

TOWN OF SHERBORN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

Town of Sherborn, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Sherborn, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Sherborn, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Sherborn, Massachusetts, as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress 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, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Sherborn, Massachusetts, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013.

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 comprise 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 Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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 \$28,332,368 (i.e., net position), a change of \$1,288,449 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$9,466,165, a change of \$2,972,299 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,511,695, a change of \$527,945 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$9,102,000, a change of \$187,000 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>NET POSITION</u>	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 10,951,100	\$ 9,614,833
Capital assets	<u>29,494,942</u>	<u>30,614,114</u>
Total assets	40,446,042	40,228,947
Current liabilities	2,335,937	3,719,817
Noncurrent liabilities	<u>9,777,737</u>	<u>9,465,211</u>
Total liabilities	12,113,674	13,185,028
Net position:		
Net investment in capital assets	20,535,662	22,451,081
Restricted	5,958,715	4,100,767
Unrestricted	<u>1,837,991</u>	<u>492,071</u>
Total net position	<u>\$ 28,332,368</u>	<u>\$ 27,043,919</u>

	<u>CHANGES IN NET POSITION</u>	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,243,090	\$ 1,229,444
Operating grants and contributions	2,840,105	2,463,248
Capital grants and contributions	1,220,313	290,801
General revenues:		
Property taxes	21,606,979	20,649,250
Excises	743,978	698,883
Interest, penalties and other taxes	66,934	54,292
Grants and contributions not restricted to specific programs	490,178	447,364
Investment income	12,723	14,710
Other	<u>231,271</u>	<u>102,479</u>
Total revenues	28,455,571	25,950,471

(continued)

(continued)

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Expenses:		
General government	1,666,414	1,270,512
Public safety	2,233,589	2,014,297
Education	17,002,548	16,511,045
Public works	2,259,063	2,185,890
Health and human services	495,683	420,982
Culture and recreation	592,574	615,608
Insurance and benefits	2,384,512	2,245,961
Interest on long-term debt	455,024	389,388
Intergovernmental	78,415	65,338
Total expenses	<u>27,167,822</u>	<u>25,719,021</u>
Change in net position before permanent fund contributions	1,287,749	231,450
Permanent fund contributions	<u>700</u>	<u>4,100</u>
Change in net position	1,288,449	235,550
Net position - beginning of year	<u>27,043,919</u>	<u>26,808,369</u>
Net position - end of year	<u>\$ 28,332,368</u>	<u>\$ 27,043,919</u>

As noted earlier, net position 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 position was \$28,332,368 a change of \$1,288,449 from the prior year.

The largest portion of net position, \$20,535,662 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is 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 position of \$5,958,715 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$1,837,991, 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 position of \$1,288,449. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 397,395
Nonmajor funds change in fund balance (accrual basis)	1,321,904
Depreciation expense in excess of principal debt service	(632,363)
Other	<u>201,513</u>
Total	<u>\$ 1,288,449</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 \$9,466,165, a change of \$2,972,299 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as disclosed below	\$ 397,395
Special revenue fund revenues over expenditures	169,430
Capital project fund revenues over expenditures	898,439
Trust fund revenues over expenditures	<u>1,507,035</u>
Total	<u>\$ 2,972,299</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 \$2,511,695, while total fund balance was \$2,999,125. 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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	% of <u>Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,511,695	\$ 1,983,750	\$ 527,945	10.0%
Total fund balance	\$ 2,999,125	\$ 2,601,730	\$ 397,395	12.0%

The total fund balance of the general fund changed by \$397,395 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (681,527)
Revenues in excess of budget	352,971
Expenditures less than budget	360,192
Current year encumbrances and article carryforwards	385,760
Change in general stabilization fund	1,674
Other	<u>(21,675)</u>
Total	<u>\$ 397,395</u>

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

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
General stabilization	\$ 422,150	\$ 420,476	\$ 1,674

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$427,845. This increase was funded with overlay surplus and free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$29,494,942 (net of accumulated depreciation), a change of \$(1,119,172) from the prior year. This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery, equipment and vehicles, intangibles, and infrastructure.

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

- \$284,404 for building improvements at Woodhaven and other locations.
- \$385,044 for various machinery, equipment, and vehicle purchases, including a highway loader.
- \$250,732 of construction in progress for the library, Farm Pond, and various Town roads.
- \$49,864 for software purchases and road infrastructure improvements.
- \$(5,013) loss on the disposition of various capital assets.
- \$1,698,363 in current year depreciation expense.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$9,102,000, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and 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 Town'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 POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 7,710,747
Investments	2,692,349
Receivables, net of allowance for uncollectibles:	
Property taxes	244,230
Excises	43,042
Intergovernmental	36,723
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	224,009
Capital assets:	
Land and construction in progress	10,447,715
Other capital assets, net of accumulated depreciation	<u>19,047,227</u>
TOTAL ASSETS	40,446,042
LIABILITIES	
Current:	
Warrants payable	446,104
Accrued liabilities	618,327
Tax refunds payable	16,537
Other current liabilities	25,965
Current portion of long-term liabilities:	
Bonds payable	1,192,000
Compensated absences	37,004
Noncurrent:	
Bonds payable, net of current portion	7,910,000
Compensated absences, net of current portion	148,014
Other post-employment benefits	<u>1,719,723</u>
TOTAL LIABILITIES	12,113,674
NET POSITION	
Net investment in capital assets	20,535,662
Restricted for:	
Grants and other statutory restrictions	3,588,619
Permanent funds:	
Nonexpendable	1,008,074
Expendable	1,362,022
Unrestricted	<u>1,837,991</u>
TOTAL NET POSITION	\$ <u><u>28,332,368</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments	\$ 5,585,705	\$ 2,125,042	\$ 7,710,747
Investments	204,795	2,487,554	2,692,349
Receivables:			
Property taxes	473,423	-	473,423
Excises	59,343	-	59,343
Intergovernmental	7,195	29,528	36,723
Due from other funds	<u>-</u>	<u>1,854,444</u>	<u>1,854,444</u>
TOTAL ASSETS	<u>\$ 6,330,461</u>	<u>\$ 6,496,568</u>	<u>\$ 12,827,029</u>
LIABILITIES			
Warrants payable	\$ 446,104	\$ -	\$ 446,104
Accrued liabilities	542,212	-	542,212
Tax refunds payable	16,537	-	16,537
Due to other funds	1,854,444	-	1,854,444
Other liabilities	<u>25,965</u>	<u>-</u>	<u>25,965</u>
TOTAL LIABILITIES	2,885,262	-	2,885,262
DEFERRED INFLOWS OF RESOURCES	446,074	29,528	475,602
FUND BALANCES			
Nonspendable	-	1,008,074	1,008,074
Restricted	-	5,093,361	5,093,361
Committed	265,396	400,950	666,346
Assigned	222,034	-	222,034
Unassigned	<u>2,511,695</u>	<u>(35,345)</u>	<u>2,476,350</u>
TOTAL FUND BALANCES	<u>2,999,125</u>	<u>6,467,040</u>	<u>9,466,165</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 6,330,461</u>	<u>\$ 6,496,568</u>	<u>\$ 12,827,029</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2013

Total governmental fund balances	\$ 9,466,165
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,494,942
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	423,280
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(45,278)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(11,006,741)</u>
Net position of governmental activities	<u>\$ 28,332,368</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 21,596,598	\$ -	\$ 21,596,598
Excises	745,552	-	745,552
Interest, penalties and other taxes	66,934	-	66,934
Charges for services	158,002	954,687	1,112,689
Licenses and permits	122,625	-	122,625
Intergovernmental	2,125,025	865,217	2,990,242
Fines and forfeitures	77,595	-	77,595
Investment income	11,879	270,273	282,152
Miscellaneous	126,456	1,334,167	1,460,623
Total Revenues	<u>25,030,666</u>	<u>3,424,344</u>	<u>28,455,010</u>
Expenditures:			
Current:			
General government	1,158,806	17,073	1,175,879
Public safety	1,893,012	293,308	2,186,320
Education	16,201,792	728,872	16,930,664
Public works	1,295,764	307,842	1,603,606
Health and human services	423,201	258,893	682,094
Culture and recreation	498,837	183,673	682,510
Insurance and benefits	1,979,344	2,505	1,981,849
Debt service	1,470,735	32,454	1,503,189
Intergovernmental	78,415	-	78,415
Total Expenditures	<u>24,999,906</u>	<u>1,824,620</u>	<u>26,824,526</u>
Excess (deficiency) of revenues over expenditures	30,760	1,599,724	1,630,484
Other Financing Sources (Uses):			
Bond proceeds	1,894,000	1,253,000	3,147,000
Bond premium	104,815	-	104,815
Transfers in	528,392	250,572	778,964
Payment to refunding bond escrow	(1,910,000)	-	(1,910,000)
Transfers out	(250,572)	(528,392)	(778,964)
Total Other Financing Sources (Uses)	<u>366,635</u>	<u>975,180</u>	<u>1,341,815</u>
Change in fund balance	397,395	2,574,904	2,972,299
Fund Equity, at Beginning of Year	<u>2,601,730</u>	<u>3,892,136</u>	<u>6,493,866</u>
Fund Equity, at End of Year	<u>\$ 2,999,125</u>	<u>\$ 6,467,040</u>	<u>\$ 9,466,165</u>

The accompanying notes are an integral part of these 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, 2013

Net changes in fund balances - total governmental funds	\$ 2,972,299																				
<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 style="margin-left: 40px; width: 100%;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">970,044</td> </tr> <tr> <td>Adjustment to correct asset balances</td> <td style="text-align: right;">(385,840)</td> </tr> <tr> <td>Loss on disposition of assets</td> <td style="text-align: right;">(5,013)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,698,363)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table style="margin-left: 40px; width: 100%;"> <tr> <td></td> <td style="text-align: right;">(134,391)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. However, neither transaction has any effect on net position: <table style="margin-left: 40px; width: 100%;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(1,253,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">1,066,000</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="margin-left: 40px; width: 100%;"> <tr> <td></td> <td style="text-align: right;">(1,835)</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table style="margin-left: 40px; width: 100%;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">130,374</td> </tr> <tr> <td>Other post-employment benefits</td> <td style="text-align: right;"><u>(371,826)</u></td> </tr> </table> 		Capital outlay purchases	970,044	Adjustment to correct asset balances	(385,840)	Loss on disposition of assets	(5,013)	Depreciation	(1,698,363)		(134,391)	Issuance of debt	(1,253,000)	Repayments of debt	1,066,000		(1,835)	Compensated absences	130,374	Other post-employment benefits	<u>(371,826)</u>
Capital outlay purchases	970,044																				
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	(1,835)																				
Compensated absences	130,374																				
Other post-employment benefits	<u>(371,826)</u>																				
Change in net position of governmental activities	\$ <u>1,288,449</u>																				

The accompanying notes are an integral part of these 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, 2013

	<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	\$ 21,286,433	\$ 21,286,433	\$ 21,286,433	\$ -
Excises	680,000	680,000	745,552	65,552
Interest, penalties and other taxes	51,000	51,000	66,934	15,934
Charges for services	124,488	124,488	158,002	33,514
Licenses and permits	100,000	100,000	122,625	22,625
Intergovernmental	1,010,057	1,010,057	1,022,420	12,363
Fines and forfeitures	90,000	90,000	77,595	(12,405)
Investment income	10,000	10,000	10,205	205
Miscellaneous	-	-	126,368	126,368
Other financing sources:				
Bond premium	-	-	88,815	88,815
Transfers in	541,393	528,392	528,392	-
Use of fund balance	240,681	681,527	681,527	-
Total Revenues and Other Sources	24,134,052	24,561,897	24,914,868	352,971
Expenditures and Other Uses:				
Current:				
General government	1,192,281	1,330,805	1,249,990	80,815
Public safety	1,840,433	1,915,998	1,885,772	30,226
Education	15,290,445	15,292,419	15,038,779	253,640
Public works	1,231,420	1,406,420	1,353,278	53,142
Health and human services	415,669	423,169	412,983	10,186
Culture and recreation	503,324	491,973	484,087	7,886
Insurance and benefits	1,944,907	1,999,907	1,977,094	22,813
Intergovernmental	67,905	67,905	78,415	(10,510)
Debt service	1,503,611	1,525,397	1,590,935	(65,538)
Other financing uses:				
Transfers out	100,000	100,000	130,372	(30,372)
Reserve fund	44,057	7,904	-	7,904
Total Expenditures and Other Uses	24,134,052	24,561,897	24,201,705	360,192
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 713,163	\$ 713,163

The accompanying notes are an integral part of these 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 Town 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 2013, 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 Position 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 Town 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 Town 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 bank certificates of deposit, 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 2013 tax levy reflected an excess capacity of \$62,344.

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 Town 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.

Capital assets are 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 Town'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 Position.

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 position".

Fund Balance - Generally, fund balance represents the difference between current assets and current liabilities/deferred inflows. 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., prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are restricted used solely for the purpose for which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the Town's highest decision-making authority, which is the annual Budgetary Town Meeting.
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include general budgetary encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 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 Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists 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 position is reported as restricted when there are limitations imposed on its use, either through enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is 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 can be 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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 25,030,666	\$ 24,999,906
Other financing sources/uses (GAAP basis)	<u>2,527,207</u>	<u>2,160,572</u>
Subtotal (GAAP Basis)	27,557,873	27,160,478
Adjust tax revenue to accrual basis	(310,165)	-
Record use of free cash and overlay surplus	681,527	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(331,928)
Add end-of-year appropriation carryforwards to expenditures	-	385,760
Reverse the effect of non-budgeted State contributions for teachers retirement	(1,102,605)	(1,102,605)
Reverse refunding bond proceeds and payoff	(1,910,000)	(1,910,000)
Reverse effect of combining general fund and general stabilization funds	(1,674)	-
Other	<u>(88)</u>	<u>-</u>
Budgetary basis	<u>\$ 24,914,868</u>	<u>\$ 24,201,705</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2013:

Special Revenue Funds:

Federal grants	\$ (3,375)
State grants	(16,056)
Other special revenue funds	<u>(15,914)</u>
	<u>\$ (35,345)</u>

These deficits will be eliminated through future intergovernmental revenues and departmental revenue sources.

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. Massachusetts General Laws, Chapter 44, Section 55, limits the Town's deposits to

“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, 2013, \$1,149,942 of the Town’s bank balance of \$7,911,645 was exposed to custodial credit risk as uninsured or uncollateralized.

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 Laws, 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 at year end for each type of Town investment, including funds managed by the Town Treasurer, the Library Trustees and the Sawin Academy Trustees (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>Aa</u>	<u>A</u>	<u>Bbb</u>
Certificates of deposit	\$ 205	N/A	\$ 205	\$ -	\$ -	\$ -
Corporate bonds	274	N/A	-	85	162	27
Bond mutual funds	282	N/A	282	-	-	-
Corporate equities	957	N/A	957	-	-	-
Equity mutual funds	<u>974</u>	N/A	<u>974</u>	-	-	-
Total investments	<u>\$ 2,692</u>		<u>\$ 2,418</u>	<u>\$ 85</u>	<u>\$ 162</u>	<u>\$ 27</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, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Trustees have an investment policy; however, this policy does not specifically address custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount that may be invested in any one issuer. The Town does not have an investment in one issuer (other than bond and equity mutual funds) 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 is 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 changing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 274	\$ 26	\$ 220	\$ 28
Total	\$ 274	\$ 26	\$ 220	\$ 28

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, 2013 consist of the following:

2013 Real Estate	\$	207,423
2013 Personal Property		1,459
Tax Liens		135,108
Tax Deferrals		<u>129,433</u>
Total	\$	<u><u>473,423</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	\$	5,184
Excises	\$	16,301

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013.

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, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 1,854,444
Special Revenue Funds	1,707,973	-
Capital Project Funds:	<u>146,471</u>	<u>-</u>
Total	\$ <u><u>1,854,444</u></u>	\$ <u><u>1,854,444</u></u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Adjust ⁽¹⁾	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 100	\$ -	\$ -	\$ 21	\$ 121
Buildings and improvements	15,773	284	-	(66)	15,991
Machinery, equipment, and vehicles	6,960	385	(52)	-	7,293
Intangibles	68	27	-	-	95
Infrastructure	<u>20,155</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>20,178</u>
Total capital assets, being depreciated	43,056	719	(52)	(45)	43,678
Less accumulated depreciation for:					
Land improvements	(82)	(2)	-	-	(84)
Buildings and improvements	(5,065)	(424)	-	(25)	(5,514)
Machinery, equipment, and vehicles	(5,408)	(322)	47	25	(5,658)
Intangibles	(27)	(12)	-	-	(39)
Infrastructure	<u>(12,398)</u>	<u>(938)</u>	<u>-</u>	<u>-</u>	<u>(13,336)</u>
Total accumulated depreciation	<u>(22,980)</u>	<u>(1,698)</u>	<u>47</u>	<u>-</u>	<u>(24,631)</u>
Total capital assets, being depreciated, net	20,076	(979)	(5)	(45)	19,047
Capital assets, not being depreciated:					
Land	10,361	-	-	(274)	10,087
Construction in progress	<u>177</u>	<u>251</u>	<u>-</u>	<u>(67)</u>	<u>361</u>
Total capital assets, not being depreciated	<u>10,538</u>	<u>251</u>	<u>-</u>	<u>(341)</u>	<u>10,448</u>
Governmental activities capital assets, net	<u>\$ 30,614</u>	<u>\$ (728)</u>	<u>\$ (5)</u>	<u>\$ (386)</u>	<u>\$ 29,495</u>

⁽¹⁾In fiscal year 2013, various asset balances were adjusted to reconcile control balances to the Town's detailed subsidiary records.

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

Governmental Activities:	
General government	\$ 88
Public safety	293
Education	205
Public works	1,045
Health and human services	56
Culture and recreation	<u>11</u>
Total depreciation expense - governmental activities	<u>\$ 1,698</u>

10. Warrants Payable and Accrued Liabilities

Warrants payable represent 2013 expenditures paid by July 15, 2013 as permitted by law. Accrued liabilities represent 2013 expenditures paid in 2014.

11. 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.

12. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2013:

	Balance Beginning of Year	New Issues	Payoff/ Paydown	Bonded	Balance End of Year
Bond anticipation	\$ 746,000	\$ -	\$ (78,000)	\$ (668,000)	\$ -
Bond anticipation	377,200	-	(42,200)	(335,000)	-
Bond anticipation	-	200,000	-	(200,000)	-
Revenue anticipation	-	400,000	(400,000)	-	-
State anticipation	-	236,269	(236,269)	-	-
Total	\$ <u>1,123,200</u>	\$ <u>836,269</u>	\$ <u>(756,469)</u>	\$ <u>(1,203,000)</u>	\$ <u>-</u>

13. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate %	Amount Outstanding as of 6/30/13
Municipal bond of 2007	05/15/26	3.95%	\$ 4,095,000
Municipal bond of 2010	05/15/27	3.08%	1,860,000
Municipal bond of 2013	05/15/26	1.23%	<u>3,147,000</u>
Total Governmental Activities:			\$ <u>9,102,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,192,000	\$ 296,047	\$ 1,488,047
2015	1,180,000	251,988	1,431,988
2016	1,170,000	211,338	1,381,338
2017	1,140,000	176,825	1,316,825
2018	1,040,000	139,975	1,179,975
2019 - 2023	2,505,000	335,288	2,840,288
2024 - 2027	<u>875,000</u>	<u>72,938</u>	<u>947,938</u>
Total	<u>\$ 9,102,000</u>	<u>\$ 1,484,399</u>	<u>\$ 10,586,399</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2013.

General fund	\$ 8,713,054
Special revenue fund	<u>388,946</u>
Total	<u>\$ 9,102,000</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total			Total	Less	Equals
	Balance	Additions	Reductions	Balance	Current	Long-Term
	<u>7/1/12</u>			<u>6/30/13</u>	<u>Portion</u>	<u>6/30/13</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 8,915	\$ 1,253	\$ (1,066)	\$ 9,102	\$ (1,192)	\$ 7,910
Other:						
Compensated absences	316	18	(149)	185	(37)	148
OPEB	<u>1,348</u>	<u>812</u>	<u>(440)</u>	<u>1,720</u>	<u>-</u>	<u>1,720</u>
Totals	<u>\$ 10,579</u>	<u>\$ 2,083</u>	<u>\$ (1,655)</u>	<u>\$ 11,007</u>	<u>\$ (1,229)</u>	<u>\$ 9,778</u>

D. Current Refunding

Current Year

On March 11, 2013, the Town issued general obligation bonds in the amount of \$1,894,000 with a net interest cost of 1.16% to current refund \$1,910,000 of term bonds with a net interest cost of 3.70%. The currently refunded term bonds were due to mature on May 15, 2020 and May 15,

2021, and were called on May 15, 2013. The general obligation bonds were issued at a premium of 102.80% and, after paying a call premium of \$19,100 and issuance costs of \$69,715, the net proceeds (including premium of \$104,815) were \$1,910,000. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds were called on May 15, 2013. The current refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the current refunding, the Town reduced its total debt service cash flow requirements by \$209,273, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$207,131.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2013:

	Fund Basis	
	Governmental Funds	
	<u>General</u>	<u>Nonmajor</u>
Deferred revenue	\$ 446,074	\$ 29,528

15. Restricted Net Position

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

Permanent fund restricted net position is 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 has 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, 2013:

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 classification includes nonmajor governmental fund reserves for the principal (i.e., nonexpendable) 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 and expendable trust funds, capital projects funded by grants and borrowing, and the income (i.e., expendable) portion of permanent trust 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 decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations, and OPEB stabilization funds approved by Town Meeting vote.

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, general stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54), and various special revenue fund deficit balances.

Following is a breakdown of the Town's fund balances at June 30, 2013:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 1,008,074	\$ 1,008,074
Total Nonexpendable	-	1,008,074	1,008,074
Restricted			
Special revenue funds	-	1,745,318	1,745,318
Bonded capital projects	-	146,471	146,471
Conservation/land acquisition funds	-	69,903	69,903
Expendable library funds	-	1,769,647	1,769,647
Expendable permanent funds	-	1,362,022	1,362,022
Total Restricted	-	5,093,361	5,093,361
Committed			
Article carryforwards	265,396	-	265,396
OPEB stabilization fund	-	400,950	400,950
Total Committed	265,396	400,950	666,346
Assigned			
Encumbrances	120,364	-	120,364
Appropriated fund balance	101,670	-	101,670
Total Assigned	222,034	-	222,034
Unassigned			
General fund	2,089,545	-	2,089,545
General stabilization	422,150	-	422,150
Special revenue fund deficits	-	(35,345)	(35,345)
Total Unassigned	2,511,695	(35,345)	2,476,350
Total Fund Balance	\$ 2,999,125	\$ 6,467,040	\$ 9,466,165

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.

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	\$ 2,511,695
Stabilization fund	(422,150)
Tax refund estimate	<u>16,537</u>
Statutory (UMAS) Balance	<u>\$ 2,106,082</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 Position over time.

A. Plan Description

In addition to providing the pension benefits described in Note 21, 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, 2013, the most recent actuarial valuation date, approximately 66 retirees and 115 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 2013 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, 2013, 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, 2013.

Annual Required Contribution (ARC)	\$ 757,807
Interest on net OPEB obligation	53,916
Adjustment to ARC	(74,951)
Amortization of actuarial (gains)/losses	<u>(30,621)</u>
Annual OPEB cost	706,151
Projected benefit payments	<u>(334,325)</u>
Increase in net OPEB obligation	371,826
Net OPEB obligation - beginning of year	<u>1,347,897</u>
Net OPEB obligation - end of year	<u><u>\$ 1,719,723</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 706,151	47.3%	\$ 1,719,723
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, 2013 is recorded as a noncurrent liability in the Statement of Net Position.

In April 2012, the Town voted to establish a stabilization account pursuant to Massachusetts General Laws, Chapter 40, Section 5B, for the purpose of funding the Town's OPEB liability. Because this is not an irrevocable funding mechanism, the resources in this account are not considered to reduce the Town's net OPEB obligation as reported in accordance with GASB 45. As of June 30, 2013, the balance in the Town's OPEB Stabilization Fund was \$400,950.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 9,613,010
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,613,010</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 techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 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 4.00% pay-as-you-go investment rate of return and an initial annual medical/drug cost trend rate of 6.0% which decreases to a 5% long-term rate after one year. 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.

G. Dover-Sherborn Regional School District

The Town of Sherborn is a member of the Dover-Sherborn Regional School District. The Dover-Sherborn Regional School District's actuarial accrued OPEB liability at July 1, 2012 was \$16,323,116. The Town's operational apportionment for fiscal year 2015 was 46.42% of the District's total budget.

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, 2013, 2012, and 2011 were \$574,354, \$548,558, and \$498,549, 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.

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 2013, the Commonwealth of Massachusetts contributed \$1,102,605 to the MTRS on behalf of the Town. This is included in total intergovernmental revenues and education expenditures in the general fund.

22. Risk Management

The Town 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 Town 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.

23. 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 requiring the Town to recognize, as a liability and expense, the Town's applicable portion of the Middlesex County Retirement System's (System) actuarially accrued unfunded liability.

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

**TOWN OF SHERBORN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013**

**(Unaudited)
(Amounts Expressed in thousands)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/13	\$ -	\$ 9,613	\$ 9,613	0.0%	N/A	N/A
06/30/10	\$ -	\$ 9,861	\$ 9,861	0.0%	N/A	N/A
06/30/07	\$ -	\$ 8,584	\$ 8,584	0.0%	N/A	N/A

**MIDDLESEX COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

**Employees' Retirement System
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/12	\$ 862,323	\$ 1,974,145	\$ 1,111,822	43.7%	\$ 393,101	282.8%
01/01/10	\$ 819,988	\$ 1,743,582	\$ 923,594	47.0%	\$ 384,934	239.9%
01/01/08	\$ 774,864	\$ 1,529,806	\$ 754,942	50.7%	\$ 360,206	209.6%

**Employees' Retirement System
Schedule of Employer Contributions**

Plan Year Ended June 30	System Wide			Town of Sherborn, MA	
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
06/30/13	\$ 83,312	\$ 81,896	98.3%	\$ 574	0.7%
06/30/12	\$ 79,641	\$ 78,595	98.7%	\$ 549	0.7%
06/30/11	\$ 76,270	\$ 76,087	99.8%	\$ 499	0.7%

See Independent Auditors' Report.