

TOWN OF SHERBORN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures, and Other Uses - Budget and Actual - General Fund	16
Notes to Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	38



MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress – OPEB, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson, Heath + Company P.C.

April 4, 2013

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, 2012.

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 \$ 27,043,919 (i.e., net assets), a change of \$ 235,550 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,493,866, a change of \$ 99,592 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,563,274, a change of \$ 441,187 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 8,915,000, a change of \$ (1,075,000) 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>2012</u>	<u>2011</u>
Current and other assets	\$ 9,614,833	\$ 9,409,490
Capital assets	<u>30,614,114</u>	<u>31,201,727</u>
Total assets	40,228,947	40,611,217
Long-term liabilities outstanding	9,465,211	10,120,179
Other liabilities	<u>3,719,817</u>	<u>3,682,669</u>
Total liabilities	13,185,028	13,802,848
Net assets:		
Invested in capital assets, net	22,451,081	21,818,635
Restricted	4,100,767	3,770,635
Unrestricted	<u>492,071</u>	<u>1,219,099</u>
Total net assets	<u>\$ 27,043,919</u>	<u>\$ 26,808,369</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 986,274	\$ 967,917
Operating grants and contributions	2,726,487	2,838,507
Capital grants and contributions	246,247	341,608
General revenues:		
Property taxes	20,649,251	19,940,061
Excises	698,883	664,566
Penalties and interest on taxes	54,292	71,761
Grants and contributions not restricted to specific programs	447,364	489,422
Investment income	14,710	14,933
Other	<u>105,375</u>	<u>141,241</u>
Total revenues	25,928,883	25,470,016

(continued)

(continued)

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Expenses:		
General government	1,231,791	1,382,006
Public safety	2,014,297	2,412,464
Education	16,511,045	16,120,794
Public works	2,185,890	2,313,189
Health and human services	420,982	409,410
Culture and recreation	659,507	673,332
Employee benefits	2,235,880	2,304,732
Intergovernmental	65,338	64,786
Interest on long-term debt	389,267	431,236
	<u>25,713,997</u>	<u>26,111,949</u>
Change in net assets before permanent fund contributions	214,886	(641,933)
Permanent fund contributions	<u>20,664</u>	<u>276,307</u>
Change in net assets	235,550	(365,626)
Net assets - beginning of year	<u>26,808,369</u>	<u>27,173,995</u>
Net assets - end of year	<u>\$ 27,043,919</u>	<u>\$ 26,808,369</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 \$ 27,043,919 a change of \$ 235,550 from the prior year.

The largest portion of net assets, \$ 22,451,081 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 \$ 4,100,767 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 492,071 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 \$ 235,550. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (39,008)
Nonmajor funds change in fund balance	138,600
Depreciation expense in excess of principal debt service	(614,112)
Fixed asset additions	1,118,907
Change in unfunded OPEB liability	(396,019)
Other	<u>27,182</u>
Total	<u>\$ 235,550</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 \$ 6,493,866, a change of \$ 99,592 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as disclosed below	\$ (39,008)
Nonmajor fund operating results	<u>138,600</u>
Total	<u>\$ 99,592</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 1,593,646, while total fund balance was \$ 2,601,730. 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>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	% of <u>Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,563,274	\$ 1,122,087	\$ 441,187	6.5%
Total fund balance ¹	\$ 2,601,730	\$ 2,640,738	\$ (39,008)	10.7%

¹ Includes stabilization fund.

The total fund balance of the general fund changed by \$ (39,008) during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (959,841)
Revenues in excess of budget	362,328
Expenditures less than budget	471,938
Expenditures of prior year encumbrances	164,780
Change in stabilization fund	(197,012)
Other	<u>118,799</u>
Total	\$ <u><u>(39,008)</u></u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ 420,476	\$ 617,488	\$ (197,012) *

*Includes \$ 300,000 transfer to OPEB stabilization fund.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$ 384,327. 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 \$ 30,614,114 (net of accumulated depreciation), a change of \$ (587,613) 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:

- \$ 51,260 for land purchase.
- \$ 664,273 for various machinery, equipment and vehicle purchases, including a fire pumper truck.
- \$ 282,275 for various improvements to Town roads.
- \$ (17,408) in losses on the disposal of various capital assets.
- \$ 1,689,112 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 \$ 8,915,000, 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, 2012

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 6,592,405
Investments	2,375,627
Receivables, net of allowance for uncollectibles:	
Property taxes	396,814
Excises	15,163
Departmental	35,286
Intergovernmental	143,252
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	56,286
Capital assets:	
Land and construction in progress	10,538,450
Other capital assets, net of accumulated depreciation	<u>20,075,664</u>
TOTAL ASSETS	40,228,947
LIABILITIES	
Current:	
Warrants payable	539,432
Accrued liabilities	542,308
Tax refunds payable	319,000
Notes payable	1,123,200
Other current liabilities	82,798
Current portion of long-term liabilities:	
Bonds payable	1,050,000
Accrued employee benefits	63,079
Noncurrent:	
Bonds payable, net of current portion	7,865,000
Accrued employee benefits, net of current portion	252,314
Net OPEB liability	<u>1,347,897</u>
TOTAL LIABILITIES	13,185,028
NET ASSETS	
Invested in capital assets, net of related debt	22,451,081
Restricted for:	
Grants and other statutory restrictions	987,699
Permanent funds:	
Nonexpendable	967,629
Expendable	2,145,439
Unrestricted	<u>492,071</u>
TOTAL NET ASSETS	\$ <u><u>27,043,919</u></u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

		<u>Program Revenues</u>			Net (Expenses) Revenues and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 1,231,791	\$ 285,961	\$ 66,391	\$ -	\$ (879,439)
Public safety	2,014,297	352,323	125,814	-	(1,536,160)
Education	16,511,045	88,364	2,132,653	-	(14,290,028)
Public works	2,185,890	15,650	108,415	246,247	(1,815,578)
Health and human services	420,982	107,444	211,586	-	(101,952)
Culture and recreation	659,507	136,532	81,628	-	(441,347)
Employee benefits	2,235,880	-	-	-	(2,235,880)
Interest	389,267	-	-	-	(389,267)
Intergovernmental	65,338	-	-	-	(65,338)
Total Governmental Activities	<u>\$ 25,713,997</u>	<u>\$ 986,274</u>	<u>\$ 2,726,487</u>	<u>\$ 246,247</u>	(21,754,989)
General Revenues and Permanent Fund Contributions:					
					20,649,251
					698,883
					54,292
					447,364
					14,710
					105,375
					<u>20,664</u>
Total general revenues and permanent fund contributions					<u>21,990,539</u>
Change in Net Assets					235,550
Net Assets:					
Beginning of year					<u>26,808,369</u>
End of year					<u>\$ 27,043,919</u>

See notes to financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	\$ 5,862,470	\$ 729,935	\$ 6,592,405
Investments	-	2,375,626	2,375,626
Receivables:			
Property taxes	459,324	-	459,324
Excises	25,681	-	25,681
Departmental	-	35,286	35,286
Intergovernmental	4,440	138,813	143,253
Due from other funds	<u>419,332</u>	<u>2,384,763</u>	<u>2,804,095</u>
TOTAL ASSETS	<u>\$ 6,771,247</u>	<u>\$ 5,664,423</u>	<u>\$ 12,435,670</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 539,433	\$ -	\$ 539,433
Accrued liabilities	498,865	-	498,865
Deferred revenues	400,314	174,099	574,413
Tax refunds payable	319,000	-	319,000
Due to other funds	2,329,107	474,988	2,804,095
Notes payable	-	1,123,200	1,123,200
Other liabilities	<u>82,798</u>	<u>-</u>	<u>82,798</u>
TOTAL LIABILITIES	4,169,517	1,772,287	5,941,804
Fund Balances:			
Nonspendable	-	967,629	967,629
Restricted	-	2,898,772	2,898,772
Committed	696,270	948,259	1,644,529
Assigned	342,186	-	342,186
Unassigned	<u>1,563,274</u>	<u>(922,524)</u>	<u>640,750</u>
TOTAL FUND BALANCES	<u>2,601,730</u>	<u>3,892,136</u>	<u>6,493,866</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,771,247</u>	<u>\$ 5,664,423</u>	<u>\$ 12,435,670</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, 2012

Total governmental fund balances	\$ 6,493,866
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	30,614,114
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	557,672
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(43,443)
• 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.	<u>(10,578,290)</u>
Net assets of governmental activities	<u>\$ 27,043,919</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, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 20,583,140	\$ -	\$ 20,583,140
Excises	699,842	-	699,842
Penalties, interest and other taxes	54,292	-	54,292
Charges for services	213,175	466,291	679,466
Intergovernmental	2,136,425	1,345,000	3,481,425
Licenses and permits	146,743	-	146,743
Fines and forfeitures	75,059	-	75,059
Investment income	11,617	(74,198)	(62,581)
Miscellaneous	95,993	157,662	253,655
	<u>24,016,286</u>	<u>1,894,755</u>	<u>25,911,041</u>
Total Revenues	24,016,286	1,894,755	25,911,041
Expenditures:			
Current:			
General government	1,154,851	39,043	1,193,894
Public safety	1,967,663	321,115	2,288,778
Education	15,714,078	694,563	16,408,641
Public works	1,154,105	300,537	1,454,642
Health and human services	384,744	38,146	422,890
Culture and recreation	495,276	179,665	674,941
Employee benefits	1,839,861	-	1,839,861
Debt service	1,436,537	32,412	1,468,949
Intergovernmental	65,338	-	65,338
	<u>24,212,453</u>	<u>1,605,481</u>	<u>25,817,934</u>
Total Expenditures	24,212,453	1,605,481	25,817,934
Excess (deficiency) of revenues over expenditures	(196,167)	289,274	93,107
Other Financing Sources (Uses):			
Transfers in	482,209	325,050	807,259
Transfers out	(325,050)	(475,724)	(800,774)
	<u>157,159</u>	<u>(150,674)</u>	<u>6,485</u>
Total Other Financing Sources (Uses)	157,159	(150,674)	6,485
Change in fund balance	(39,008)	138,600	99,592
Fund Equity, at Beginning of Year	<u>2,640,738</u>	<u>3,753,536</u>	<u>6,394,274</u>
Fund Equity, at End of Year	<u>\$ 2,601,730</u>	<u>\$ 3,892,136</u>	<u>\$ 6,493,866</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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 99,592						
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">1,118,907</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(1,689,112)</td> </tr> <tr> <td style="padding-left: 40px;">Loss on disposal of capital assets</td> <td style="text-align: right;">(17,408)</td> </tr> </table> 		Capital outlay purchases, net of disposals	1,118,907	Depreciation	(1,689,112)	Loss on disposal of capital assets	(17,408)
Capital outlay purchases, net of disposals	1,118,907						
Depreciation	(1,689,112)						
Loss on disposal of capital assets	(17,408)						
<ul style="list-style-type: none"> 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. 38,674 							
<ul style="list-style-type: none"> 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;">1,075,000</td> </tr> </table> 		Repayments of debt	1,075,000				
Repayments of debt	1,075,000						
<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. 4,682 							
<ul style="list-style-type: none"> 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;">1,234</td> </tr> <tr> <td style="padding-left: 40px;">Net OPEB liability</td> <td style="text-align: right;"><u>(396,019)</u></td> </tr> </table> 		Compensated absences	1,234	Net OPEB liability	<u>(396,019)</u>		
Compensated absences	1,234						
Net OPEB liability	<u>(396,019)</u>						
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>235,550</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property taxes	\$ 20,624,898	\$ 20,624,898	\$ 20,624,898	\$ -
Excises	676,800	676,800	699,842	23,042
Penalties, interest and other taxes	51,000	51,000	54,292	3,292
Charges for services	162,500	162,500	213,175	50,675
Intergovernmental	980,577	980,577	1,091,909	111,332
Licenses and permits	100,000	100,000	146,743	46,743
Fines and forfeitures	82,000	82,000	75,059	(6,941)
Investment income	10,000	10,000	11,616	1,616
Miscellaneous	-	-	95,994	95,994
Other financing sources:				
Transfers in	445,634	445,634	482,209	36,575
Use of fund balance	<u>575,514</u>	<u>959,841</u>	<u>959,841</u>	<u>-</u>
Total Revenues and Other Sources	23,708,923	24,093,250	24,455,578	362,328
Expenditures and Other Uses:				
Current:				
General government	1,154,714	1,284,085	1,237,350	46,735
Public safety	1,772,158	1,979,190	1,977,161	2,029
Education	15,057,020	15,100,892	14,842,114	258,778
Public works	1,145,973	1,175,123	1,163,418	11,705
Health and human services	409,307	409,307	402,880	6,427
Culture and recreation	494,988	498,388	484,694	13,694
Employee benefits	1,974,869	1,974,869	1,843,269	131,600
Intergovernmental	65,178	65,178	65,338	(160)
Debt service	1,462,716	1,462,716	1,453,774	8,942
Other financing uses:				
Transfers out	100,000	100,000	107,812	(7,812)
Reserve fund	<u>72,000</u>	<u>43,502</u>	<u>43,502</u>	<u>-</u>
Total Expenditures and Other Uses	<u>23,708,923</u>	<u>24,093,250</u>	<u>23,621,312</u>	<u>471,938</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>834,266</u>	\$ <u>834,266</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 2012, 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 2012 tax levy reflected an excess capacity of \$ 18,109.

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)	\$ 24,016,286	\$ 24,212,453
Other financing sources/uses (GAAP basis)	<u>482,209</u>	<u>325,050</u>
Subtotal (GAAP Basis)	24,498,495	24,537,503
Adjust tax revenue to accrual basis	41,758	-
To record use of free cash	959,841	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(282,147)
Add end-of-year appropriation carryforwards to expenditures	-	446,927
To reverse the effect of non-budgeted State contributions for teachers retirement	(1,041,528)	(1,041,528)
To reverse the effects of combining general and stabilization funds (GASB 54)	(2,988)	(200,000)
Other	<u>-</u>	<u>160,557</u>
Budgetary basis	<u>\$ 24,455,578</u>	<u>\$ 23,621,312</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Special Revenue Funds:

Federal grants	\$ (2,301)
State grants	(66,271)
Other special revenue funds	(25,589)

Capital Project Funds:

Highway Chapter 90 projects	(54,425)
Other capital projects	<u>(773,938)</u>
	<u>\$ (922,524)</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, 2012, \$ 54,489 of the Town's bank balance of \$ 6,692,983 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 Trustees (all federal securities have an implied credit rating of AAA):

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				Aaa	Aa	A
Corporate equities	\$ 927	N/A	\$ 927	\$ -	\$ -	\$ -
Equity mutual funds	951	N/A	951	-	-	-
Corporate bonds	221	N/A	-	-	221	-
Bond mutual funds	<u>277</u>	N/A	<u>277</u>	-	-	-
Total investments	\$ <u>2,376</u>		\$ <u>2,155</u>	\$ -	\$ <u>221</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. Although the Trustees have an investment policy, the policy does not reference 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	\$ <u>221</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>221</u>
Total	\$ <u>221</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>221</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, 2012 consist of the following:

Real Estate		
2012	\$	248,934
Tax Liens		112,572
Deferred Taxes		<u>97,818</u>
Total	\$	<u><u>459,324</u></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	\$	6,223
Excises	\$	10,519

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

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, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
General Fund	\$ 419,332	\$ 2,329,107
Special Revenue Funds:	1,957,874	419,332
Capital Project Funds:	<u>426,889</u>	<u>55,656</u>
Total	\$ <u><u>2,804,095</u></u>	\$ <u><u>2,804,095</u></u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2012 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	\$ 15,819	\$ 58	\$ (4)	\$ 15,873
Machinery, equipment, and furnishings	6,648	695	(315)	7,028
Infrastructure	<u>19,873</u>	<u>282</u>	<u>-</u>	<u>20,155</u>
Total capital assets, being depreciated	42,340	1,035	(319)	43,056
Less accumulated depreciation for:				
Buildings and improvements	(4,759)	(418)	4	(5,173)
Machinery, equipment, and furnishings	(5,375)	(330)	297	(5,408)
Infrastructure	<u>(11,458)</u>	<u>(941)</u>	<u>-</u>	<u>(12,399)</u>
Total accumulated depreciation	<u>(21,592)</u>	<u>(1,689)</u>	<u>301</u>	<u>(22,980)</u>
Total capital assets, being depreciated, net	20,748	(654)	(18)	20,076
Capital assets, not being depreciated:				
Land	10,310	51	-	10,361
Construction in progress	<u>144</u>	<u>33</u>	<u>-</u>	<u>177</u>
Total capital assets, not being depreciated	<u>10,454</u>	<u>84</u>	<u>-</u>	<u>10,538</u>
Governmental activities capital assets, net	<u>\$ 31,202</u>	<u>\$ (570)</u>	<u>\$ (18)</u>	<u>\$ 30,614</u>

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

Governmental Activities:	
General government	\$ 92
Public safety	277
Education	202
Public works	1,060
Health and human services	48
Culture and recreation	<u>10</u>
Total depreciation expense - governmental activities	<u>\$ 1,689</u>

10. Warrants Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law.

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, 2012 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, 2012:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>
Bond anticipation	0.60%	03/12/12	03/12/13	\$ 746,000
Bond anticipation	0.55%	06/22/12	03/12/13	<u>377,200</u>
Total				<u>\$ 1,123,200</u>

The following summarizes activity in notes payable during fiscal year 2012:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Paydown</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 763,238	\$ -	\$ (17,238)	\$ (746,000)	\$ -
State anticipation	82,900	-	(82,900)	-	-
State anticipation	-	285,432	(285,432)	-	-
Revenue anticipation	-	250,000	(250,000)	-	-
Bond anticipation	-	746,000	-	-	746,000
Bond anticipation	-	377,200	-	-	377,200
Total	<u>\$ 846,138</u>	<u>\$ 1,658,632</u>	<u>\$ (635,570)</u>	<u>\$ (746,000)</u>	<u>\$ 1,123,200</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 6/30/12</u>
Municipal bond of 2003	05/15/21	3.70%	\$ 2,165,000
Municipal bond of 2007	05/15/26	3.95%	4,740,000
Municipal bond of 2010	05/15/27	3.08%	<u>2,010,000</u>
Total Governmental Activities:			<u>\$ 8,915,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,005,000	189,610	1,194,610
2018 - 2022	2,775,000	439,440	3,214,440
2023 - 2027	<u>990,000</u>	<u>106,125</u>	<u>1,096,125</u>
Total	<u>\$ 8,915,000</u>	<u>\$ 1,892,692</u>	<u>\$ 10,807,692</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, 2012.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/12</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,990	\$ -	\$ (1,075)	\$ 8,915	\$ (1,050)	\$ 7,865
Other:						
Accrued employee benefits	317	2	(3)	316	(63)	253
Net OPEB obligation	<u>952</u>	<u>701</u>	<u>(305)</u>	<u>1,348</u>	<u>-</u>	<u>1,348</u>
Totals	<u>\$ 11,259</u>	<u>\$ 703</u>	<u>\$ (1,383)</u>	<u>\$ 10,579</u>	<u>\$ (1,113)</u>	<u>\$ 9,466</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.

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, 2012:

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, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 967,629	\$ 967,629
Total Nonexpendable	-	967,629	967,629
Restricted			
Special revenue funds	-	986,549	986,549
Bonded capital projects	-	76,396	76,396
Expendable permanent funds	-	1,835,827	1,835,827
Total Restricted	-	2,898,772	2,898,772
Committed			
Article carryforwards	275,794	-	275,794
Stabilization fund	420,476	300,105	720,581
Special revenue funds	-	648,154	648,154
Total Committed	696,270	948,259	1,644,529
Assigned			
Encumbrances	171,133	-	171,133
Appropriated fund balance	171,053	-	171,053
Total Assigned	342,186	-	342,186
Unassigned			
General fund	1,563,274	-	1,563,274
Special revenue fund deficits	-	(94,161)	(94,161)
Capital project fund deficits	-	(828,363)	(828,363)
Total Unassigned	1,563,274	(922,524)	640,750
Total Fund Balance	\$ 2,601,730	\$ 3,892,136	\$ 6,493,866

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	\$ 1,563,274
Appellate Tax Board cases	<u>319,000</u>
Statutory (UMAS) Balance	<u>\$ 1,882,274</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 2012 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, 2012, 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)	\$ 689,905
Interest on net OPEB obligation	45,214
Adjustment to ARC	<u>(33,612)</u>
Annual OPEB cost	701,507
Contributions made	<u>(305,488)</u>
Increase in net OPEB obligation	396,019
Net OPEB obligation - beginning of year	<u>951,878</u>
Net OPEB obligation - end of year	<u>\$ 1,347,897</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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 701,507	43.5%	\$ 1,347,897
2011	\$ 664,422	44.2%	\$ 951,878
2010	\$ 631,612	97.9%	\$ 580,887

The Town's net OPEB obligation as of June 30, 2012 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 advance 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

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage of contribution on the first \$ 30,000 of gross regular earnings is determined by the date of entry into the system, as follows:

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

In addition to the above contributions, employees hired after January 1, 1979 contribute an additional 2% to the rates noted above on their gross regular earnings that are in excess of \$ 30,000.

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, 2012, 2011, and 2010 were \$ 548,558, \$ 498,549, and \$ 486,629, respectively, which were equal to its annual required contributions for each of these years.

Per the System's January 1, 2012 actuarial valuation, the Town's unfunded actuarial accrued liability was \$ 8,008,227.

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 2012, the Commonwealth of Massachusetts contributed \$ 1,041,528 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. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town's actuarially accrued liability.

TOWN OF SHERBORN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012
(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
06/30/10	\$ -	\$ 9,861	\$ 9,861	0.0%	N/A	N/A

See Independent Auditors' Report.