u>	<u>-</u>	<u>-</u>	<u>17,772</u>	<u>3,050,724</u>
<b>Fund Balances</b>					
Nonspendable	-	-	1,994,315	267,453	2,261,768
Restricted	-	1,417,400	1,148,794	5,987,317	8,553,511
Committed	242,056	-	-	600,650	842,706
Assigned	1,242,077	-	-	-	1,242,077
Unassigned	4,761,441	-	-	(103,695)	4,657,746
<b>Total Fund Balances</b>	<u>6,245,574</u>	<u>1,417,400</u>	<u>3,143,109</u>	<u>6,751,725</u>	<u>17,557,808</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 12,025,884</u>	<u>\$ 1,417,400</u>	<u>\$ 3,143,109</u>	<u>\$ 7,542,415</u>	<u>\$ 24,128,808</u>

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

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<b>Total Governmental Fund Balances</b>	<b>\$ 17,557,808</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	105,579,509
Other long-term assets are not available to pay for current-period expenditures and are therefore reported as unavailable in the governmental funds.	3,050,724
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:	
Net difference between projected and actual earnings on pension plan investments	108,707
Additional employer contributions to the pension plan made after the measurement date	375,000
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and note indebtedness	(31,793,801)
Compensated absences	(1,451,208)
Other postemployment benefits	(12,119,976)
Net pension liability	<u>(26,157,822)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 55,148,941</u></u></b>

See accompanying notes to financial statements.

TOWN OF SOUTHBRIDGE, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FISCAL YEAR ENDED JUNE 30, 2015

	General	Debt Service	Library	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Real estate and personal property taxes, net	\$ 18,133,778	\$ -	\$ -	\$ -	\$ 18,133,778
Intergovernmental	25,435,614	-	-	5,745,560	31,181,174
Motor vehicle and other excises	1,588,685	-	-	-	1,588,685
Departmental and other revenue	3,255,743	1,215,772	-	2,773,868	7,245,383
Contributions and donations	-	-	-	128,022	128,022
License and permits	360,140	-	-	-	360,140
Penalties and interest on taxes	209,502	-	-	-	209,502
Fines and forfeitures	95,095	-	-	-	95,095
Investment income	49,589	9,618	8,898	6,196	74,301
<b>Total Revenues</b>	<u>49,128,146</u>	<u>1,225,390</u>	<u>8,898</u>	<u>8,653,646</u>	<u>59,016,080</u>
<b>Expenditures</b>					
Current:					
General government	1,706,602	-	-	246,715	1,953,317
Public safety	5,935,454	-	-	271,347	6,206,801
Education	26,009,967	-	-	4,121,229	30,131,196
Public works	2,144,516	-	-	469,393	2,613,909
Health and human services	1,117,794	-	-	19,848	1,137,642
Culture and recreation	514,063	-	60,343	237,349	811,755
Community development	-	-	-	1,012,319	1,012,319
Pensions and other fringes	9,486,786	-	-	250,000	9,736,786
State and county tax assessments	1,436,244	-	-	-	1,436,244
Debt service:					
Principal maturities	1,404,810	-	-	-	1,404,810
Interest expense	1,075,487	-	-	-	1,075,487
<b>Total Expenditures</b>	<u>50,831,723</u>	<u>-</u>	<u>60,343</u>	<u>6,628,200</u>	<u>57,520,266</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(1,703,577)</u>	<u>1,225,390</u>	<u>(51,445)</u>	<u>2,025,446</u>	<u>1,495,814</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of assets	-	-	-	93,812	93,812
Transfers in	2,678,405	-	-	460,000	3,138,405
Transfers out	(280,000)	(1,199,734)	-	(1,489,671)	(2,969,405)
<b>Total Other Financing Sources (Uses)</b>	<u>2,398,405</u>	<u>(1,199,734)</u>	<u>-</u>	<u>(935,859)</u>	<u>262,812</u>
<b>Net Change in Fund Balances</b>	694,828	25,656	(51,445)	1,089,587	1,758,626
<b>Fund Balances - Beginning of year, as restated (see note IV)</b>	<u>5,550,746</u>	<u>1,391,744</u>	<u>3,194,554</u>	<u>5,662,138</u>	<u>15,799,182</u>
<b>Fund Balances - End of year</b>	<u>\$ 6,245,574</u>	<u>\$ 1,417,400</u>	<u>\$ 3,143,109</u>	<u>\$ 6,751,725</u>	<u>\$ 17,557,808</u>

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2015**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 1,758,626**

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. The net amounts are reflected here as reconciling items:

Capital outlays	\$ 1,444,939	
Loss on disposal of fixed assets	(501,621)	
Depreciation expense	<u>(5,082,651)</u>	
Net effect of reporting capital assets		(4,139,333)

The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas these amounts are deferred and amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Repayments of debt	<u>1,404,810</u>	
Net effect of reporting long-term debt		1,404,810

Revenues in the Statement of Activities that do not provide current financial resources are not available in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The net amount presented as a reconciling item represents the difference unavailable revenue between the current and prior year.

492,569

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:

Compensated absences	29,247	
Other postemployment benefits	(1,297,753)	
Pension benefits	<u>687,741</u>	
Net effect of reporting long-term liabilities		<u>(580,765)</u>

**Change in Net Position of Governmental Activities** **\$ (1,064,093)**

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**JUNE 30, 2015**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 3,693,310	\$ 2,735,410	\$ 6,428,720
Receivables, net of allowance for uncollectibles			
User charges	1,475,581	1,480,549	2,956,130
Betterments	-	101,631	101,631
Due from other government	115,677	5,975	121,652
Total Current Assets	<u>5,284,568</u>	<u>4,323,565</u>	<u>9,608,133</u>
Noncurrent Assets:			
Due from other government	509,698	19,459	529,157
Capital assets, not being depreciated	4,196,385	171,525	4,367,910
Capital assets, net of depreciation	19,036,840	18,360,942	37,397,782
Total Noncurrent Assets	<u>23,742,923</u>	<u>18,551,926</u>	<u>42,294,849</u>
<b>Total Assets</b>	<u>29,027,491</u>	<u>22,875,491</u>	<u>51,902,982</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>1,293</u>	<u>1,293</u>
<b>Liabilities</b>			
Current Liabilities:			
Warrants payable	289,347	272,908	562,255
Notes payable	660,000	-	660,000
Capital leases	131,093	-	131,093
Bond and note indebtedness	847,496	540,163	1,387,659
Total Current Liabilities	<u>1,927,936</u>	<u>813,071</u>	<u>2,741,007</u>
Noncurrent Liabilities:			
Capital leases	596,150	-	596,150
Bond and note indebtedness	5,411,456	7,146,513	12,557,969
Net pension liability	-	311,178	311,178
Total Noncurrent Liabilities	<u>6,007,606</u>	<u>7,457,691</u>	<u>13,465,297</u>
<b>Total Liabilities</b>	<u>7,935,542</u>	<u>8,270,762</u>	<u>16,206,304</u>
<b>Net Position</b>			
Net investment in capital assets	15,676,877	10,845,791	26,522,668
Unrestricted	5,415,072	3,760,231	9,175,303
<b>Total Net Position</b>	<u>\$ 21,091,949</u>	<u>\$ 14,606,022</u>	<u>\$ 35,697,971</u>

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2015**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Operating Revenues</b>			
Charges for services	\$ 3,673,425	\$ 3,461,375	\$ 7,134,800
Other revenues	348,199	261,074	609,273
Total Operating Revenues	<u>4,021,624</u>	<u>3,722,449</u>	<u>7,744,073</u>
<b>Operating Expenses</b>			
Operating costs	2,362,629	2,404,324	4,766,953
Depreciation	801,861	798,807	1,600,668
Total Operating Expenses	<u>3,164,490</u>	<u>3,203,131</u>	<u>6,367,621</u>
<b>Operating Income</b>	<u>857,134</u>	<u>519,318</u>	<u>1,376,452</u>
<b>Nonoperating Revenues (Expenses)</b>			
Intergovernmental	89,642	3,888	93,530
Investment income	3,922	3,673	7,595
Interest expense	(298,236)	(187,901)	(486,137)
Total Nonoperating Revenues (Expenses)	<u>(204,672)</u>	<u>(180,340)</u>	<u>(385,012)</u>
<b>Income Before Transfers</b>	652,462	338,978	991,440
Transfers out	(84,500)	(84,500)	(169,000)
<b>Total Transfers, net</b>	<u>(84,500)</u>	<u>(84,500)</u>	<u>(169,000)</u>
<b>Change in Net Position</b>	567,962	254,478	822,440
<b>Total Net Position - Beginning of the Year, as restated (see note IV)</b>	<u>20,523,987</u>	<u>14,351,544</u>	<u>34,875,531</u>
<b>Total Net Position - End of the Year</b>	<u><u>\$ 21,091,949</u></u>	<u><u>\$ 14,606,022</u></u>	<u><u>\$ 35,697,971</u></u>

See accompanying notes to financial statements.

TOWN OF SOUTHBRIDGE, MASSACHUSETTS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FISCAL YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from users	\$ 4,091,470	\$ 3,722,270	\$ 7,813,740
Payments to vendors and employees	<u>(2,251,756)</u>	<u>(2,302,254)</u>	<u>(4,554,010)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>1,839,714</u>	<u>1,420,016</u>	<u>3,259,730</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers out	<u>(84,500)</u>	<u>(84,500)</u>	<u>(169,000)</u>
<b>Net Cash Provided by (Used for) Noncapital Related Financing Activities</b>	<u>(84,500)</u>	<u>(84,500)</u>	<u>(169,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Intergovernmental receipts	202,944	156,942	359,886
Acquisition and construction of capital assets	(592,973)	(221,379)	(814,352)
Payments on capital leases	(124,616)	-	(124,616)
Payments on bonds and notes	(829,825)	(686,001)	(1,515,826)
Proceeds from bonds and notes payable	660,000	-	660,000
Interest expense	<u>(298,236)</u>	<u>(187,901)</u>	<u>(486,137)</u>
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	<u>(982,706)</u>	<u>(938,339)</u>	<u>(1,921,045)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	<u>3,922</u>	<u>3,673</u>	<u>7,595</u>
<b>Net Cash Provided by (Used for) Investing Activities</b>	<u>3,922</u>	<u>3,673</u>	<u>7,595</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	776,430	400,850	1,177,280
<b>CASH AND EQUIVALENTS:</b>			
<b>July 1, 2014</b>	<u>2,916,880</u>	<u>2,334,560</u>	<u>5,251,440</u>
<b>June 30, 2015</b>	<u><b>\$ 3,693,310</b></u>	<u><b>\$ 2,735,410</b></u>	<u><b>\$ 6,428,720</b></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ 857,134	\$ 519,318	\$ 1,376,452
Depreciation	801,861	798,807	1,600,668
Changes in assets and liabilities:			
Receivables (net)	69,846	(179)	69,667
Deferred outflows of resources	-	(1,293)	(1,293)
Liabilities (net)	<u>110,873</u>	<u>103,363</u>	<u>214,236</u>
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$ 1,839,714</b></u>	<u><b>\$ 1,420,016</b></u>	<u><b>\$ 3,259,730</b></u>

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

	Pension Trust Fund (December 31, 2014)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 301,072	\$ 3,022	\$ 413,964	\$ 65,369
Investments (at fair value):				
Portfolio holdings	-	510,584	35,700	-
Pooled investment fund - PRIT	39,649,366	-	-	-
Total Investments	39,649,366	510,584	35,700	-
Receivables:				
Employee contributions receivable	3,237	-	-	-
Total Receivables	3,237	-	-	-
<b>Total Assets</b>	<b>39,953,675</b>	<b>513,606</b>	<b>449,664</b>	<b>65,369</b>
<b>Liabilities</b>				
Agency liabilities	-	-	-	65,369
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,369</b>
<b>Net Position</b>				
Held in trust for:				
Pension benefits	39,953,675	-	-	-
Other postemployment benefits	-	513,606	-	-
Private purposes	-	-	449,664	-
<b>Total Net Position</b>	<b>\$ 39,953,675</b>	<b>\$ 513,606</b>	<b>\$ 449,664</b>	<b>\$ -</b>

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FISCAL YEAR ENDED JUNE 30, 2015**

	Pension Trust Fund (December 31, 2014)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>Additions</b>			
Contributions:			
Employer	\$ 4,017,762	\$ 1,180,763	\$ -
Employee	1,388,753	930,763	-
Transfers from other systems	115,307	-	-
Reimbursement from other systems	33,174	-	-
From Commonwealth of Massachusetts	94,506	-	-
Donations	-	-	1,052
Total Contributions and Donations	<u>5,649,502</u>	<u>2,111,526</u>	<u>1,052</u>
Investment earnings, net:			
Investment income	1,065,059	130	5,327
Net appreciation in fair value of investments	1,839,135	-	-
Less - investment management fees	(201,548)	-	-
Net investment earnings	<u>2,702,646</u>	<u>130</u>	<u>5,327</u>
Other income	<u>7,677</u>	<u>-</u>	<u>-</u>
<b>Total Additions</b>	<u>8,359,825</u>	<u>2,111,656</u>	<u>6,379</u>
<b>Deductions</b>			
Benefit payments to pensioners and beneficiaries	3,528,341	1,861,526	-
Refunds to members	242,719	-	-
Transfers to other systems	242,091	-	-
Reimbursements to other systems	306,788	-	-
Payroll and stipend expenses	88,527	-	-
Other administrative expenses	52,433	-	-
Educational support	-	-	13,181
<b>Total Deductions</b>	<u>4,460,899</u>	<u>1,861,526</u>	<u>13,181</u>
<b>Change in Net Position</b>	3,898,926	250,130	(6,802)
<b>Net Position - Beginning of the Year</b>	<u>36,054,749</u>	<u>263,476</u>	<u>456,466</u>
<b>Net Position - End of the Year</b>	<u><u>\$ 39,953,675</u></u>	<u><u>\$ 513,606</u></u>	<u><u>\$ 449,664</u></u>

See accompanying notes to financial statements.

## TOWN OF SOUTHBRIDGE, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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#### I. Summary of Significant Accounting Policies

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the Town:

##### A. Reporting Entity

The Town is located south-west of Worcester in Worcester County. It was established as a Town in 1816. The Town is governed by an elected nine-member Town Council with an appointed Town Manager. The Town Council members serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities. The component unit discussed below is included in the Town's reporting entity because of the significance of its operations and common control. Data is blended with the fiduciary funds of the primary government.

Southbridge Contributory Retirement System - The Southbridge Contributory Retirement System services almost entirely to the Town. While legally separate it is presented as if it were part of the primary government. Audited financial statements for the year ended December 31, 2014 were issued and are available at the Retirement Office, 41 Elm Street, Southbridge, Massachusetts 01550.

##### B. Government-Wide and Fund 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 and its component unit. 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.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows, liabilities and

deferred inflows, etc.) for all funds of that category or type (total governmental or total enterprise funds), and

- 2) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, 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 fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. 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. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major Governmental Funds:

*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 other funds.

*Debt Service Fund* – is used to accumulate funds that are used to supplement the funding of a portion of the Town’s future debt service.

Library Fund – is used to account for the activities of trust money bequeathed to the Town’s Library.

The *Nonmajor Governmental Funds* consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the Nonmajor Governmental Funds column on the Governmental Funds financial statements. The following describes the general use of these fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Project Funds – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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 the 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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Water Enterprise Fund – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

Sewer Enterprise Fund – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

The government reports the following fiduciary funds:

Pension Trust Fund – is used to account for the activities of the System, which accumulates resources for pension benefits to retired Town employees.

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of postemployment benefits for retirees such as health and life insurance.

Private-Purpose Trust Funds – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used for educational scholarships and needy citizen benefit funds.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details, developer deposits and student activities. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

#### **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity**

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Town and its component unit are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

User charge receivables represent amounts billed for water and sewer usage by the Town’s property owners. Bills are sent in cycles with each property owner receiving four bills per year.

Real estate taxes and water and sewer user fees may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts which are material and estimated to be potentially uncollectible.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

Capital assets include property, plant, and equipment and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. 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. Net interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Infrastructure	40-50 years
Buildings and improvements	40 years
Equipment, furniture, fixtures and vehicles	5-10 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business –type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary and permanent funds is retained in the funds.

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-Term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has only one item that is reported on the government-wide statement of net position which qualifies for reporting in this category. The Town reports deferred outflows from changes in the net pension liability. The deferred pensions

will be recognized in pension expense in future years as more fully described in Note III, subsection A.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise taxes and other, and tax foreclosures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

*Net Position* – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted for* the following:

*Perpetual permanent funds* represents the endowment portion of donor restricted trusts that support governmental programs.

*Debt service* represents amounts accumulated primarily per a power contract. Amounts are restricted for future debt payments.

*Library funds* represent accumulated donations and investment income restricted for use with regards to the Town’s library activities.

*Federal and State grants* represent assets that have restrictions placed on them from federal and state granting agencies.

*Other purposes* represent assets that are restricted by donors and state laws for specific governmental programs and uses.

*Fund Equity* – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

*Nonspendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact as the corpus of the endowment.

*Restricted* represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the

Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*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, which consists of the Town Council members through Town Council Votes. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (through Town Council Votes) it employed previously to commit those amounts.

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Finance Director to assign fund balance. The Town Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

*Stabilization Fund* – The Town maintains a stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Council. The balance of the fund totals \$2,394,699 at June 30, 2015 and is reported as part of unassigned fund balance in the General Fund.

*Encumbrances* – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Finance Director as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$392,077 of encumbrances from normal purchasing activity in the general fund as assigned and \$242,056 of encumbrances from Town Council Votes in the general fund as committed. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations:

	General	Debt Service	Library	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ 1,994,315	\$ 267,453	\$ 2,261,768
Restricted:					
General government	-	-	-	1,653,162	1,653,162
Public safety	-	-	-	132,805	132,805
Education	-	-	-	1,666,195	1,666,195
Public works	-	-	-	2,151,837	2,151,837
Health and human services	-	-	-	23,866	23,866
Culture and recreation	-	-	1,148,794	223,507	1,372,301
Community development	-	-	-	135,945	135,945
Debt service	-	1,417,400	-	-	1,417,400
Committed:					
General government	80,955	-	-	118,866	199,821
Public safety	150,783	-	-	93,173	243,956
Education	-	-	-	209,360	209,360
Public works	2,218	-	-	46,686	48,904
Health and human services	8,100	-	-	-	8,100
Culture and recreation	-	-	-	85,400	85,400
Other capital outlay	-	-	-	47,165	47,165
Assigned:					
General government	30,005	-	-	-	30,005
Public safety	27,775	-	-	-	27,775
Education	239,367	-	-	-	239,367
Public works	91,807	-	-	-	91,807
Health and human services	2,071	-	-	-	2,071
Culture and recreation	655	-	-	-	655
Personnel and fringe benefits	397	-	-	-	397
Subsequent year's budget	850,000	-	-	-	850,000
Unassigned	4,761,441	-	-	(103,695)	4,657,746
Totals	<u>\$ 6,245,574</u>	<u>\$ 1,417,400</u>	<u>\$ 3,143,109</u>	<u>\$ 6,751,725</u>	<u>\$ 17,557,808</u>

**E. Excess of Expenditures Over Appropriations and Deficits**

During the fiscal year ended, the Town's line item expenditures did not exceed any line item appropriations.

**F. Deficit Fund Balances**

The Town incurred individual fund deficits totaling \$103,695 which are reported in the Nonmajor Governmental Funds. These deficits will be funded through future available funds or bond proceeds during fiscal year 2015.

## **G. Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

## **II. Detailed Notes to All Funds**

### **A. Deposits and Investments**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town and System to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation; during the fiscal year, the Town or System did not directly enter into any repurchase agreements.

The System invests in an external investment pool fund known as the Pension Reserves Investment Trust (PRIT), managed by the Pension Reserves Investment Management (PRIM) Board, a division of the Commonwealth of Massachusetts. This pool generally has specific investment criteria which limits the range of investments that may be held within the pool. Approximately 99% of the System's cash and investments are held in such funds. The fair value of the position in these pools is the same as the value of their shares; fair value determination based upon open investment market pricing is not necessarily available for all of these investments.

The fair value of bonds and government obligations were determined, based on quoted market prices. The fair values of stocks were determined by closing prices for those securities traded on national stock exchanges and at the average of bid-and-asked quotations for these securities traded in the over-the-counter market.

The Town believes their exposure to derivative-type investments to be insignificant; however, the System's external investment pool fund with PRIT does invest varying amounts in derivatives throughout the year and therefore may be susceptible to market risks associated with derivatives.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$20,437,788 and the bank balance was \$22,722,204. Of the Town's bank balance, \$21,038,523 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized. Additionally, the Town maintained as cash equivalents uninsured and uncollateralized money market mutual fund holdings of \$132,401.

At December 31, 2014, the carrying amount of the System's deposits was \$201,042 and the bank balance was \$229,218. Of the System's bank balance, the full amount was covered by federal depository insurance or other similar depository insurance; accordingly, custodial credit risk exposure is effectively eliminated through insurance.

Furthermore, the System held uninsured, short-term cash investment funds with fair values of \$100,030 which are reported as cash equivalents at December 31, 2014. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in the near future. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

*Custodial Credit Risk: Investments* – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Town or System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Town and System have limited investment policies related to custodial credit risk.

The Town's investments in United States governmental obligations totaling \$1,517,527; corporate bond holdings totaling \$838,292; equities totaling \$1,315,778; money market mutual funds totaling \$132,401; and mutual fund investments totaling \$2,785,828 are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty.

For the System, statutory regulations with regards to eligible investments exist to reduce this risk. The Retirement System maintained all of its invested monetary assets in PRIT, a pooled investment managed by the Commonwealth of Massachusetts.

*Interest Rate Risk: Deposits* – Such risk is reduced by the fact that both the Town and System maintain such funds in highly liquid bank accounts; thereby allowing for timely re-allocation of such holdings should the need arise.

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Such securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments, through fair value losses arising from increasing interest rates. Neither the Town nor the System have formal investment policies related to interest rate risk.

*Securities Credit Risk: Investments* – In the case of investments, there is the risk that in the event an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the Town or System may not be able to recover the full amount of its principal investment and/or investment earnings. The Public Employees Retirement Administration Commission (PERAC) and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating this credit risk, reliance on credit quality ratings assigned by Moody's and Standard and Poor's may be utilized to determine exposure; however, such ratings are generally only available for fixed income investments. The Town does not have a formal investment policy related to securities credit risk.

The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System's pooled investment account was not subject to credit quality ratings from leading credit rating agencies.

At June 30, 2015 the credit quality ratings of investments were as follows:

Investment Type	Quality Ratings (Moody's)				
	Aaa	A1	A2	Baa1	Unrated
Fixed income securities - Corporate	\$ -	\$ 305,859	\$ 209,532	\$ 322,901	\$ -
Fixed income securities - U.S. government	1,517,527	-	-	-	-
Certificates of deposit	-	-	-	-	1,658,046
<b>Totals</b>	<b>\$1,517,527</b>	<b>\$ 305,859</b>	<b>\$ 209,532</b>	<b>\$ 322,901</b>	<b>\$1,658,046</b>

Concentration of Credit Risk – Exposure from this risk is relative to the diversity of investment holdings by the Town or System, and the potential significant loss that could be realized should the invested party or parties fail or are unable to meet its or their obligations to investors. The Town nor the System places a limit on the amount that may be invested in any one issuer.

The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total investments. The System maintains 100% of its investment balances within a single pooled investment account through PRIT.

Details of the Town and System investments at June 30, 2015 are as follows:

Investment Type	Fair Value	Time Until Maturity (Years)		
		Less Than 1	1-5	6 - 10
<u>Town Investments at June 30, 2015</u>				
Fixed income securities - Corporate	\$ 838,292	\$ 738,482	\$ 99,810	\$ -
Fixed income securities - U.S. government	1,517,527	-	1,517,527	-
Certificates of deposit	1,658,046 *	1,057,312	600,734	-
<b>Total Town investments with maturities</b>	<b>4,013,865</b>	<b>\$1,795,794</b>	<b>\$2,218,071</b>	<b>\$ -</b>

Other Town Investments:

Equities	1,315,778
Mutual funds	2,785,828
Money market mutual funds	132,401
<b>Total Town investments</b>	<b>8,247,872</b>

Pension Trust Investments at December 31, 2014:

External investment pool (PRIT)	39,649,366
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**Total Investments** \$ 47,897,238

\* Certificate of deposit accounts have also been included in the carrying amount of deposits in the custodial credit risk of deposits as these investments are subject to federal depository insurance coverage.

*Foreign Currency Risk: Deposits and Investments* –Neither the Town and System held any specific security denominated in a foreign currency at December 31, 2014; however, the System’s external investment pool fund with PRIT does invest varying amounts in foreign currencies throughout the year and therefore may be susceptible to market risks associated therewith.

**B. Receivables**

Receivables as of year-end for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Real estate and personal property taxes	\$ 844,719	\$ -	\$ 844,719
Deferred real estate property taxes	14,291	-	14,291
Tax title liens	1,455,982	-	1,455,982
Excise taxes	389,972	-	389,972
Special assessments	18,464	-	18,464
Departmental and other	24,772	-	24,772
Intergovernmental	882,323	-	882,323
Total	<u>\$ 3,630,523</u>	<u>\$ -</u>	<u>\$ 3,630,523</u>

Receivables as of year-end for the Town’s proprietary funds as are follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Water Receivables:			
Water user charges	\$ 1,469,085	\$ -	\$ 1,469,085
Other water	6,496	-	6,496
Intergovernmental	625,375	-	625,375
Total	<u>\$ 2,100,956</u>	<u>\$ -</u>	<u>\$ 2,100,956</u>

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Sewer Receivables:			
Sewer user charges	\$ 1,479,438	\$ -	\$ 1,479,438
Special assessments	101,631	-	101,631
Other sewer	1,111	-	1,111
Intergovernmental	25,434	-	25,434
Total	<u>\$ 1,607,614</u>	<u>\$ -</u>	<u>\$ 1,607,614</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities for the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General	Nonmajor	Total
	Fund	Governmental	
Receivable type:			
Real estate and personal property taxes	\$ 844,719	\$ -	\$ 844,719
Deferred real estate property taxes	14,291	-	14,291
Tax title liens	1,455,982	-	1,455,982
Excise taxes	389,972	-	389,972
Special assessments	692	17,772	18,464
Property tax foreclosures	327,296	-	327,296
Total	<u>\$ 3,032,952</u>	<u>\$ 17,772</u>	<u>\$ 3,050,724</u>

Massachusetts Clean Water Trust Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Clean Water Trust (MCWT). It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amounts of \$625,375 and \$25,434 for water and sewer activities, respectively; and these amounts have been recorded as intergovernmental receivables within those funds.

### C. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2015, are summarized as follows:

Transfers Out	Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 280,000	\$ 280,000 (1)
Debt Service Fund	1,199,734	-	1,199,734 (2)
Nonmajor Governmental Funds	1,309,671	180,000	1,489,671 (1)(2)
Water Enterprise Fund	84,500	-	84,500 (3)
Sewer Enterprise Fund	84,500	-	84,500 (3)
Total	<u>\$ 2,678,405</u>	<u>\$ 460,000</u>	<u>\$ 3,138,405</u>

(1) Transfers to nonmajor funds for special revenue and capital projects funding.

(2) Transfers to general fund to supplement operating budgets.

(3) Transfers to general fund from enterprise funds for debt funding.

## D. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 5,175,403	\$ 105,900	\$ (43,024)	\$ 5,238,279
Construction in progress	852,454	-	(852,454)	-
Total capital assets not being depreciated	<u>6,027,857</u>	<u>105,900</u>	<u>(895,478)</u>	<u>5,238,279</u>
Capital assets being depreciated:				
Buildings and improvements	100,924,143	606,102	(780,591)	100,749,654
Infrastructure	27,054,104	914,531	-	27,968,635
Other	17,900,562	670,860	(35,073)	18,536,349
Total capital assets being depreciated	<u>145,878,809</u>	<u>2,191,493</u>	<u>(815,664)</u>	<u>147,254,638</u>
Less accumulated depreciation for:				
Buildings and improvements	(22,053,660)	(2,875,916)	321,994	(24,607,582)
Infrastructure	(7,300,366)	(975,472)	-	(8,275,838)
Other	(12,833,798)	(1,231,263)	35,073	(14,029,988)
Total accumulated depreciation	<u>(42,187,824)</u>	<u>(5,082,651)</u>	<u>357,067</u>	<u>(46,913,408)</u>
Total capital assets being depreciated, net	<u>103,690,985</u>	<u>(2,891,158)</u>	<u>(458,597)</u>	<u>100,341,230</u>
Governmental activities capital assets, net	<u>\$ 109,718,842</u>	<u>\$ (2,785,258)</u>	<u>\$ (1,354,075)</u>	<u>\$ 105,579,509</u>
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 3,745,170	\$ -	\$ -	\$ 3,745,170
Construction in process	347,668	622,740	(347,668)	622,740
Total capital assets not being depreciated	<u>4,092,838</u>	<u>622,740</u>	<u>(347,668)</u>	<u>4,367,910</u>
Capital assets being depreciated:				
Buildings and improvements	41,350,125	-	-	41,350,125
Infrastructure	18,102,338	396,707	-	18,499,045
Machinery, equipment and vehicles	12,482,614	142,573	(40,000)	12,585,187
Total capital assets being depreciated	<u>71,935,077</u>	<u>539,280</u>	<u>(40,000)</u>	<u>72,434,357</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,273,138)	(1,004,012)	-	(16,277,150)
Infrastructure	(8,159,897)	(353,412)	-	(8,513,309)
Machinery, equipment and vehicles	(10,042,872)	(243,244)	40,000	(10,246,116)
Total accumulated depreciation	<u>(33,475,907)</u>	<u>(1,600,668)</u>	<u>40,000</u>	<u>(35,036,575)</u>
Total capital assets being depreciated, net	<u>38,459,170</u>	<u>(1,061,388)</u>	<u>-</u>	<u>37,397,782</u>
Business activities capital assets, net	<u>\$ 42,552,008</u>	<u>\$ (438,648)</u>	<u>\$ (347,668)</u>	<u>\$ 41,765,692</u>

Capital asset activity for the year ended June 30, 2015, for the Town's individual Business-type activities was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-type Activities: Water</u></i>				
Capital assets not being depreciated:				
Land	\$ 3,696,167	\$ -	\$ -	\$ 3,696,167
Construction in process	347,668	500,218	(347,668)	500,218
Total capital assets not being depreciated	<u>4,043,835</u>	<u>500,218</u>	<u>(347,668)</u>	<u>4,196,385</u>
Capital assets being depreciated:				
Buildings and improvements	15,074,907	-	-	15,074,907
Infrastructure	13,168,702	396,707	-	13,565,409
Machinery, equipment and vehicles	2,471,978	43,716	-	2,515,694
Total capital assets being depreciated	<u>30,715,587</u>	<u>440,423</u>	<u>-</u>	<u>31,156,010</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,850,330)	(393,760)	-	(5,244,090)
Infrastructure	(5,886,507)	(256,574)	-	(6,143,081)
Machinery, equipment and vehicles	(580,472)	(151,527)	-	(731,999)
Total accumulated depreciation	<u>(11,317,309)</u>	<u>(801,861)</u>	<u>-</u>	<u>(12,119,170)</u>
Total Water capital assets being depreciated, net	<u>19,398,278</u>	<u>(361,438)</u>	<u>-</u>	<u>19,036,840</u>
Total Water capital assets, net	<u>\$ 23,442,113</u>	<u>\$ 138,780</u>	<u>\$ (347,668)</u>	<u>\$ 23,233,225</u>
<i><u>Business-type Activities: Sewer</u></i>				
Capital assets not being depreciated:				
Land	\$ 49,003	\$ -	\$ -	\$ 49,003
Construction in process	-	122,522	-	122,522
Total capital assets not being depreciated	<u>49,003</u>	<u>122,522</u>	<u>-</u>	<u>171,525</u>
Capital assets being depreciated:				
Buildings and improvements	26,275,218	-	-	26,275,218
Infrastructure	4,933,636	-	-	4,933,636
Machinery, equipment and vehicles	10,010,636	98,857	(40,000)	10,069,493
Total capital assets being depreciated	<u>41,219,490</u>	<u>98,857</u>	<u>(40,000)</u>	<u>41,278,347</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,422,808)	(610,252)	-	(11,033,060)
Infrastructure	(2,273,390)	(96,838)	-	(2,370,228)
Machinery, equipment and vehicles	(9,462,400)	(91,717)	40,000	(9,514,117)
Total accumulated depreciation	<u>(22,158,598)</u>	<u>(798,807)</u>	<u>40,000</u>	<u>(22,917,405)</u>
Total Sewer capital assets being depreciated, net	<u>19,060,892</u>	<u>(699,950)</u>	<u>-</u>	<u>18,360,942</u>
Total Sewer capital assets, net	<u>\$ 19,109,895</u>	<u>\$ (577,428)</u>	<u>\$ -</u>	<u>\$ 18,532,467</u>
Total Business-type activities - capital assets, net	<u>\$ 42,552,008</u>	<u>\$ (438,648)</u>	<u>\$ (347,668)</u>	<u>\$ 41,765,692</u>

Depreciation expense was charged to functions/programs as follows:

<i><u>Governmental Activities:</u></i>		<i><u>Business-Type Activities:</u></i>	
General government	\$ 191,409	Water	\$ 801,861
Public safety	400,988	Sewer	798,807
Education	2,821,471		<u>\$ 1,600,668</u>
Public works	1,529,962		
Culture and recreation	138,821		
	<u>\$ 5,082,651</u>		

## E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of tax anticipation notes (TANS) or revenue anticipation notes (RANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

The following activity related to Bond Anticipation Notes (BANs) for the year ended June 30, 2015 is as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	0.58%	Matured	\$ 853,219	\$ -	\$ (853,219)	\$ -
BAN	0.60%	Matured	180,000	-	(180,000)	-
BAN	0.50%	Matured	398,250	-	(398,250)	-
BAN	0.49%	05/20/16	-	298,250	-	298,250
Total Governmental Notes			<u>1,431,469</u>	<u>298,250</u>	<u>(1,431,469)</u>	<u>298,250</u>
BAN	0.50%	11/24/15	-	660,000	-	660,000
Total Business-Type Notes			<u>-</u>	<u>660,000</u>	<u>-</u>	<u>660,000</u>
Total Notes Payable			<u>\$ 1,431,469</u>	<u>\$ 958,250</u>	<u>\$ (1,431,469)</u>	<u>\$ 958,250</u>

BANs outstanding at June 30, 2015 were issued for fire equipment and dam repair.

## F. Long-Term Obligations

The Town issues general obligation bonds and notes and has entered into a capital lease agreement to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities, and the capital lease is reported within the business-type water fund. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

The governmental activities liabilities will be liquidated by the General and Nonmajor Funds. The business-type liabilities will be liquidated by the Water and Sewer Enterprise Funds.

The following reflects activity of the long-term liability accounts for the year ended June 30, 2015:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond indebtedness	\$ 33,198,611	\$ -	\$ (1,404,810)	\$ 31,793,801	\$ 1,454,887
Compensated absences	1,480,455	1,303,163	(1,332,410)	1,451,208	1,306,087
Other postemployment benefits	10,822,223	3,393,754	(2,096,001)	12,119,976	-
Net pension liability	* 26,361,856	3,319,966	(3,524,000)	26,157,822	-
<b>Total Governmental Activities</b>	<b>\$ 71,863,145</b>	<b>\$ 8,016,883</b>	<b>\$ (8,357,221)</b>	<b>\$ 71,522,807</b>	<b>\$ 2,760,974</b>
<i>Business-Type Activities - Water:</i>					
Bond indebtedness	\$ 7,088,777	\$ -	\$ (829,825)	\$ 6,258,952	\$ 847,496
Capital lease obligations	851,859	-	(124,616)	727,243	131,093
Total Water	7,940,636	-	(954,441)	6,986,195	978,589
<i>Business-Type Activities - Sewer:</i>					
Bond indebtedness	8,372,677	-	(686,001)	7,686,676	540,163
Net pension liability	* 309,144	35,034	(33,000)	311,178	-
Total Sewer	8,681,821	35,034	(719,001)	7,997,854	540,163
<b>Total Business-Type Activities</b>	<b>\$ 16,622,457</b>	<b>\$ 35,034</b>	<b>\$ (1,673,442)</b>	<b>\$ 14,984,049</b>	<b>\$ 1,518,752</b>

\* - Restated due to GASB 68 implementation (See Note IV)

***Bond and Note Indebtedness*** – State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”. The following summarizes the Town’s debt activity for the year ended June 30, 2015:

Description	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	0.60 - 7.00%	\$ 31,258,840	\$ -	\$ (1,089,400)	\$ 30,169,440
General obligation refunding bonds	2.00 - 3.50%	920,000	-	(260,000)	660,000
MA Water Pollution Abatement Trust	0.00% - 2.00%	1,019,771	-	(55,410)	964,361
<b>Total Governmental Activities</b>		<b>\$ 33,198,611</b>	<b>\$ -</b>	<b>\$ (1,404,810)</b>	<b>\$ 31,793,801</b>
<i>Business-type Activities - Water</i>					
General obligation bond	3.00 - 5.00%	\$ 1,227,160	\$ -	\$ (104,100)	\$ 1,123,060
General obligation refunding bonds	2.00 - 3.50%	710,000	-	(170,000)	540,000
MA Water Pollution Abatement Trust	0.00% - 2.00%	5,151,617	-	(555,725)	4,595,892
		7,088,777	-	(829,825)	6,258,952
<i>Business-type Activities - Sewer</i>					
General obligation bond	3.00 - 5.00%	425,000	-	(37,500)	387,500
MA Water Pollution Abatement Trust	0.00% - 2.00%	7,947,677	-	(648,501)	7,299,176
		8,372,677	-	(686,001)	7,686,676
<b>Total Business-type Activities</b>		<b>\$ 15,461,454</b>	<b>\$ -</b>	<b>\$ (1,515,826)</b>	<b>\$ 13,945,628</b>
<b>Total Bond and Note Debt</b>		<b>\$ 48,660,065</b>	<b>\$ -</b>	<b>\$ (2,920,636)</b>	<b>\$ 45,739,429</b>

Payments on long-term debt obligations due in future years is summarized as follows:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Governmental Activities</i>							
2016	\$ 1,454,887	\$ -	\$ 1,454,887	\$ 1,021,859	\$ (1,069)	\$ 1,020,790	\$ 2,475,677
2017	1,518,206	-	1,518,206	970,771	(759)	970,012	2,488,218
2018	1,559,242	-	1,559,242	917,326	(453)	916,873	2,476,115
2019	1,506,181	-	1,506,181	863,302	(151)	863,151	2,369,332
2020	1,606,216	-	1,606,216	814,713	-	814,713	2,420,929
2021 - 2025	9,247,346	-	9,247,346	3,153,341	-	3,153,341	12,400,687
2026 - 2030	8,973,741	-	8,973,741	1,645,121	-	1,645,121	10,618,862
2031 - 2035	5,927,982	-	5,927,982	477,591	-	477,591	6,405,573
Total	<u>\$ 31,793,801</u>	<u>\$ -</u>	<u>\$ 31,793,801</u>	<u>\$ 9,864,024</u>	<u>\$ (2,432)</u>	<u>\$ 9,861,592</u>	<u>\$ 41,655,393</u>
<i>Business-type Activities: Water</i>							
2016	\$ 847,496	\$ (115,677)	\$ 731,819	\$ 216,319	\$ (77,983)	\$ 138,336	\$ 870,155
2017	858,003	(117,913)	740,090	180,869	(66,802)	114,067	854,157
2018	785,866	(123,343)	662,523	142,095	(51,724)	90,371	752,894
2019	802,908	(130,969)	671,939	109,933	(36,622)	73,311	745,250
2020	810,888	(137,473)	673,415	77,323	(13,613)	63,710	737,125
2021 - 2025	1,282,032	-	1,282,032	202,266	-	202,266	1,484,298
2026 - 2030	738,893	-	738,893	52,840	-	52,840	791,733
2031 - 2033	132,866	-	132,866	1,843	-	1,843	134,709
Total	<u>\$ 6,258,952</u>	<u>\$ (625,375)</u>	<u>\$ 5,633,577</u>	<u>\$ 983,488</u>	<u>\$ (246,744)</u>	<u>\$ 736,744</u>	<u>\$ 6,370,321</u>
<i>Business-type Activities: Sewer</i>							
2016	\$ 540,163	\$ (5,975)	\$ 534,188	\$ 161,904	\$ (3,268)	\$ 158,636	\$ 692,824
2017	550,584	(6,105)	544,479	148,279	(2,633)	145,646	690,125
2018	561,200	(6,656)	554,544	134,850	(1,320)	133,530	688,074
2019	572,121	(6,698)	565,423	122,228	(645)	121,583	687,006
2020	556,644	-	556,644	109,608	-	109,608	666,252
2021 - 2025	2,905,566	-	2,905,566	364,920	-	364,920	3,270,486
2026 - 2030	1,937,220	-	1,937,220	72,945	-	72,945	2,010,165
2031 - 2033	63,178	-	63,178	2,545	-	2,545	65,723
Total	<u>\$ 7,686,676</u>	<u>\$ (25,434)</u>	<u>\$ 7,661,242</u>	<u>\$ 1,117,279</u>	<u>\$ (7,866)</u>	<u>\$ 1,109,413</u>	<u>\$ 8,770,655</u>
<i>Business-type Activities: Total All</i>							
2016	\$ 1,387,659	\$ (121,652)	\$ 1,266,007	\$ 378,223	\$ (81,251)	\$ 296,972	\$ 1,562,979
2017	1,408,587	(124,018)	1,284,569	329,148	(69,435)	259,713	1,544,282
2018	1,347,066	(129,999)	1,217,067	276,945	(53,044)	223,901	1,440,968
2019	1,375,029	(137,667)	1,237,362	232,161	(37,267)	194,894	1,432,256
2020	1,367,532	(137,473)	1,230,059	186,931	(13,613)	173,318	1,403,377
2021 - 2025	4,187,598	-	4,187,598	567,186	-	567,186	4,754,784
2026 - 2030	2,676,113	-	2,676,113	125,785	-	125,785	2,801,898
2031 - 2033	196,044	-	196,044	4,388	-	4,388	200,432
Total	<u>\$ 13,945,628</u>	<u>\$ (650,809)</u>	<u>\$ 13,294,819</u>	<u>\$ 2,100,767</u>	<u>\$ (254,610)</u>	<u>\$ 1,846,157</u>	<u>\$ 15,140,976</u>

*MCWT Loan Subsidies* – As previously noted in Note I. B., the Town has entered into loan agreements with the MCWT. It is expected that the Town will be subsidized by MCWT on a periodic basis for principal in the amounts of \$625,375 and \$25,434 within the water and sewer funds, respectively. Additionally, interest subsidies in the amounts of \$246,744 and \$7,866 are anticipated for the water and sewer funds respectively, until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2015, the Town had authorized and unissued debt for the following:

Project	Governmental	Water	Sewer	Totals
Dam Repairs	\$ -	\$ 163,870	\$ -	\$ 163,870
Science Books	200,000	-	-	200,000
Ambulance	318,670	-	-	318,670
DPW facility clean-up	1,382,846	-	-	1,382,846
DPW Vehicles & Equipment	426,000	-	-	426,000
Water Storage Tank	-	350,000	-	350,000
Sewer Inflow & Outflow Evaluation	-	-	150,000	150,000
Sewer Building Demolition	-	-	300,000	300,000
Sewer Sludge Dewater Equipment	-	-	1,380,000	1,380,000
Sewer Generator Transfer Switch	-	-	225,000	225,000
Sewer Lines	-	-	550,000	550,000
Sewer Biotower Bypass	-	-	150,000	150,000
Sewer Phosphorus System	-	-	875,000	875,000
Total authorized and unissued	<u>\$ 2,327,516</u>	<u>\$ 513,870</u>	<u>\$ 3,630,000</u>	<u>\$ 6,471,386</u>

Capital Leases – The Town has entered into a non-cancelable lease for the purchase of water meters. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

	Amount
Water meters	\$ 1,785,000
Less: accumulated depreciation	(267,750)
Total	<u>\$ 1,517,250</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2015, are as follows:

Fiscal Year Ended June 30,	Amount
2016	\$ 165,000
2017	165,000
2018	165,000
2019	165,000
2020	165,000
Total minimum lease payments	825,000
Less: amounts representing interest	(97,757)
Present value of minimum lease payments	<u>\$ 727,243</u>

### **III. Other Information**

#### **A. Retirement System**

*Retirement System Description* – The Town contributes to the Southbridge Contributory Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan for the Town, Southern Worcester County Regional Vocational School District, and Southbridge Housing Authority. The System was established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. The System is administered by the Town of Southbridge and is part of the reporting entity. Audited financial statements for the year ended December 31, 2014 were issued and are available at the Retirement Office, 41 Elm Street, Southbridge, Massachusetts 01550.

*Membership* – At December 31, 2014, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	180
Active plan members	386
Inactive plan members	<u>107</u>
Total	<u>669</u>

*Benefit Terms* – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

Contributions Requirements – The Town has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method. As of the latest actuarial valuation, the System has selected a funding schedule that amortizes the unfunded actuarial accrued liability to \$0 by June 30, 2035.

The Town contributed approximately \$3,557,000 to the Retirement System in fiscal year 2015, which exceeded the actuarially-determined contribution requirement for the fiscal year by \$750,000. The Town's contributions as a percentage of covered payroll was approximately 27.8% in fiscal year 2015.

Net Pension Liability – At June 30, 2015, the Town reported a liability of \$26,469,000 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 85.649% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the fiduciary fund financial statements. The Retirement System's full financial statements as of and for the year ended December 31, 2014 can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$2,870,000 in pension expense in the statement of activities in fiscal year 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	110,000	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	-
Town contributions subsequent to the measurement date	375,000	-
Totals	<u>\$ 485,000</u>	<u>\$ -</u>

The \$375,000 reported as deferred outflows of resources resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

Year ended June 30,	Amount
2016	\$ 27,500
2017	27,500
2018	27,500
2019	27,500

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumption used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry age normal
Amortization method:	Top appropriation increasing 5.0%
Remaining amortization period:	19 years from July 1, 2015
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.75% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first \$12,000 of benefits
Mortality rates:	Pre-retirement rates reflect the RP-2000 Employees table projected 22 years with Scale AA (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct).
Disabled life mortality:	For disabled retirees, the table is set forward 3 years for males. It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Expected Real Rate of Return – The investment rate of return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns and professional judgment. The market expectations analysis used a building-block approach, which included expected returns by asset class and the target asset allocation. The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equities	18%	7.75% to 8.00%
International equities	22%	8.25% to 9.50%
Fixed income	19%	3.00% to 7.25%
Private equity	10%	9.75%
Real estate	10%	6.50%
Hedge funds	9%	7.00%
Other	12%	≤ 8.25%

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System’s fiduciary 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.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2014 calculated using the current discount rate of 7.75%, as well as the projection of that the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.75%) and 1.0% higher (8.75%) than the current rate (dollar amounts in thousands):

	<u>1% Decrease (6.75%)</u>	<u>Current Discount (7.75%)</u>	<u>1% Increase (8.75%)</u>
Town's proportionate share of the net pension liability	\$ 33,167	\$ 26,469	\$ 20,689

## **B. Massachusetts Teachers’ Retirement System**

Teachers and certain administrative employees of the Town’s school department participate in the Massachusetts Teachers’ Retirement System (“MTRS”), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth’s legislature has the authority to amend or modify the MTRS’s funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2015, the Commonwealth contributed \$2,047,254 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.218402%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town’s proportionate share of the following:

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 34,717,931	\$ (34,717,931)	\$ —
Pension expense	2,412,021	(2,412,021)	—

The Town has recognized intergovernmental revenue and pension expense of \$2,412,021 associated with this arrangement.

**C. Other Postemployment Benefits (OPEB)**

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the “Plan”) in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 543 active employees and 271 retired employees, survivors and covered spouses for a total of 814.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. The Town also pays 50% towards life insurance depending on the plan, the retirees pay the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town’s annual OPEB cost is calculated based on the annual required contribution “ARC” of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years.

The following table reflects the activity regarding the Town's OPEB obligation:

Annual required contribution (ARC)	\$ 3,349,315
Interest on net OPEB obligation	432,889
Adjustment to ARC	<u>(388,450)</u>
Annual OPEB cost	3,393,754
Contributions made	<u>(2,096,001)</u>
Increase in net OPEB obligation	1,297,753
Net OPEB obligation at beginning of year	10,822,223
Net OPEB obligation at end of year	<u><u>\$ 12,119,976</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2015	\$ 3,393,754 *	61.8%	\$ 12,119,976
June 30, 2014	3,291,314	64.1%	10,822,223
June 30, 2013	4,516,712	51.3%	9,639,284

\* The AOPEBC at June 30, 2015 was charged to the following functional programs within the Statement of Activities:

General Government	\$ 144,574
Public Safety	562,006
Education	2,440,788
Public Works	168,330
Health and Human Services	46,155
Culture and Recreation	31,901
Total	<u><u>\$ 3,393,754</u></u>

*Funding Status and Funding Progress* – The funded status of the Plan at June 30, 2015 for the most recent actuarial valuation performed as of July 1, 2013, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C)
\$ -	\$ 47,599,891	\$ 47,599,891	0.0%	\$ 28,118,640	169.3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	July 1, 2013
Actuarial cost method	Projected unit credit
Amortization method	Increasing at 3.5%
Remaining amortization period	30 years (open)
Interest discount rate	4.0% partial pre-funding
Healthcare/Medical cost trend rate	7.0% grading down to 5% in year 2018 and thereafter

- D. Risk Financing** – The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker’s compensation, and unemployment compensation.

The Town is a part of a premium-based self-insurance group, which insures for health benefits, general and personal liability, through the Massachusetts Inter-local Insurance Association (MIIA). The Town essentially transfers its risk through payment of its annual assessment, which is adjusted according to the Town's experience history.

- E. Contingencies** – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2015, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2015.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, 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.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

- F. Economic Dependence** – During the year ended June 30, 2015, approximately 51.8% of revenues of the General Fund were recognized from the Commonwealth of Massachusetts.

## **G. Implementation of New GASB Pronouncements**

### Current Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2013 and impact the financial reports of the pension systems that communities participate in and not the financial statements of the communities themselves.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of GASB 69 became effective for the Town in fiscal 2015 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2015 and did not have a material effect on its financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements.

### Future Year Implementation

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

**IV. Prior Period Restatements**

A prior period adjustment was made to decrease the Town’s beginning net position to reflect the net pension liability with the implementation of GASB 68. The Town also reclassified the beginning fund balances of the School Construction major fund to the Nonmajor governmental funds.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Sewer</u>
Prior year as presented	\$ 82,574,890	\$ 35,184,675	\$ 14,660,688
Record net pension liability	(26,361,856)	(309,144)	(309,144)
As restated	<u>\$ 56,213,034</u>	<u>\$ 34,875,531</u>	<u>\$ 14,351,544</u>

  

	<u>School Construction</u>	<u>Nonmajor Governmental</u>
Prior year as presented	\$ 121,065	\$ 5,541,073
Reclassify School Construction project fund	(121,065)	121,065
As restated	<u>\$ -</u>	<u>\$ 5,662,138</u>

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2015**

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**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Town's proportion of the net pension liability (asset)	85.649%
Town's proportionate share of the net pension liability (asset)	\$ 26,469
Town's covered-employee payroll	\$ 12,808
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	206.66%
Plan fiduciary net position as a percentage of the total pension liability	56.40%

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**SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN**  
*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Actuarially determined contribution	\$ 2,807
Contributions in relation to the actuarially determined contribution	<u>3,557</u>
Contribution deficiency (excess)	<u><u>\$ (750)</u></u>
Town's covered-employee payroll	\$ 12,808
Contributions as a percentage of covered-employee payroll	27.77%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2015**

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**SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY**  
**MASSACHUSETTS' TEACHER'S RETIREMENT SYSTEM**

*(dollar amounts are in thousands)*

	Year Ended December 31, <u>2014</u>
Commonwealth's proportion of the collective net pension liability (asset)	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - OTHER POSTEMPLOYMENT BENEFITS  
YEAR ENDED JUNE 30, 2015**

**SCHEDULE OF FUNDING PROGRESS**

**Other Postemployment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
07/01/13	\$ -	\$ 47,599,891	\$ 47,599,891	0.0%	\$ 28,118,640	169.3%
07/01/11 <sup>1</sup>	-	53,879,571	53,879,571	0.0%	26,631,880	202.3%
07/01/09	-	46,596,447	46,596,447	0.0%	26,780,639	174.0%

<sup>1</sup> The Actuarial Accrued Liability as of July 1, 2011 shown here has been revised from the amount shown in the 2012 and 2013 financial statements to take into account changes made to certain retiree data.

**SCHEDULE OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2015	\$ 3,393,754	\$ 2,096,001	61.8%
2014	3,291,314	2,108,375	64.1%
2013	4,516,712	2,317,553	51.3%
2012	4,347,989	2,297,351	52.8%
2011	3,601,376	1,616,030	44.9%

See accompanying independent auditor's report.

TOWN OF SOUTHBRIDGE, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
<b>Revenues</b>						
Real estate and personal property taxes, net	\$ 18,317,552	\$ 18,317,552	\$ 18,133,778	\$ -	\$ 18,133,778	\$ (183,774)
Intergovernmental	22,694,773	22,694,773	23,023,593	-	23,023,593	328,820
Motor vehicle and other excises	1,470,440	1,470,440	1,588,685	-	1,588,685	118,245
Departmental and other revenue	2,952,260	2,952,260	3,255,743	-	3,255,743	303,483
Licenses and permits	260,000	260,000	360,140	-	360,140	100,140
Penalties and interest on taxes	170,750	170,750	209,502	-	209,502	38,752
Fines and forfeitures	85,000	85,000	95,095	-	95,095	10,095
Investment income	13,000	13,000	19,031	-	19,031	6,031
<b>Total Revenues</b>	<b>45,963,775</b>	<b>45,963,775</b>	<b>46,685,567</b>	<b>-</b>	<b>46,685,567</b>	<b>721,792</b>
<b>Expenditures</b>						
General government	2,779,052	2,779,052	2,217,045	110,961	2,328,006	451,046
Public safety	6,175,386	6,175,386	5,969,547	178,557	6,148,104	27,282
Education	26,545,524	26,545,524	26,009,967	239,367	26,249,334	296,190
Public works	1,154,905	1,154,905	1,129,319	10,171	1,139,490	15,415
Health and human services	2,675,832	2,675,832	2,498,460	94,025	2,592,485	83,347
Culture and recreation	529,785	529,785	514,063	655	514,718	15,067
State and county tax assessments	2,516,207	2,516,207	2,480,297	-	2,480,297	35,910
Pension and other fringe benefits	7,372,590	7,372,590	7,107,897	397	7,108,294	264,296
Debt service	1,454,077	1,454,077	1,436,244	-	1,436,244	17,833
<b>Total Expenditures</b>	<b>51,203,358</b>	<b>51,203,358</b>	<b>49,362,839</b>	<b>\$ 634,133</b>	<b>49,996,972</b>	<b>1,206,386</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	3,821,542	3,821,542	3,821,542		3,821,542	-
Transfers out	(480,000)	(480,000)	(480,000)		(480,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>3,341,542</b>	<b>3,341,542</b>	<b>3,341,542</b>		<b>3,341,542</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance</b>						
	<b>(1,898,041)</b>	<b>(1,898,041)</b>	<b>\$ 664,270</b>		<b>\$ 30,137</b>	<b>\$ 1,928,178</b>
<b>Other Budget Items:</b>						
Undesignated surplus (free cash)	1,119,097	1,119,097				
Overlay	50,000	50,000				
Prior year encumbrances and carryovers	730,527	730,527				
Other items	(1,583)	(1,583)				
<b>Total other budget items</b>	<b>1,898,041</b>	<b>1,898,041</b>				
<b>Net Budget</b>	<b>\$ -</b>	<b>\$ -</b>				

See accompanying notes to financial statements.

**TOWN OF SOUTHBRIDGE, MASSACHUSETTS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015**

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**I. Budgetary Basis of Accounting**

An annual budget is legally adopted for the General Fund and the Enterprise Fund. The budget is initiated by department heads and approved by Town Council at the recommendation of the Town Manager. Department heads are limited to the line item appropriations as voted. The original budget may only be amended at special Town Council meetings. The Town may, in certain instances, exceed line items to satisfy an emergency involving the safety of the general public. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. The Town made several minor (less than 1%) supplemental budgetary appropriations throughout the year. The majority of these were to supplement the Town’s individual appropriations.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

*Budgetary-to-GAAP Reconciliation* – The Town’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2015, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 46,685,567
Stabilization investment income	\$ -	\$ 30,558	30,558
MTRS on-behalf payments	2,412,021	-	2,412,021
Revenues on a GAAP basis	<u>\$ 2,412,021</u>	<u>\$ 30,558</u>	<u>\$ 49,128,146</u>
Expenditures on a budgetary basis			\$ 49,362,839
MTRS on-behalf payments	\$ 2,412,021	\$ -	2,412,021
Enterprise indirect cost reclasses	-	(943,137)	(943,137)
Expenditures on a GAAP basis	<u>\$ 2,412,021</u>	<u>\$ (943,137)</u>	<u>\$ 50,831,723</u>
Net transfers on a budgetary basis			\$ 3,341,542
Enterprise indirect cost reclasses	\$ -	\$ (943,137)	(943,137)
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ (943,137)</u>	<u>\$ 2,398,405</u>