

TOWN OF SHERBORN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sherborn, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sherborn, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sherborn's management. Our responsibility is to express an opinion 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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Sherborn, as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing on page 35, are not required parts 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

Additional Offices:

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

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.

Melanson, Heath + Company P.C.

Andover, Massachusetts
June 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sherborn, we offer readers this narrative overview and analysis of the financial activities of the Town of Sherborn for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statement of net assets presents information on all 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 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 and earned but unused vacation leave).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for

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

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

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

Notes to 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.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 27,173,995 (i.e., net assets), a change of \$ 546,196 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,998,634, a change of \$ 992,166 in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,237,183, a change of \$ 430,012 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 11,085,000, a change of \$ 1,435,000 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 8,611,821	\$ 8,295,754
Capital assets	<u>31,740,917</u>	<u>30,806,195</u>
Total assets	40,352,738	39,101,949
Long-term liabilities outstanding	10,907,495	9,664,981
Other liabilities	<u>2,271,248</u>	<u>2,809,169</u>
Total liabilities	13,178,743	12,474,150
Net assets:		
Invested in capital assets, net	20,814,167	20,977,975
Restricted	3,424,678	3,170,548
Unrestricted	<u>2,935,150</u>	<u>2,479,276</u>
Total net assets	<u>\$ 27,173,995</u>	<u>\$ 26,627,799</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 970,798	\$ 808,282
Operating grants and contributions	2,631,136	2,857,479
Capital grants and contributions	293,478	293,478
General revenues:		
Property taxes	19,330,295	19,475,106
Excises	653,310	252,009
Penalties and interest on taxes	96,908	72,003
Grants and contributions not restricted to specific programs	210,341	267,644
Investment income (loss)	211,236	(192,773)
Other	<u>211,042</u>	<u>197,485</u>
Total revenues	24,608,544	24,030,713

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Expenses:		
General government	1,498,894	1,527,978
Public safety	2,312,304	1,870,896
Education	15,081,810	14,702,925
Public works	1,760,295	2,333,230
Health and human services	492,441	471,982
Culture and recreation	750,421	879,697
Employee benefits	1,810,760	2,296,668
Interest on long-term debt	523,761	585,068
Intergovernmental	65,350	65,602
Total expenses	<u>24,296,036</u>	<u>24,734,046</u>
Change in net assets before permanent fund contributions	312,508	(703,333)
Permanent fund contributions	<u>233,688</u>	<u>334,280</u>
Change in net assets	546,196	(369,053)
Net assets - beginning of year	<u>26,627,799</u>	<u>26,996,852</u>
Net assets - end of year	<u>\$ 27,173,995</u>	<u>\$ 26,627,799</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 27,173,995 a change of \$ 546,196 from the prior year.

The largest portion of net assets, \$ 20,814,167 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets of \$ 3,424,678 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 2,935,150 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 546,196. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 249,261
Nonmajor funds	742,905
Excess depreciation over bond principal maturities	(723,684)
Unfunded OPEB obligation	(13,317)
Other GAAP accruals	<u>291,031</u>
Total	<u>\$ 546,196</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, 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.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,998,664, a change of \$ 992,166 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as disclosed below	\$ 249,261
Nonmajor fund operating results	<u>742,905</u>
Total	<u>\$ 992,166</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,237,183, while total fund balance was \$ 2,582,722. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.4 percent of total general fund expenditures, while total fund balance represents 11.3 percent of that same amount.

The fund balance of the general fund changed by \$ 249,261 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 99,996
Expenditures less than budget	539,370
Property tax collections exceeding (less than) net tax levy	151,562
Use of fund balance as a funding source	(737,565)
Excess of current year encumbrances over prior year	84,478
Timing differences	<u>111,420</u>
Total	<u>\$ 249,261</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget consisted of appropriation between budget lines, but no changes in overall appropriation totals.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 31,740,917 (net of accumulated depreciation), a change of \$ 934,724 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- The purchase of various land located at 23 Washington Street totaling \$ 495,000
- The purchase of one police cruiser for \$ 24,840
- Ongoing Chapter 90 funded improvements to roadways of \$ 128,526

Additional information on capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 11,085,000, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

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

Office of Town Accountant
Town of Sherborn
19 Washington Street
Sherborn, Massachusetts 01770

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 6,082,933
Investments	1,878,791
Receivables, net of allowance for uncollectibles:	
Property taxes	382,241
Excises	14,634
Departmental and other	38,437
Intergovernmental	183,481
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	31,304
Capital assets:	
Land and construction in progress	12,096,661
Other capital assets, net of accumulated depreciation	<u>19,644,256</u>
TOTAL ASSETS	40,352,738
LIABILITIES	
Current:	
Warrants payable	439,568
Accrued liabilities	462,855
Other liabilities	189,673
Other current liabilities:	
Bonds payable	1,095,000
Accrued employee benefits	84,152
Noncurrent:	
Bonds payable, net of current portion	9,990,000
OPEB liability	580,887
Accrued employee benefits, net of current portion	<u>336,608</u>
TOTAL LIABILITIES	13,178,743
NET ASSETS	
Invested in capital assets, net of related debt	20,814,167
Restricted for:	
Grants and other statutory restrictions	1,194,625
Permanent funds:	
Nonexpendable	904,979
Expendable	1,325,074
Unrestricted	<u>2,935,150</u>
TOTAL NET ASSETS	\$ <u><u>27,173,995</u></u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	\$ 5,189,070	\$ 893,863	\$ 6,082,933
Investments	-	1,878,791	1,878,791
Receivables:			
Property taxes	453,757	-	453,757
Excises	19,801	-	19,801
Departmental and other	-	56,741	56,741
Intergovernmental	48,781	134,700	183,481
Due from other funds	-	1,644,487	1,644,487
TOTAL ASSETS	<u>\$ 5,711,409</u>	<u>\$ 4,608,582</u>	<u>\$ 10,319,991</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 439,568	\$ -	\$ 439,568
Deferred revenues	447,618	191,442	639,060
Due to other funds	1,643,259	1,228	1,644,487
Accrued liabilities	408,569	-	408,569
Other liabilities	189,673	-	189,673
TOTAL LIABILITIES	3,128,687	192,670	3,321,357
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	413,744	-	413,744
Expenditures	931,795	-	931,795
Perpetual (nonexpendable) permanent funds	-	904,979	904,979
Debt Service	-	486,182	486,182
Unreserved:			
Undesignated, reported in:			
General fund	1,237,183	-	1,237,183
Special revenue funds	-	1,541,429	1,541,429
Capital project funds	-	158,248	158,248
Permanent funds	-	1,325,074	1,325,074
TOTAL FUND BALANCES	<u>2,582,722</u>	<u>4,415,912</u>	<u>6,998,634</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,711,409</u>	<u>\$ 4,608,582</u>	<u>\$ 10,319,991</u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2010

Total governmental fund balances	\$ 6,998,634
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	31,740,917
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	575,377
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(54,286)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, and OPEB liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(12,086,647)</u>
Net assets of governmental activities	<u><u>\$ 27,173,995</u></u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 19,417,082	\$ -	\$ 19,417,082
Excises	649,465	-	649,465
Penalties, interest and other taxes	96,908	-	96,908
Charges for services	184,847	609,239	794,086
Intergovernmental	2,030,741	745,841	2,776,582
Licenses and permits	133,342	-	133,342
Fines and forfeitures	59,550	-	59,550
Investment income (loss)	21,971	149,738	171,709
Contributions	-	457,361	457,361
Miscellaneous	55,779	194,790	250,569
Total Revenues	<u>22,649,685</u>	<u>2,156,969</u>	<u>24,806,654</u>
Expenditures:			
Current:			
General government	1,430,463	493,830	1,924,293
Public safety	1,747,077	205,945	1,953,022
Education	14,433,576	501,542	14,935,118
Public works	908,695	1,911,223	2,819,918
Health and human services	469,200	29,407	498,607
Culture and recreation	503,023	235,410	738,433
Employee benefits	1,797,443	-	1,797,443
Debt service	1,437,162	142	1,437,304
Intergovernmental	65,350	-	65,350
Total Expenditures	<u>22,791,989</u>	<u>3,377,499</u>	<u>26,169,488</u>
Excess (deficiency) of revenues over expenditures	(142,304)	(1,220,530)	(1,362,834)
Other Financing Sources (Uses):			
Bond proceeds	-	2,355,000	2,355,000
Transfers in	391,565	62,451	454,016
Transfers out	-	(454,016)	(454,016)
Total Other Financing Sources (Uses)	<u>391,565</u>	<u>1,963,435</u>	<u>2,355,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	249,261	742,905	992,166
Fund Equity, at Beginning of Year	<u>2,333,461</u>	<u>3,673,007</u>	<u>6,006,468</u>
Fund Equity, at End of Year	<u>\$ 2,582,722</u>	<u>\$ 4,415,912</u>	<u>\$ 6,998,634</u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 992,166																
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">2,578,406</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(1,643,684)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">35,578</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Issuance of debt</td> <td style="text-align: right;">(2,355,000)</td> </tr> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">920,000</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(6,457)</td> </tr> </table> • Some expenses reported in the Statement of Activities, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Compensated absences</td> <td style="text-align: right;">38,504</td> </tr> <tr> <td style="padding-left: 20px;">OPEB liability</td> <td style="text-align: right;"><u>(13,317)</u></td> </tr> </table> 		Capital outlay purchases, net of disposals	2,578,406	Depreciation	(1,643,684)		35,578	Issuance of debt	(2,355,000)	Repayments of debt	920,000		(6,457)	Compensated absences	38,504	OPEB liability	<u>(13,317)</u>
Capital outlay purchases, net of disposals	2,578,406																
Depreciation	(1,643,684)																
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Repayments of debt	920,000																
	(6,457)																
Compensated absences	38,504																
OPEB liability	<u>(13,317)</u>																
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>546,196</u>																

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 19,265,519	\$ 19,265,519	\$ 19,265,519	\$ -
Excise	650,000	650,000	649,465	(535)
Penalties, interest and other taxes	44,000	44,000	96,908	52,908
Charges for services	214,000	214,000	184,847	(29,153)
Intergovernmental	1,035,736	1,035,736	1,036,870	1,134
Licenses and permits	100,000	100,000	133,342	33,342
Fines and forfeitures	45,000	45,000	59,550	14,550
Investment income	50,000	50,000	21,971	(28,029)
Transfers in	391,565	391,565	391,565	-
Miscellaneous	-	-	55,779	55,779
Use of free cash	<u>737,565</u>	<u>737,565</u>	<u>737,565</u>	<u>-</u>
Total Revenues and Other Sources	22,533,385	22,533,385	22,633,381	99,996
Expenditures and Other Uses:				
General government	1,476,058	1,525,214	1,450,446	74,768
Public safety	1,781,736	1,758,936	1,746,347	12,589
Education	13,839,678	13,839,622	13,470,016	369,606
Public works	1,046,493	1,046,493	1,034,035	12,458
Health and human services	483,720	476,820	471,140	5,680
Culture and recreation	537,146	536,346	517,717	18,629
Debt service	1,465,653	1,465,653	1,437,162	28,491
Intergovernmental	65,430	65,430	65,350	80
Employee benefits	<u>1,837,471</u>	<u>1,818,871</u>	<u>1,801,802</u>	<u>17,069</u>
Total Expenditures and Other Uses	<u>22,533,385</u>	<u>22,533,385</u>	<u>21,994,015</u>	<u>539,370</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 639,366</u>	<u>\$ 639,366</u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2010, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized

in the General Fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 217,305.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or

constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

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

I. Compensated Absences

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

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabili-

ties and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP).

Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 22,649,685	\$ 22,791,990
Other financing sources/uses (GAAP basis)	<u>391,565</u>	<u>-</u>
Subtotal (GAAP Basis)	23,041,250	22,791,990
Adjust tax revenue to accrual basis	(151,563)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(329,266)
Add end of year appropriation carryforwards to expenditures	-	413,743
To reverse the effect of non- budgeted State contributions for teachers retirement	(993,871)	(993,871)
Timing difference	-	111,420
To record use of free cash	<u>767,565</u>	<u>-</u>
Budgetary basis	<u>\$ 22,663,381</u>	<u>\$ 21,994,016</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2010:

Special Revenue Funds:

Police 911 reimbursement grant FY09	\$ (2,526)
Circuit Breaker	\$ (38,782)
Police OT reimbursement grant	\$ (1,395)
State Police OT reimbursement grant FY10	\$ (1,368)
State grant: 911 police support and incentive	\$ (12,368)
REAP grant	\$ (1,733)

3. Cash and Short-Term Investments

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

As of June 30, 2010, none of the Town's bank balance of \$ 6,141,802 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. Investments

A. Credit Risk

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

Presented below is the actual rating as of year end for each investment of the Town (all federal securities have an implied credit rating of AAA):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>Aaa</u>	<u>Aa</u>	<u>A</u>
U.S. Treasury notes	\$ 165	N/A	\$ -	\$ 165	\$ -	\$ -
Corporate bonds	303	N/A	-	-	83	220
Corporate equities	591		591	-	-	-
Mutual funds	<u>820</u>		<u>820</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 1,879</u>		<u>\$ 1,411</u>	<u>\$ 165</u>	<u>\$ 83</u>	<u>\$ 220</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town does not have any investments that are exposed to custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt</u>	<u>Investment Maturities (in Years)</u>	
			<u>Less Than 1</u>	<u>1-5</u>
Debt Related Securities:				
U.S. Treasury notes	\$ 165	\$ -	\$ 165	\$ -
Equities	591	591	-	-
Corporate bonds	303	-	108	195
Mutual funds	820	820	-	-
Total	<u>\$ 1,879</u>	<u>\$ 1,411</u>	<u>\$ 273</u>	<u>\$ 195</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor’s for 100% of the estimated fair market value. Taxes are due on a semi-annual basis and are subject to penalties and interest if they are not paid by the respective due dates of November 1 and May 1.

Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2010 consist of the following:

Real Estate		
2010		\$ 352,037
Personal Property		
2010	323	
2009	109	
2008	<u>103</u>	
		535
Tax Liens		62,608
Deferred Taxes		<u>38,577</u>
Total		<u>\$ 453,757</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>
Property taxes	\$ 40,212
Excises	5,167
Departmental	18,304

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2010 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 1,643,259
Special Revenue Funds	1,485,010	-
Capital Project Funds	<u>159,477</u>	<u>1,228</u>
Total	<u>\$ 1,644,487</u>	<u>\$ 1,644,487</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 13,773	\$ 53	\$ -	\$ 13,826
Machinery, equipment, and furnishings	6,352	163	-	6,515
Infrastructure	<u>19,290</u>	<u>129</u>	<u>-</u>	<u>19,419</u>
Total capital assets, being depreciated	39,415	345	-	39,760
Less accumulated depreciation for:				
Buildings and improvements	(4,043)	(383)	-	(4,426)
Machinery, equipment, and furnishings	(5,071)	(328)	-	(5,399)
Infrastructure	<u>(9,594)</u>	<u>(933)</u>	<u>-</u>	<u>(10,527)</u>
Total accumulated depreciation	<u>(18,708)</u>	<u>(1,644)</u>	<u>-</u>	<u>(20,352)</u>
Total capital assets, being depreciated, net	20,707	(1,299)	-	19,408
Capital assets, not being depreciated:				
Land	9,838	520	(25)	10,333
Construction in progress	261	1,739	-	2,000
Total capital assets, not being depreciated	<u>10,099</u>	<u>2,259</u>	<u>(25)</u>	<u>12,333</u>
Governmental activities capital assets, net	<u>\$ 30,806</u>	<u>\$ 960</u>	<u>\$ (25)</u>	<u>\$ 31,741</u>

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

Governmental Activities:	
General government	\$ 93
Public safety	249
Education	211
Public works	1,030
Health and human services	38
Culture and recreation	<u>23</u>
Total depreciation expense - governmental activities	<u>\$ 1,644</u>

10. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

11. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 800,000	\$ 1,687,000	\$ (2,487,000)	\$ -
State anticipation	<u>-</u>	<u>140,000</u>	<u>(140,000)</u>	<u>-</u>
Total	<u>\$ 800,000</u>	<u>\$ 1,827,000</u>	<u>\$ (2,627,000)</u>	<u>\$ -</u>

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/10</u>
<u>General Obligation Bonds Payable:</u>			
Municipal bond	05/15/27	2.00 - 4.00%	\$ 2,355,000
Municipal bond	05/15/21	2.50 - 4.30%	2,680,000
Municipal bond	05/15/26	4.00 - 5.00%	<u>6,050,000</u>
Total Governmental Activities:			<u>\$ 11,085,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,095,000	\$ 437,125	\$ 1,532,125
2012	1,075,000	384,998	1,459,998
2013	1,050,000	347,523	1,397,523
2014	1,035,000	309,798	1,344,798
2015	1,030,000	272,173	1,302,173
2016-2020	4,190,000	752,163	4,942,163
2021-2025	1,275,000	192,835	1,467,835
2026-2030	<u>335,000</u>	<u>18,200</u>	<u>353,200</u>
Total	<u>\$ 11,085,000</u>	<u>\$ 2,714,815</u>	<u>\$ 13,799,815</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2010.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/09</u>	Additions	Reductions	Total Balance <u>6/30/10</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,650	\$ 2,355	\$ (920)	\$ 11,085	\$ (1,095)	\$ 9,990
Other:						
Net OPEB obligation	567	14	-	581	-	581
Accrued employee benefits	459	10	(48)	421	(84)	337
Totals	<u>\$ 10,676</u>	<u>\$ 2,379</u>	<u>\$ (968)</u>	<u>\$ 12,087</u>	<u>\$ (1,179)</u>	<u>\$ 10,908</u>

14. Restricted Net Assets

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

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

15. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2010:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Debt Service - Represents Massachusetts School Building Authority (MSBA) grant payment for school project borrowing. This reserve is to be used for future debt payments on school building related debt.

16. Commitments and Contingencies

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

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

17. Post-Employment Health Care and Life Insurance Benefits

Other Post-Employment Benefits

The Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32B of the Massachusetts General Laws. As of June 30, 2007, the actuarial valuation date, approximately 55 retirees and 85 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Medicare eligible retirees contribute 50% of the cost of the health plan, as determined by the Town. Retirees who have not met Medicare eligibility continue on the active plans and contribute 30%, 28%, and 21%, depending on hire date, individual plans, and family plans until such time as they become eligible. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2007.

Annual Required Contribution (ARC)	\$ 624,693
Interest on net OPEB obligation	26,960
Adjustment to ARC	<u>(20,041)</u>
Annual OPEB cost	631,612
Contributions made	<u>(618,295)</u>
Increase in net OPEB obligation	13,317
Net OPEB obligation - beginning of year	<u>567,570</u>
Net OPEB obligation - end of year	<u><u>\$ 580,887</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 631,612	97.9%	\$ 580,887
2009	\$ 567,570	0%	\$ 567,570

The Town's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2007, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 8,583,937
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,583,937</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.75% investment rate of return and an initial annual healthcare cost trend rate of 10.0% which decreases to a 5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

18. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50), *Accounting for Pensions by State and Local Government Employers*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Middlesex Retirement System at 40 Thorndike Street, Superior Courthouse, 3rd Level, Cambridge, Massachusetts 02141.

A. Middlesex Retirement System - Plan Description

The Town contributes to the Middlesex Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Middlesex Retirement System.

B. Middlesex Retirement Systems - Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2010, 2009, and 2008 were \$ 486,629, \$ 510,783, and \$ 452,333, respectively, which were equal to its annual required contributions for each of these years.

C. Massachusetts Teacher Retirement System (MTRS) - Plan Description

As required by State Statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases.

D. Massachusetts Teacher Retirement System (MTRS) – Funding Policy

The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is not required to contribute.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 993,871 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

19. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

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

June 30, 2010

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/07	\$ -	\$ 8,584	\$ 8,584	0.0%	N/A	N/A

See Independent Auditors' Report.