

**TOWN OF SHERBORN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2011**

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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, 2011, 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, 2011, 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 37, 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 28, 2012

## **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, 2011.

### **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.

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 26,808,369 (i.e., net assets), a change of \$ (365,626) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,394,273, a change of \$ (604,361) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,122,087, a change of \$ (115,096) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 9,990,000, a change of \$ (1,095,000) 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>2011</u>	<u>2010</u>
Current and other assets	\$ 9,409,490	\$ 8,611,821
Capital assets	<u>31,201,727</u>	<u>31,740,917</u>
Total assets	40,611,217	40,352,738
Long-term liabilities outstanding	10,120,179	10,907,495
Other liabilities	<u>3,682,669</u>	<u>2,271,248</u>
Total liabilities	13,802,848	13,178,743
Net assets:		
Invested in capital assets, net	21,818,635	20,814,167
Restricted	3,770,635	3,424,678
Unrestricted	<u>1,219,099</u>	<u>2,935,150</u>
Total net assets	<u>\$ 26,808,369</u>	<u>\$ 27,173,995</u>

**CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 967,917	\$ 968,265
Operating grants and contributions	2,838,507	2,532,662
Capital grants and contributions	341,608	311,746
General revenues:		
Property taxes	19,940,061	19,330,295
Excises	664,566	653,310
Penalties and interest on taxes	71,761	77,793
Grants and contributions not restricted to specific programs	489,422	499,586
Investment income	14,933	26,194
Other	<u>141,241</u>	<u>211,043</u>
Total revenues	25,470,016	24,610,894

(continued)

(continued)

Expenses:		
General government	1,382,006	1,325,842
Public safety	2,412,464	2,117,691
Education	16,120,794	15,051,454
Public works	2,313,189	2,198,766
Health and human services	409,410	468,822
Culture and recreation	673,332	701,320
Employee benefits	2,304,732	1,810,760
Intergovernmental	64,786	65,350
Interest on long-term debt	<u>431,236</u>	<u>556,031</u>
Total expenses	<u>26,111,949</u>	<u>24,296,036</u>
Change in net assets before permanent fund contributions	(641,933)	314,858
Permanent fund contributions	<u>276,307</u>	<u>231,338</u>
Change in net assets	(365,626)	546,196
Net assets - beginning of year	<u>27,173,995</u>	<u>26,627,799</u>
Net assets - end of year	<u>\$ 26,808,369</u>	<u>\$ 27,173,995</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 \$ 26,808,369 a change of \$ (365,626) from the prior year.

The largest portion of net assets, \$ 21,818,635 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 \$ 3,770,635 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 1,219,099 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 \$ (365,626). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (456,224)
Nonmajor funds change in fund balance	(148,137)
Depreciation expense in excess of principal debt service	(560,522)
Fixed asset additions	1,145,423
Change in unfunded OPEB liability	(370,991)
Other	<u>24,825</u>
Total	<u>\$ (365,626)</u>

**D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,394,273, a change of \$ (604,361) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as disclosed below	\$ (456,224)
Nonmajor fund operating results	<u>(148,137)</u>
Total	<u>\$ (604,361)</u>

In fiscal year 2011, the Town implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. In general, amounts previously reported as unassigned fund balance are now reported as unassigned fund balance. In addition, amounts previously reported in stabilization funds are now combined with and reported as committed fund balance in the general fund. Full definitions of all

changes in fund balance classifications resulting from the implementation of GASB 54 can be found in the Notes to Financial Statements.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 1,122,087, while total fund balance was \$ 2,640,738. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,122,087	\$ 1,237,183	\$ (115,096)	4.6%
Total fund balance <sup>1</sup>	\$ 2,640,738	\$ 3,096,962	\$ (456,224)	10.9%

<sup>1</sup>Now includes stabilization fund. Prior period balances have been revised to conform to current presentation.

The total fund balance of the general fund changed by \$ (456,224) during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (813,051)
Revenues in excess of budget	208,210
Expenditures less than budget	192,978
Expenditures of prior year encumbrances	(131,596)
Change in stabilization fund	103,248
Other	<u>(16,013)</u>
Total	\$ <u><u>(456,224)</u></u>

Included in the total general fund balance is the Town's stabilization account with the following balances:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ 617,488	\$ 514,240	\$ 103,248

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$ 225,916. This increase was funded with free cash.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$ 31,201,727 (net of accumulated depreciation), a change of \$ (539,190) from the prior year. This investment in capital assets includes land,

construction in progress, buildings and improvements, machinery, equipment and furnishings, and infrastructure.

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

- \$ 150,651 for continued building improvements to public works and elderly housing facilities.
- \$ 488,551 for various machinery, equipment and vehicle purchases, including a fire pumper truck.
- \$ 454,561 for various improvements to Town roads.
- \$ 51,660 of construction in progress for the Library and Woodhaven renovation projects.
- \$ (29,091) in losses on the disposal of various capital assets.
- \$ (1,655,522) in depreciation expense.

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 9,990,000, 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 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, 2011

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 6,369,208
Investments	2,402,050
Receivables, net of allowance for uncollectibles:	
Property taxes	391,024
Excises	16,120
Departmental	32,183
Intergovernmental	172,833
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	26,072
Capital assets:	
Land and construction in progress	10,454,114
Other capital assets, net of accumulated depreciation	<u>20,747,613</u>
<b>TOTAL ASSETS</b>	<b>40,611,217</b>
<b>LIABILITIES</b>	
Current:	
Warrants payable	607,798
Accounts payable	286,045
Accrued liabilities	461,549
Tax refunds payable	171,300
Notes payable	846,138
Other current liabilities	171,514
Current portion of long-term liabilities:	
Bonds payable	1,075,000
Accrued employee benefits	63,325
Noncurrent:	
Bonds payable, net of current portion	8,915,000
Accrued employee benefits, net of current portion	253,301
Net OPEB liability	<u>951,878</u>
<b>TOTAL LIABILITIES</b>	<b>13,802,848</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	21,818,635
Restricted for:	
Grants and other statutory restrictions	978,032
Permanent funds:	
Nonexpendable	973,954
Expendable	1,818,649
Unrestricted	<u>1,219,099</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>26,808,369</u></b>

See notes to financial statements.



TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and short-term investments	\$ 5,976,655	\$ 392,553	\$ 6,369,208
Investments	-	2,402,050	2,402,050
Receivables:			
Property taxes	424,514	-	424,514
Excises	26,073	-	26,073
Departmental	-	41,125	41,125
Intergovernmental	13,252	159,581	172,833
Due from other funds	-	2,118,460	2,118,460
<b>TOTAL ASSETS</b>	<b>\$ 6,440,494</b>	<b>\$ 5,113,769</b>	<b>\$ 11,554,263</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 607,798	\$ -	\$ 607,798
Accounts payable	14,199	271,846	286,045
Accrued liabilities	413,424	-	413,424
Deferred revenues	344,605	200,706	545,311
Tax refunds payable	171,300	-	171,300
Due to other funds	2,076,916	41,544	2,118,460
Notes payable	-	846,138	846,138
Other liabilities	171,514	-	171,514
<b>TOTAL LIABILITIES</b>	<b>3,799,756</b>	<b>1,360,234</b>	<b>5,159,990</b>
Fund Balances:			
Nonspendable	-	973,954	973,954
Restricted	-	2,904,575	2,904,575
Committed	811,445	641,725	1,453,170
Assigned	707,206	-	707,206
Unassigned	1,122,087	(766,719)	355,368
<b>TOTAL FUND BALANCES</b>	<b>2,640,738</b>	<b>3,753,535</b>	<b>6,394,273</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,440,494</b>	<b>\$ 5,113,769</b>	<b>\$ 11,554,263</b>

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, 2011

<b>Total governmental fund balances</b>	\$ 6,394,273
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	31,201,727
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	518,998
<ul style="list-style-type: none"><li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(48,125)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, compensated absences, and net OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(11,258,504)</u>
<b>Net assets of governmental activities</b>	<u>\$ 26,808,369</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, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 20,086,547	\$ -	\$ 20,086,547
Excises	663,079	-	663,079
Penalties, interest and other taxes	71,761	-	71,761
Charges for services	176,922	578,299	755,221
Intergovernmental	2,030,772	1,158,234	3,189,006
Licenses and permits	106,263	-	106,263
Fines and forfeitures	94,786	-	94,786
Investment income	14,933	399,538	414,471
Miscellaneous	94,042	327,606	421,648
	<u>23,339,105</u>	<u>2,463,677</u>	<u>25,802,782</u>
Total Revenues	23,339,105	2,463,677	25,802,782
<b>Expenditures:</b>			
Current:			
General government	1,220,757	50,141	1,270,898
Public safety	1,915,183	622,718	2,537,901
Education	15,427,433	577,207	16,004,640
Public works	1,261,759	593,939	1,855,698
Health and human services	364,921	126,589	491,510
Culture and recreation	493,086	222,486	715,572
Employee benefits	1,933,741	-	1,933,741
Debt service	1,499,985	32,412	1,532,397
Intergovernmental	64,786	-	64,786
	<u>24,181,651</u>	<u>2,225,492</u>	<u>26,407,143</u>
Total Expenditures	24,181,651	2,225,492	26,407,143
Excess (deficiency) of revenues over expenditures	(842,546)	238,185	(604,361)
<b>Other Financing Sources (Uses):</b>			
Transfers in	400,952	14,630	415,582
Transfers out	(14,630)	(400,952)	(415,582)
	<u>386,322</u>	<u>(386,322)</u>	<u>-</u>
Total Other Financing Sources (Uses)	386,322	(386,322)	-
Change in fund balance	(456,224)	(148,137)	(604,361)
Fund Equity, at Beginning of Year, as restated	<u>3,096,962</u>	<u>3,901,672</u>	<u>6,998,634</u>
Fund Equity, at End of Year	<u>\$ 2,640,738</u>	<u>\$ 3,753,535</u>	<u>\$ 6,394,273</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, 2011

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (604,361)</b>						
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">1,145,423</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(1,655,522)</td> </tr> <tr> <td style="padding-left: 40px;">Loss on disposal of capital assets</td> <td style="text-align: right;">(29,091)</td> </tr> </table> </li> </ul>		Capital outlay purchases, net of disposals	1,145,423	Depreciation	(1,655,522)	Loss on disposal of capital assets	(29,091)
Capital outlay purchases, net of disposals	1,145,423						
Depreciation	(1,655,522)						
Loss on disposal of capital assets	(29,091)						
<ul style="list-style-type: none"> <li>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. <span style="float: right;">(56,379)</span></li> </ul>							
<ul style="list-style-type: none"> <li>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> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">1,095,000</td> </tr> </table> </li> </ul>		Repayments of debt	1,095,000				
Repayments of debt	1,095,000						
<ul style="list-style-type: none"> <li>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <span style="float: right;">6,160</span></li> </ul>							
<ul style="list-style-type: none"> <li>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td style="padding-left: 40px;">Compensated absences</td> <td style="text-align: right;">104,135</td> </tr> <tr> <td style="padding-left: 40px;">Net OPEB liability</td> <td style="text-align: right;"><u>(370,991)</u></td> </tr> </table> </li> </ul>		Compensated absences	104,135	Net OPEB liability	<u>(370,991)</u>		
Compensated absences	104,135						
Net OPEB liability	<u>(370,991)</u>						
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u><u>(365,626)</u></u></b>						

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 20,043,436	\$ 20,043,436	\$ 20,043,436	\$ -
Excises	600,000	600,000	663,079	63,079
Penalties, interest and other taxes	40,000	40,000	71,761	31,761
Charges for services	164,136	164,136	176,922	12,786
Intergovernmental	994,410	994,410	1,018,218	23,808
Licenses and permits	105,000	105,000	106,263	1,263
Fines and forfeitures	47,000	47,000	94,786	47,786
Investment income	29,000	29,000	11,685	(17,315)
Miscellaneous	-	-	45,042	45,042
Other financing sources:				
Transfers in	400,952	400,952	400,952	-
Use of fund balance	<u>587,135</u>	<u>813,051</u>	<u>813,051</u>	<u>-</u>
Total Revenues and Other Sources	23,011,069	23,236,985	23,445,195	208,210
<b>Expenditures and Other Uses:</b>				
Current:				
General government	1,160,781	1,229,036	1,205,770	23,266
Public safety	1,690,023	1,827,058	1,863,868	(36,810)
Education	14,423,156	14,455,722	14,285,645	170,077
Public works	1,170,097	1,242,286	1,234,206	8,080
Health and human services	369,834	366,687	358,041	8,646
Culture and recreation	497,505	494,295	482,254	12,041
Employee benefits	1,935,594	1,934,822	1,934,822	-
Intergovernmental	64,866	64,866	64,786	80
Debt service	1,527,213	1,522,213	1,514,615	7,598
Other financing uses:				
Transfers out	100,000	100,000	100,000	-
Reserve fund	<u>72,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures and Other Uses	<u>23,011,069</u>	<u>23,236,985</u>	<u>23,044,007</u>	<u>192,978</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>401,188</u>	\$ <u>401,188</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 2011, 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 Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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. 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*. 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 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 2011 tax levy reflected an excess capacity of \$ 43,373.

*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).

*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*

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

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

The Town's fund balance classification policies and procedures are as follows:

- 1) *Nonspendable funds* are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) *Restricted funds* are restricted to specific purposes by external constraints imposed by laws, creditors, grantors, or others outside of the Town's organization. The Town reports restricted fund balance in the special revenue funds for funds that have been created by statute or have other external constraints on how the monies held in these funds may be expended.
- 3) *Committed funds* can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest decision-making authority, which is the annual Budgetary Town Meeting. These commitments can only be established, modified, or rescinded by majority Town Meeting vote. The Town reports committed fund balance in the general fund for the encumbered, unspent portion of non-lapsing capital appropriations, as well as for stabilization funds set aside by Town Meeting vote to offset future revenue shortfalls.
- 4) *Assigned funds* are intended to be used for specific purposes as established by management. The Town reports assigned fund balance in the general fund for year-end departmental encumbrances for goods and services that have been ordered but not yet received. The Town also reports assigned fund balance for general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.
- 5) *Unassigned funds* are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

*Net Assets* - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

#### L. *Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates

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

## 2. **Stewardship, Compliance, and Accountability**

### A. Budgetary Information

At the annual town meeting, the 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)	\$ 23,339,105	\$ 24,181,651
Other financing sources/uses (GAAP basis)	<u>400,952</u>	<u>14,630</u>
Subtotal (GAAP Basis)	23,740,057	24,196,281
Adjust tax revenue to accrual basis	(43,111)	-
To record use of free cash	813,051	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(413,951)
Add end-of-year appropriation carryforwards to expenditures	-	282,355
To reverse the effect of non-budgeted State contributions for teachers retirement	(1,012,554)	(1,012,554)
To reverse the effect of GASB 54 (Stabilization Fund)	(3,248)	100,000
Other	<u>(49,000)</u>	<u>(108,124)</u>
Budgetary basis	<u>\$ 23,445,195</u>	<u>\$ 23,044,007</u>

*D. Deficit Fund Equity*

The following funds had deficits as of June 30, 2011:

<u>Special Revenue Funds:</u>	
Federal grants	\$ (9,510)
State grants	(25,403)
Other special revenue funds	(17,004)
<u>Capital Project Funds:</u>	
Highway Chapter 90 projects	(123,213)
Other capital projects	<u>(591,589)</u>
	<u>\$ (766,719)</u>

These deficits will be eliminated through future intergovernmental revenues and bond proceeds.

### 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, 2011, none of the Town's bank balance of \$ 6,454,396 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the name of the Town.

### 4. Investments

#### A. Credit Risk

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

Presented below (in thousands) is the actual rating as of year end for each investment of the Town (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>
Corporate equities	\$ 893	N/A	893	-	-	-
Equity mutual funds	1,032	N/A	1,032	-	-	-
Corporate bonds	218	N/A	\$ -	\$ -	\$ 55	\$ 163
Bond mutual funds	<u>259</u>	N/A	<u>259</u>	-	-	-
Total investments	<u>\$ 2,402</u>		<u>\$ 2,184</u>	<u>\$ -</u>	<u>\$ 55</u>	<u>\$ 163</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:				
Corporate bonds	\$ 218	\$ -	\$ -	\$ 218
Total	\$ 218	\$ -	\$ -	\$ 218

**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 1<sup>st</sup> 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, 2011 consist of the following:

Real Estate			
2011			\$ 296,731
Personal Property			
2011	116		
2010	<u>81</u>		
			197
Tax Liens			62,077
Deferred Taxes			<u>65,509</u>
Total			<u>\$ 424,514</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	\$ 7,418
Excises	\$ 9,953
Departmental	\$ 8,942

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

**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, 2011 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 2,076,916
Special Revenue Funds:	1,567,989	-
Capital Project Funds:	<u>550,471</u>	<u>41,544</u>
Total	<u>\$ 2,118,460</u>	<u>\$ 2,118,460</u>

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 13,826	\$ 2,059	\$ (66)	\$ 15,819
Machinery, equipment, and furnishings	6,515	489	(356)	6,648
Infrastructure	<u>19,419</u>	<u>454</u>	<u>-</u>	<u>19,873</u>
Total capital assets, being depreciated	39,760	3,002	(422)	42,340
Less accumulated depreciation for:				
Buildings and improvements	(4,426)	(399)	66	(4,759)
Machinery, equipment, and furnishings	(5,399)	(325)	349	(5,375)
Infrastructure	<u>(10,527)</u>	<u>(931)</u>	<u>-</u>	<u>(11,458)</u>
Total accumulated depreciation	<u>(20,352)</u>	<u>(1,655)</u>	<u>415</u>	<u>(21,592)</u>
Total capital assets, being depreciated, net	19,408	1,347	(7)	20,748
Capital assets, not being depreciated:				
Land	10,333	-	(23)	10,310
Construction in progress	<u>2,000</u>	<u>52</u>	<u>(1,908)</u>	<u>144</u>
Total capital assets, not being depreciated	<u>12,333</u>	<u>52</u>	<u>(1,931)</u>	<u>10,454</u>
Governmental activities capital assets, net	<u>\$ 31,741</u>	<u>\$ 1,399</u>	<u>\$ (1,938)</u>	<u>\$ 31,202</u>

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

Governmental Activities:	
General government	\$ 92
Public safety	260
Education	207
Public works	1,037
Health and human services	43
Culture and recreation	<u>16</u>
Total depreciation expense - governmental activities	<u>\$ 1,655</u>

## 10. Warrants and Accounts Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011 as permitted by law. Accounts payable represent additional 2011 expenditures paid after July 15, 2011.

**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, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

**12. Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

**13. Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2011:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/11</u>
Bond anticipation	1.00%	06/15/11	03/12/12	\$ 763,238
State anticipation	1.00%	06/15/11	01/17/12	<u>82,900</u>
Total				<u>\$ 846,138</u>

The following summarizes activity in notes payable during fiscal year 2011:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Paydown</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ -	\$ 200,000	\$ (14,630)	\$ (185,370)	\$ -
Bond anticipation	-	763,238	-	-	763,238
State anticipation	-	82,900	-	-	82,900
Total	<u>\$ -</u>	<u>\$ 1,046,138</u>	<u>\$ (14,630)</u>	<u>\$ (185,370)</u>	<u>\$ 846,138</u>

## 14. 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 Maturities Through</u>	<u>Interest Rate %</u>	<u>Amount Outstanding as of 6/30/11</u>
Municipal bond of 2003	05/15/21	3.70%	\$ 2,420,000
Municipal bond of 2007	05/15/26	3.95%	5,390,000
Municipal bond of 2010	05/15/27	3.08%	<u>2,180,000</u>
Total Governmental Activities:			<u>\$ 9,990,000</u>

### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,030,000	228,023	1,258,023
2017 - 2021	3,560,000	584,200	4,144,200
2022 - 2026	1,090,000	146,175	1,236,175
2027	<u>120,000</u>	<u>4,800</u>	<u>124,800</u>
Total	<u>\$ 9,990,000</u>	<u>\$ 2,277,690</u>	<u>\$ 12,267,690</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2011.

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/11</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/11</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 11,085	\$ -	\$ (1,095)	\$ 9,990	\$ (1,075)	\$ 8,915
Other:						
Accrued employee benefits	421	2	(106)	317	(64)	253
Net OPEB obligation	<u>581</u>	<u>371</u>	<u>-</u>	<u>952</u>	<u>-</u>	<u>952</u>
Totals	<u>\$ 12,087</u>	<u>\$ 373</u>	<u>\$ (1,201)</u>	<u>\$ 11,259</u>	<u>\$ (1,139)</u>	<u>\$ 10,120</u>

## 15. 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.

## 16. Governmental Funds - Balances

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

In fiscal year 2011, the Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2011:

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54), and various special revenue funds.

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

and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.

Unassigned - Represents amounts that are available to be spent in future periods. This fund balance classification includes general fund surplus fund balance and various special revenue and capital project deficit fund balances.

Following is a breakdown of the Town's fund balances at June 30, 2011:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 973,954	\$ 973,954
	<u>\$ -</u>	<u>\$ 973,954</u>	<u>\$ 973,954</u>
Restricted			
Special revenue funds	\$ -	\$ 978,032	\$ 978,032
Bonded capital projects	-	107,893	107,893
Expendable permanent funds	-	1,818,649	1,818,649
	<u>\$ -</u>	<u>\$ 2,904,574</u>	<u>\$ 2,904,574</u>
Committed			
Article carryforwards	\$ 193,957	\$ -	\$ 193,957
Stabilization fund	617,488	-	617,488
Special revenue funds	-	641,725	641,725
	<u>\$ 811,445</u>	<u>\$ 641,725</u>	<u>\$ 1,453,170</u>
Assigned			
Encumbrances	\$ 88,190	\$ -	\$ 88,190
Appropriated fund balance	619,016	-	619,016
	<u>\$ 707,206</u>	<u>\$ -</u>	<u>\$ 707,206</u>
Unassigned			
General fund	\$ 1,122,087	\$ -	\$ 1,122,087
Special revenue fund deficits	-	(51,917)	(51,917)
Capital project fund deficits	-	(714,802)	(714,802)
	<u>\$ 1,122,087</u>	<u>\$ (766,719)</u>	<u>\$ 355,368</u>

## 17. General Fund Unassigned Fund Balance

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

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

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

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

GAAP basis balance	\$ 1,122,087
Appellate Tax Board cases	<u>171,300</u>
Statutory (UMAS) Balance	<u>\$ 1,293,387</u>

**18. Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town’s management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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.

**19. Post-Employment Healthcare and Life Insurance Benefits**

**Other Post-Employment Benefits**

The Town has implemented GASB Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. GASB 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 Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net 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, 2010, the actuarial valuation date, approximately 59 retirees and 83 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The Town participates in the West Suburban Health Group. Medical and prescription drug benefits are provided to all eligible retirees through a variety of plans. All active employees who retire from the Town and meet the eligibility criteria can elect to 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. The Town also pays 50% of the retiree life insurance premium and reimburses the Medicare Part B penalty for eligible retirees and spouses.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2011 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 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, 2011, 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, 2010.

Annual Required Contribution (ARC)	\$ 657,342
Interest on net OPEB obligation	27,592
Adjustment to ARC	<u>(20,512)</u>
Annual OPEB cost	664,422
Contributions made	<u>(293,431)</u>
Increase in net OPEB obligation	370,991
Net OPEB obligation - beginning of year	<u>580,887</u>
Net OPEB obligation - end of year	<u><u>\$ 951,878</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>
2011	\$ 664,422	44.2%	\$ 951,878
2010	\$ 631,612	97.9%	\$ 580,887
2009	\$ 567,570	0%	\$ 567,570

The Town's net OPEB obligation as of June 30, 2011 is recorded as a noncurrent liability in the Statement of Net Assets.

*E. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 9,861,007
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,861,007</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 include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include tech-

niques 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, 2010 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4.75% pay-as-you-go investment rate of return and an initial annual medical/drug cost trend rate of 10.0% which decreases to a 5% long-term rate after seven years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on an open basis, with payments increasing at 4.5% per year.

## **20. 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.

### **A. Middlesex County Retirement System - Plan Description**

The Town contributes to the Middlesex County Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by the Middlesex 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 from the Middlesex County Retirement System at 25 Linnell Circle, P.O. Box 160, Billerica, MA 01865.

### **B. Middlesex County 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, 2011, 2010, and 2009 were \$ 498,549, \$ 486,629, and \$ 510,783, 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 2011, the Commonwealth of Massachusetts contributed \$ 1,012,554 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

**21. 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.

**22. Beginning Fund Balance Restatement**

The Town's beginning (July 1, 2010) fund balances have been restated as follows:

Fund Basis Financial Statements:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
As previously reported	\$ 2,582,722	\$ 4,415,912	\$ 6,998,634
Reclass Stabilization Fund	<u>514,240</u>	<u>(514,240)</u>	<u>-</u>
As restated	<u>\$ 3,096,962</u>	<u>\$ 3,901,672</u>	<u>\$ 6,998,634</u>

**TOWN OF SHERBORN, MASSACHUSETTS**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2011**  
**(Unaudited)**  
**(Amounts Expressed in thousands)**

**Other Post-Employment Benefits**

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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
06/30/10	\$ -	\$ 9,861	\$ 9,861	0.0%	N/A	N/A

See Independent Auditors' Report.