

TOWN OF SUDBURY, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

TOWN OF SUDBURY, MASSACHUSETTS

INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements	16
Statement of net assets	17
Statement of activities.....	18
Governmental funds – balance sheet	20
Governmental funds – statement of revenues, expenditures and changes in fund balances.....	22
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	24
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	25
Proprietary funds – statement of net assets.....	26
Proprietary funds – statement of revenues, expenses and changes in fund net assets	27
Proprietary funds – statement of cash flows	28
Fiduciary funds – statement of fiduciary net assets	29
Fiduciary funds – statement of changes in fiduciary net assets	30
Notes to basic financial statements.....	31
Required Supplementary Information.....	57
General fund – schedule of revenues, expenditures and change in fund balance – budget and actual	58
Pension plan schedules	60
Schedules of funding progress (system)	60
Schedule of employer contributions (system).....	60
Town share of system ARC	60
Notes to required supplementary information.....	61

This page left intentionally blank.

Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Sudbury, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sudbury, Massachusetts, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Town of Sudbury, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sudbury, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain audited financial statements supporting the Town's investment in the Wayland-Sudbury Septage Facility (the Facility) stated at \$632,185 at June 30, 2009, or its equity in the Facility's change in net assets; nor were we able to satisfy ourselves about the carrying value of the investment or the equity in its change in net assets by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Facility's financial statements been audited, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities of the Town of Sudbury, Massachusetts, as of June 30, 2009, and the respective change in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sudbury, Massachusetts, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 13, the Town implemented Governmental Accounting Standards Board Statement # 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2010, on our consideration of the Town of Sudbury, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 4 through 14) and budgetary comparison and certain pension information (located on pages 57 through 62) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sullivan, Roy & Company, LLC

April 9, 2010

Management's Discussion and Analysis

As management of the Town of Sudbury, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$92,258,027 (net assets). Of this amount, \$14,690,577 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$437,707.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$26,922,737 an increase of \$604,852 in comparison with the prior year. Approximately \$17,099,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$1,038,246 or 1.3 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt (gross) increased by \$1,545,000 during the fiscal year; \$5,045,000 of new debt was issued.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

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 assets** presents information on all of the Town's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's swimming pool and transfer station operations.

The government-wide financial statements can be found on pages 17-19 of this report.

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 can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 396 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization (special revenue), community preservation (special revenue) and affordable housing (special revenue) funds, each of which are considered to be major funds. Data from the other 392 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 20-25 of this report.

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 Town uses enterprise funds to account for its swimming pool and transfer station activities, each of which are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 26-28 of this report.

Fiduciary funds

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 29-30 of this report.

Notes to the basic 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. The notes to the financial statements can be found on pages 31-55 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 57-62 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$92,258,027 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets						
Current assets.....	\$ 34,064,020	\$ 32,833,171	\$ 297,404	\$ 300,029	\$ 34,361,424	\$ 33,133,200
Noncurrent assets (excluding capital assets).....	16,162,676	16,791,593	-	-	16,162,676	16,791,593
Capital assets (net).....	<u>89,721,908</u>	<u>85,699,032</u>	<u>754,423</u>	<u>862,234</u>	<u>90,476,331</u>	<u>86,561,266</u>
Total assets.....	<u>139,948,604</u>	<u>135,323,796</u>	<u>1,051,827</u>	<u>1,162,263</u>	<u>141,000,431</u>	<u>136,486,059</u>
Liabilities						
Current liabilities (excluding debt).....	5,547,137	4,884,810	31,535	28,129	5,578,672	4,912,939
Noncurrent liabilities (excluding debt).....	3,392,079	907,853	46,006	-	3,438,085	907,853
Current debt.....	3,612,098	3,288,886	-	-	3,612,098	3,288,886
Noncurrent debt.....	<u>36,113,549</u>	<u>34,680,647</u>	<u>-</u>	<u>-</u>	<u>36,113,549</u>	<u>34,680,647</u>
Total liabilities.....	<u>48,664,863</u>	<u>43,762,196</u>	<u>77,541</u>	<u>28,129</u>	<u>48,742,404</u>	<u>43,790,325</u>
Net Assets						
Invested in capital assets (net of related debt).....	64,747,670	63,365,796	754,423	862,234	65,502,093	64,228,030
Restricted.....	12,065,357	11,293,988	-	-	12,065,357	11,293,988
Unrestricted.....	<u>14,470,714</u>	<u>16,901,816</u>	<u>219,863</u>	<u>271,900</u>	<u>14,690,577</u>	<u>17,173,716</u>
Total net assets.....	<u>\$ 91,283,741</u>	<u>\$ 91,561,600</u>	<u>\$ 974,286</u>	<u>\$ 1,134,134</u>	<u>\$ 92,258,027</u>	<u>\$ 92,695,734</u>

A significant portion of the Town's net assets (71.0%) reflects its investment in capital assets (e.g., land, intangible assets, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the 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 assets (13.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (15.9% or \$14,690,577) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$14,470,714 may be used to support governmental activities and \$219,863 may be used to support business-type activities.

Changes in Net Assets

The Town's total net assets decreased by \$437,707 during the current fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 3,831,907	\$ 4,059,941	\$ 736,405	\$ 727,116	\$ 4,568,312	\$ 4,787,057
Operating grants and contributions.....	13,141,248	12,642,966	7,938	-	13,149,186	12,642,966
Capital grants and contributions.....	2,257,220	(2,388,625)	-	-	2,257,220	(2,388,625)
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	63,077,062	60,406,373	-	-	63,077,062	60,406,373
Motor vehicle and other excise taxes.....	2,680,579	3,067,729	-	-	2,680,579	3,067,729
Penalties and interest on taxes.....	168,382	143,367	-	-	168,382	143,367
Payments in lieu of taxes.....	57,494	90,079	-	-	57,494	90,079
Community preservation surcharges.....	1,430,828	1,374,922	-	-	1,430,828	1,374,922
Grants and contributions not restricted to specific programs.....	1,697,519	1,850,319	-	-	1,697,519	1,850,319
Unrestricted investment income.....	379,045	671,911	-	-	379,045	671,911
Total revenues.....	88,721,284	81,918,982	744,343	727,116	89,465,627	82,646,098
Expenses						
General government.....	4,097,471	3,424,767	-	-	4,097,471	3,424,767
Public safety.....	9,689,559	8,864,947	-	-	9,689,559	8,864,947
Education.....	63,231,792	61,374,045	-	-	63,231,792	61,374,045
Public works.....	5,989,846	5,071,976	-	-	5,989,846	5,071,976
Health and human services.....	1,147,667	876,114	-	-	1,147,667	876,114
Culture and recreation.....	2,990,312	3,043,768	-	-	2,990,312	3,043,768
Debt service - interest.....	1,880,170	1,904,610	-	-	1,880,170	1,904,610
Swimming pool.....	-	-	507,235	451,288	507,235	451,288
Transfer station.....	-	-	369,282	257,880	369,282	257,880
Total expenses.....	89,026,817	84,560,227	876,517	709,168	89,903,334	85,269,395
Change in net assets before transfers.....	(305,533)	(2,641,245)	(132,174)	17,948	(437,707)	(2,623,297)
Transfers, net.....	27,674	28,145	(27,674)	(28,145)	-	-
Change in net assets.....	(277,859)	(2,613,100)	(159,848)	(10,197)	(437,707)	(2,623,297)
Net assets - beginning of year.....	91,561,600	94,174,700	1,134,134	1,144,331	92,695,734	95,319,031
Net assets - end of year.....	\$ 91,283,741	\$ 91,561,600	\$ 974,286	\$ 1,134,134	\$ 92,258,027	\$ 92,695,734

Governmental activities decreased the Town's net assets by \$277,859. In the prior year, governmental activities decreased the Town's net assets by \$2,613,100. The key element of this change is the fiscal year 2008 decrease in school construction grants receivable based on audits of school construction projects.

Business-type activities decreased the Town's net assets by \$159,848. In the prior year, business-type activities decreased the Town's net assets by \$10,197. The key elements of this change relate to the following:

- First-time recognition of other post-employment benefits obligations (approximately \$31,000)
- First-time recognition of compensated absences (approximately \$16,000)
- Transfer station repairs and maintenance (approximately \$22,000)
- Transfer station depreciation related to a change in useful life (approximately \$63,000)

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$26,922,737, an increase of \$604,852 in comparison with the prior year. Approximately \$16,778,000 represents undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$1,181,167)
- Employee benefits (\$6,661,734)
- Perpetual permanent funds (\$995,855)
- Other specific purposes (\$984,614)
- Fund a portion of the fiscal year 2010 budget (\$321,000)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$1,038,246, while total fund balance was \$9,202,147. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures and transfers out. Undesignated fund balance represents 1.3% of total general fund expenditures and transfers out, while total fund balance represents 11.5% of that same amount.

The fund balance of the Town's general fund increased \$158,791 during the current fiscal year. This is primarily attributable to the following:

- Use of unreserved fund balance (\$1,826,466)
- Negative budget to actual variance in revenues (\$730,280)
- Conservative spending against budgeted appropriations (positive budget to actual variance of \$2,689,812 before encumbrances and continuing appropriations)

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$61,411 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the community preservation fund (special revenue) increased by \$291,245 during the current fiscal year. The fund recognized \$1,430,652 in surcharges, \$1,465,898 in intergovernmental revenues, \$250,221 in investment income, \$5,045,000 in proceeds of bonds and \$29,613 in premiums from the issuance of bonds. Expenditures of \$7,180,139 were incurred during the fiscal year. Transfers out of \$750,000 to the affordable housing fund were made during the fiscal year.

The fund balance of the affordable housing fund (special revenue) increased by \$379,446 during the current fiscal year. The fund recognized \$34,251 in revenues, incurred \$404,805 of expenditures and received \$750,000 of transfers from the community preservation fund.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the swimming pool and transfer station enterprise funds at the end of the year amounted to \$63,244 and \$156,619, respectively. The swimming pool and transfer station enterprise funds had a change in net assets for the year of (\$67,683) and (\$92,165), respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$76,411,703 was increased by \$126,320 (0.2%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Snow and ice expenditures.....	\$ 100,000	Undesignated fund balance
Building expenditures.....	26,320	Insurance recovery special revenue fund
Total increase.....	<u>\$ 126,320</u>	

During the year, revenues and expenditures and encumbrances and continuing appropriations were less than budgetary estimates, while other financing sources were greater than budgetary estimates, resulting in a positive budget to actual variance of \$938,365.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$90,476,331 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$3,915,065 or 4.52% (a 4.65% increase for governmental activities and a 0.13% decrease for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Purchase of development restrictions on the Nobscot land (\$5,545,000)
- Purchases/leases of machinery and equipment (\$1,001,472)
- Various roadway and infrastructure improvements (\$796,884)
- Land purchases/tax takings (\$445,799)
- Purchases of vehicles (\$140,807)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2009	2008	2009	2008	2009	2008
Land.....	\$ 26,282,901	\$ 25,837,102	\$ 192,500	\$ 192,500	\$ 26,475,401	\$ 26,029,602
Land improvements.....	1,888,199	2,068,379	-	-	1,888,199	2,068,379
Buildings and improvements.....	47,617,573	49,393,504	523,744	556,656	48,141,317	49,950,160
Machinery and equipment.....	1,583,501	826,511	10,851	9,459	1,594,352	835,970
Vehicles.....	1,378,402	2,153,342	27,328	103,619	1,405,730	2,256,961
Infrastructure.....	5,426,332	5,420,194	-	-	5,426,332	5,420,194
Intangible assets.....	5,545,000	-	-	-	5,545,000	-
Total capital assets.....	\$ 89,721,908	\$ 85,699,032	\$ 754,423	\$ 862,234	\$ 90,476,331	\$ 86,561,266

Additional information on the Town's capital assets can be found in Note 5 on pages 44-45 of this report.

Long-Term Debt

At the end of the current fiscal year, the total gross bonded debt outstanding was \$40,000,000, which is backed by the full faith and credit of the Town and consists entirely of general obligation bonds.

The Town's total gross bonded debt increased \$1,545,000 (4.0%) during the current fiscal year. During the fiscal year, the Town issued long-term debt totaling \$5,045,000 for land development restrictions.

Additional information on the Town's long-term debt can be found in Note 9 on pages 47-50 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2010 General Fund operating budget was once again hampered by a dichotomy of rising costs and limited growth in revenues. The fiscal year 2010 projection for General Fund revenues currently stands at approximately \$77.3 million. As Sudbury makes its way through the fiscal year 2010 budget season, it is difficult to say how the State's budget and economic woes will further affect local aid, but the state has indicated that it will not reduce fiscal year 2010 local aid.

Property taxes remain the primary source of revenue for the Town. Property taxes in Massachusetts are limited (by Proposition 2 ½) to a levy growth of 2.5% plus a value for new construction, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. The last override approved by Sudbury taxpayers was for \$2.5 million (or 4.7% more than the normal levy) for fiscal year 2008. Since then, the Town has operated without an override and steady deterioration in other revenue.

State Aid (which includes Chapter 70 school reimbursement, general assistance and a dwindling number of other distributions or offsets) represents our second largest source of revenue. This type of revenue is distributed to municipalities based on a variety of formulas and metrics. While each component represents perhaps only a small fraction of the total revenue available to the State, or for that matter, the costs to deliver specific services at a local level, municipalities remain heavily reliant on this type of revenue to operate each year.

Non-tax revenues continue to decline. Local receipts (i.e. motor vehicle excise, departmental revenues, licensing and permits), are considered elastic revenues meaning that they are sensitive to the economy and tend to fluctuate accordingly over time. Up until fiscal year 2005, local receipts remained relatively stable. In fact, our largest segment, motor vehicle excise, provided 2-3% growth in revenues year over year (Sudbury being in the top 5% of all Massachusetts municipalities for highest average excise tax bills and lowest average vehicles age).

However, even Sudbury has not escaped the economic crisis felt throughout the country since 2008. In fiscal year 2009, local receipt tumbled more than \$600,000 or nearly 13% from the prior year. Economic recovery at the local level is not anticipated until fiscal year 2012, prompting the Town to reduce its revenue estimates for the fiscal year 2010 budget even further to just over \$4 million (which is nearly \$900,000 lower than fiscal year 2008; \$300,000 below our previous decade low in fiscal year 2004).

For fiscal year 2010, the Town's General Fund budget for expenses stands at \$77.3 million (including all town, school and shared expenses). The budget is allocated across four major cost centers (in descending order of relative size of operating resources: Sudbury Public Schools, Town Services, Lincoln-Sudbury Regional High School, and Capital), with the rest providing for shared expenses and other charges to be raised. It is important to note that within these cost centers, the first three in particular, there is a large segment of fixed costs to be paid for each year. These commonly exist in the form of service contracts, utilities, fuel, leases, insurances, etc and all are recurring in nature and increase periodically (often annually) based on economic and inflationary factors.

Of greater concern or impact on the Town's ability to operate and provide all services year in-year out is the growing cost of wages and employee benefits. We are a service organization charged with task of providing for the educational, public safety, cultural, human services and recreational needs of the Town. Beyond the direct, fundamental needs provided, are the growing (often-unfunded) mandates required by State and Federal government alike. At the core of all of these achievements is a labor force, which over the last decade has shrunk despite an increase in service levels and population, being served. Even so, wages and benefits represent nearly 80% of the Town's entire operating budget. With the cost of wages and benefits combined rising beyond the rate of inflation and more importantly the Town's rate of revenue growth, the Town and Schools have had to close the budget gap with significant headcount reductions over the last couple of years.

In fiscal year 2010, Town management, Board of Selectmen and School Committees face similar difficult choices to balance the budget. All remain committed to preserving our most valuable asset – our work force. Doing so will require implementing several initiatives including: reductions in the rate of growth in wages, reductions in the cost of employee health insurance, consolidation and regionalization of services. The largest savings stand to come from successful labor contract negotiations regarding wages, healthcare contributions and benefit plan design. To date, the Town and Schools have produced significant savings for contracts renewing in fiscal year 2010. Between the schools and the Town, we expect to realize approximately \$870,000 in savings for fiscal year 2010 as a result of the changes. Previously, healthcare costs have been rising steadily between 7-12% per year. For fiscal year 2011, we are planning for nearly level funding to the fiscal year 2010 levels. In general, employee contributions are going from 10% by employees up to 30% over the next 3 years. Effective July 1, 2009, all new employees will contribute 30%.

While the Town is already engaged in several regional groups and job sharing opportunities with neighboring communities, more is underway in the areas of recreation, culture, public safety and public health and elsewhere, in order to maintain the same or similar levels of services that Sudbury residents have grown to expect, but can no longer afford under the confines of Proposition 2 1/2, and a tax burden that is levied almost solely on residential properties in Town.

Finally, the Town continues to work on strategies to shift the financial burden from residents by increasing its commercial tax base and developing new non-tax revenue streams. The first strategy represents a long-standing goal to bolster Route 20's commercial corridor. Realistically, the only way to do this is by building the Town's first municipal wastewater treatment plant specifically for this district. The Town has recently identified a suitable site for a wastewater leaching field. If successful in this endeavor, the Town could increase its commercial tax base significantly which in turn would change the current mix of 91% Residential value and only 9% Commercial value property (in current terms, for every 1% shift to commercial value, would reduce the average taxpayer's bill by approximately \$150).

Beyond generating property tax revenues, the Town is very limited in its ability to produce revenues to support general operations. The State has recently passed legislation allowing municipalities to adopt or increase local option taxes, which could generate an additional \$100,000 per year for the Town. Of greater significance is the increased opportunity for the Town to take advantage of various State and Federal grants to offset significant programs and projects. While most grants are not recurring in nature they may afford the opportunity to build emergency command centers, start up regional dispatch systems, purchase equipment or invest in renewable energy sources. Most or perhaps all of these types of new initiatives would not otherwise be possible without grants. Similarly, revolving fund revenues and Enterprise Funds provide some sustainable means for the Town to pay for specific services it may provide. While such activities happen outside the General Fund and therefore do not support general expenditures, their value cannot be overlooked in terms of the positive impact to the Town's overall budget strategy. Revolving funds and Enterprises help to match user groups with the expenses incurred to provide specific services - busing, permitting, recreation, youth activities, solid waste and recycling are only a few of the ways we are able to align costs for very specific services rendered to the segments of population that use them.

The economy and budget outlook for fiscal year 2011 remains guarded. Management continues to take steps to protect the Town's financial health. The financial policies of the Town require making prudent decisions not only to meet today's challenges but also to secure the Town for the future. The key to maintaining our excellent financial condition and retaining our hard won AAA credit rating from Standard & Poor's is to continue to make decisions with multi-year sustainability in mind.

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 its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 278 Old Sudbury Road, Sudbury, Massachusetts 01776.

This page left intentionally blank.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2009

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 13,190,759	\$ 289,404	\$ 13,480,163
Restricted cash and cash equivalents.....	4,500,451	-	4,500,451
Investments.....	6,757,924	-	6,757,924
Restricted investments.....	5,881,819	-	5,881,819
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	623,464	-	623,464
Tax liens.....	447,665	-	447,665
Motor vehicle and other excise taxes.....	95,114	-	95,114
Community preservation surcharges.....	13,399	-	13,399
Departmental and other.....	44,314	8,000	52,314
Intergovernmental.....	1,730,991	-	1,730,991
Tax foreclosures.....	69,824	-	69,824
Working capital deposit.....	708,296	-	708,296
Total current assets.....	34,064,020	297,404	34,361,424
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	1,413,236	-	1,413,236
Intergovernmental.....	14,117,255	-	14,117,255
Investment in joint venture.....	632,185	-	632,185
Capital assets not being depreciated.....	31,827,901	192,500	32,020,401
Capital assets, net of accumulated depreciation.....	57,894,007	561,923	58,455,930
Total noncurrent assets.....	105,884,584	754,423	106,639,007
Total assets.....	139,948,604	1,051,827	141,000,431
LIABILITIES			
Current liabilities:			
Warrants payable.....	720,664	21,450	742,114
Accrued payroll.....	2,685,404	8,444	2,693,848
Tax refunds payable.....	111,234	-	111,234
Other liabilities.....	790,298	-	790,298
Accrued interest.....	159,639	-	159,639
Accrued health claims payable.....	712,740	-	712,740
Capital lease obligations.....	198,924	-	198,924
Workers' compensation claims.....	112,454	-	112,454
Compensated absences.....	55,780	1,641	57,421
Long-term bonds and notes payable.....	3,612,098	-	3,612,098
Total current liabilities.....	9,159,235	31,535	9,190,770
Noncurrent liabilities:			
Capital lease obligations.....	300,041	-	300,041
Workers' compensation claims.....	52,108	-	52,108
Net OPEB obligation.....	2,537,912	31,236	2,569,148
Compensated absences.....	502,018	14,770	516,788
Long-term bonds and notes payable.....	36,113,549	-	36,113,549
Total noncurrent liabilities.....	39,505,628	46,006	39,551,634
Total liabilities.....	48,664,863	77,541	48,742,404
NET ASSETS			
Invested in capital assets, net of related debt.....	64,747,670	754,423	65,502,093
Restricted for:			
Investment in joint venture.....	632,185	-	632,185
Community preservation.....	8,538,777	-	8,538,777
Affordable housing.....	759,810	-	759,810
Permanent funds:			
Expendable.....	154,116	-	154,116
Nonexpendable.....	995,855	-	995,855
Other specific purposes.....	984,614	-	984,614
Unrestricted.....	14,470,714	219,863	14,690,577
Total net assets.....	\$ 91,283,741	\$ 974,286	\$ 92,258,027

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 4,097,471	\$ 515,050	\$ 358,818	\$ 169,600	\$ (3,054,003)
Public safety.....	9,689,559	867,971	279,803	-	(8,541,785)
Education.....	63,231,792	1,285,944	11,271,001	-	(50,674,847)
Public works.....	5,989,846	115,153	107,763	621,722	(5,145,208)
Health and human services.....	1,147,667	170,991	18,508	-	(958,168)
Culture and recreation.....	2,990,312	876,798	255,162	1,465,898	(392,454)
Debt service - interest.....	1,880,170	-	850,193	-	(1,029,977)
Total governmental activities...	<u>89,026,817</u>	<u>3,831,907</u>	<u>13,141,248</u>	<u>2,257,220</u>	<u>(69,796,442)</u>
Business-type activities:					
Swimming pool.....	507,235	436,596	2,956	-	(67,683)
Transfer station.....	369,282	299,809	4,982	-	(64,491)
Total business-type activities...	<u>876,517</u>	<u>736,405</u>	<u>7,938</u>	<u>-</u>	<u>(132,174)</u>
Total primary government.....	<u>\$ 89,903,334</u>	<u>\$ 4,568,312</u>	<u>\$ 13,149,186</u>	<u>\$ 2,257,220</u>	<u>\$ (69,928,616)</u>

See notes to basic financial statements.