

TOWN OF SHERBORN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

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, each major fund, and the aggregate remaining fund information of the Town of Sherborn, Massachusetts, as of and for the year ended June 30, 2014, 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, each major fund, and the aggregate remaining fund information of the Town of Sherborn, Massachusetts, as of June 30, 2014, 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

March 6, 2015

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, 2014.

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 \$28,934,492 (i.e., net position), a change of \$1,258,122 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$10,350,168, a change of \$884,003 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,995,396, a change of \$483,701 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$7,910,000, a change of \$(1,192,000) 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.

NET POSITION

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 13,312,009	\$ 10,951,100
Capital assets	<u>28,125,370</u>	<u>28,838,944</u>
Total assets	41,437,379	39,790,044
Current liabilities	3,516,556	2,335,937
Noncurrent liabilities	<u>8,986,331</u>	<u>9,777,737</u>
Total liabilities	12,502,887	12,113,674
Net position:		
Net investment in capital assets	19,736,824	19,879,664
Restricted	6,915,367	5,958,715
Unrestricted	<u>2,282,301</u>	<u>1,837,991</u>
Total net position	<u>\$ 28,934,492</u>	<u>\$ 27,676,370</u>

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,398,420	\$ 1,243,090
Operating grants and contributions	2,937,085	2,840,105
Capital grants and contributions	1,024,299	1,220,313
General revenues:		
Property taxes	22,143,171	21,606,979
Excises	759,387	743,978
Interest, penalties and other taxes	59,515	66,934
Grants and contributions not restricted to specific programs	494,229	490,178
Investment income	31,147	12,723
Other	<u>96,100</u>	<u>231,271</u>
Total revenues	<u>28,943,353</u>	<u>28,455,571</u>

(continued)

(continued)

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Expenses:		
General government	1,485,062	1,666,414
Public safety	2,369,270	2,233,589
Education	17,253,922	17,002,548
Public works	2,546,373	2,259,063
Health and human services	532,177	495,683
Culture and recreation	655,856	592,574
Insurance and benefits	2,484,917	2,384,512
Interest on long-term debt	286,976	455,024
Intergovernmental	71,878	78,415
Total expenses	<u>27,686,431</u>	<u>27,167,822</u>
Change in net position before permanent fund contributions	1,256,922	1,287,749
Permanent fund contributions	<u>1,200</u>	<u>700</u>
Change in net position	1,258,122	1,288,449
Net position - beginning of year, as restated	<u>27,676,370</u>	<u>26,387,921</u>
Net position - end of year	<u>\$ 28,934,492</u>	<u>\$ 27,676,370</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 \$28,934,492 a change of \$1,258,122 from the prior year.

The largest portion of net position, \$19,736,824 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 \$6,915,367 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,282,301, 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 \$1,258,122. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 654,405
Major fund change in fund balance	420,206
Nonmajor funds change in fund balance (accrual basis)	706,147
Depreciation expense in excess of principal debt service	(418,329)
Other	<u>(104,307)</u>
Total	<u>\$ 1,258,122</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 \$10,350,168, a change of \$884,003 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as disclosed below	\$ 654,405
Library campaign trust fund change in fund balance	420,206
Special revenue fund expenditures over revenues	(120,557)
Capital project expenditures over revenues	(659,323)
Nonmajor trust fund revenues over expenditures	<u>589,272</u>
Total	<u>\$ 884,003</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 \$2,995,396, while total fund balance was \$4,054,480. 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>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 2,995,396	\$ 2,511,695	\$ 483,701	11.7%
Total fund balance	\$ 4,054,480	\$ 3,400,075	\$ 654,405	15.9%

The total fund balance of the general fund changed by \$654,405 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 253,085
Expenditures less than budget	587,495
Use of free cash and overlay surplus as a funding source	(658,873)
Current year encumbrances and article carryforwards	543,478
Change in stabilization funds	201,128
Other	<u>(271,908)</u>
Total	<u>\$ 654,405</u>

The Town's general stabilization fund is included in general fund unassigned fund balance. The Town's OPEB stabilization fund is included in general fund committed fund balance. The balances in these stabilization funds at June 30, 2014 are noted below:

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 508,622	\$ 422,150	\$ 86,472
OPEB stabilization	<u>515,606</u>	<u>400,950</u>	<u>114,656</u>
Total	<u>\$ 1,024,228</u>	<u>\$ 823,100</u>	<u>\$ 201,128</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$557,203. This increase in appropriations was funded by 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 \$28,125,370 (net of accumulated depreciation), a change of \$(1,369,572) 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:

- \$73,551 for land improvements on the Pine Hill School access road.
- \$424,038 for building improvements at Pine Hill School, Woodhaven, and other locations.
- \$167,008 for various machinery, equipment, and vehicle purchases.

- \$10,000 for highway department mapping software.
- \$222,158 for infrastructure improvements to various Town roads.
- \$(655,998) in beginning balance adjustments to correct capital asset and accumulated depreciation balances.
- \$(1,610,329) in current year depreciation expense.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$7,910,000, 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, 2014

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 8,533,082
Investments	4,029,892
Receivables, net of allowance for uncollectibles:	
Property taxes	240,699
Excises	15,083
Intergovernmental	318,791
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	174,462
Capital assets:	
Land and construction in progress	10,082,691
Other capital assets, net of accumulated depreciation	<u>18,042,679</u>
TOTAL ASSETS	41,437,379
LIABILITIES	
Current:	
Warrants payable	492,940
Accrued liabilities	649,189
Tax refunds payable	14,072
Notes payable	1,109,243
Other current liabilities	33,067
Current portion of long-term liabilities:	
Bonds payable	1,180,000
Compensated absences	38,045
Noncurrent:	
Bonds payable, net of current portion	6,730,000
Compensated absences, net of current portion	152,180
Other post-employment benefits	<u>2,104,151</u>
TOTAL LIABILITIES	12,502,887
NET POSITION	
Net investment in capital assets	19,736,824
Restricted for:	
Grants and other statutory restrictions	4,252,844
Permanent funds:	
Nonexpendable	1,076,476
Expendable	1,586,047
Unrestricted	<u>2,282,301</u>
TOTAL NET POSITION	\$ <u><u>28,934,492</u></u>

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

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

		<u>Program Revenues</u>			Net (Expenses) Revenues and Changes in Net Position
	<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	\$ 1,485,062	\$ 187,429	\$ 44,132	\$ -	\$ (1,253,501)
Public safety	2,369,270	379,342	98,706	-	(1,891,222)
Education	17,253,922	203,584	2,351,854	-	(14,698,484)
Public works	2,546,373	41,644	10,704	389,060	(2,104,965)
Health and human services	532,177	364,941	25,105	-	(142,131)
Culture and recreation	655,856	221,480	406,584	635,239	607,447
Insurance and benefits	2,484,917	-	-	-	(2,484,917)
Interest	286,976	-	-	-	(286,976)
Intergovernmental	71,878	-	-	-	(71,878)
Total Governmental Activities	<u>\$ 27,686,431</u>	<u>\$ 1,398,420</u>	<u>\$ 2,937,085</u>	<u>\$ 1,024,299</u>	(22,326,627)
General Revenues and Permanent Fund Contributions:					
					22,143,171
					759,387
					59,515
					494,229
					31,147
					96,100
					<u>1,200</u>
Total general revenues and permanent fund contributions					<u>23,584,749</u>
Change in Net Position					1,258,122
Net Position:					
Beginning of year, as restated					<u>27,676,370</u>
End of year					<u>\$ 28,934,492</u>

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

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	Library Campaign Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 6,644,264	\$ 1,583,104	\$ 305,714	\$ 8,533,082
Investments	697,585	-	3,332,307	4,029,892
Receivables:				
Property taxes	420,441	-	-	420,441
Excises	25,068	-	-	25,068
Intergovernmental	66,581	-	252,210	318,791
Due from other funds	-	-	2,183,806	2,183,806
TOTAL ASSETS	\$ 7,853,939	\$ 1,583,104	\$ 6,074,037	\$ 15,511,080
LIABILITIES				
Warrants payable	\$ 492,940	\$ -	\$ -	\$ 492,940
Accrued liabilities	617,691	-	-	617,691
Tax refunds payable	14,072	-	-	14,072
Due to other funds	2,183,806	-	-	2,183,806
Notes payable	-	-	1,109,243	1,109,243
Other liabilities	33,067	-	-	33,067
TOTAL LIABILITIES	3,341,576	-	1,109,243	4,450,819
DEFERRED INFLOWS OF RESOURCES	457,883	-	252,210	710,093
FUND BALANCES				
Nonspendable	-	-	1,076,476	1,076,476
Restricted	-	1,583,104	4,304,840	5,887,944
Committed	872,223	-	-	872,223
Assigned	186,861	-	-	186,861
Unassigned	2,995,396	-	(668,732)	2,326,664
TOTAL FUND BALANCES	4,054,480	1,583,104	4,712,584	10,350,168
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,853,939	\$ 1,583,104	\$ 6,074,037	\$ 15,511,080

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, 2014

Total governmental fund balances	\$ 10,350,168
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	28,125,370
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	694,828
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(31,498)
• 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>(10,204,376)</u>
Net position of governmental activities	<u><u>\$ 28,934,492</u></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, 2014

	General Fund	Library Campaign Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 22,156,567	\$ -	\$ -	\$ 22,156,567
Excises	787,347	-	-	787,347
Interest, penalties and other taxes	59,515	-	-	59,515
Charges for services	189,478	-	990,437	1,179,915
Licenses and permits	176,196	-	-	176,196
Intergovernmental	2,123,386	-	836,232	2,959,618
Fines and forfeitures	82,568	-	-	82,568
Investment income	31,147	-	470,269	501,416
Donations	-	420,206	-	420,206
Miscellaneous	96,100	-	284,393	380,493
Total Revenues	<u>25,702,304</u>	<u>420,206</u>	<u>2,581,331</u>	<u>28,703,841</u>
Expenditures:				
Current:				
General government	1,277,289	-	142,728	1,420,017
Public safety	1,956,637	-	327,987	2,284,624
Education	16,341,213	-	1,025,696	17,366,909
Public works	1,396,297	-	445,557	1,841,854
Health and human services	425,006	-	139,605	564,611
Culture and recreation	506,951	-	138,912	645,863
Insurance and benefits	2,096,146	-	35,180	2,131,326
Debt service	1,460,283	-	32,473	1,492,756
Intergovernmental	71,878	-	-	71,878
Total Expenditures	<u>25,531,700</u>	<u>-</u>	<u>2,288,138</u>	<u>27,819,838</u>
Excess (deficiency) of revenues over expenditures	170,604	420,206	293,193	884,003
Other Financing Sources (Uses):				
Transfers in	492,796	-	8,995	501,791
Transfers out	(8,995)	-	(492,796)	(501,791)
Total Other Financing Sources (Uses)	<u>483,801</u>	<u>-</u>	<u>(483,801)</u>	<u>-</u>
Change in fund balance	654,405	420,206	(190,608)	884,003
Fund Equity, at Beginning of Year, as restated	<u>3,400,075</u>	<u>1,162,898</u>	<u>4,903,192</u>	<u>9,466,165</u>
Fund Equity, at End of Year	<u>\$ 4,054,480</u>	<u>\$ 1,583,104</u>	<u>\$ 4,712,584</u>	<u>\$ 10,350,168</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, 2014

Net changes in fund balances - total governmental funds	\$ 884,003												
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">896,755</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,610,329)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">240,711</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 border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">1,192,000</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">13,780</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences and OPEB, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(358,798)</u></td> </tr> </table> 		Capital outlay purchases	896,755	Depreciation	(1,610,329)		240,711	Repayments of debt	1,192,000		13,780		<u>(358,798)</u>
Capital outlay purchases	896,755												
Depreciation	(1,610,329)												
	240,711												
Repayments of debt	1,192,000												
	13,780												
	<u>(358,798)</u>												
Change in net position of governmental activities	\$ <u><u>1,258,122</u></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, 2014

	<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	\$ 22,042,716	\$ 22,042,716	\$ 22,042,716	\$ -
Excises	720,000	720,000	787,347	67,347
Interest, penalties and other taxes	52,000	52,000	59,514	7,514
Charges for services	151,500	151,500	190,428	38,928
Licenses and permits	130,000	130,000	175,246	45,246
Intergovernmental	1,024,233	1,024,233	1,030,595	6,362
Fines and forfeitures	90,000	90,000	82,568	(7,432)
Investment income	10,000	10,000	9,020	(980)
Miscellaneous	-	-	96,100	96,100
Other financing sources:				
Transfers in	492,796	492,796	492,796	-
Use of fund balance	<u>101,670</u>	<u>658,873</u>	<u>658,873</u>	<u>-</u>
Total Revenues and Other Sources	24,814,915	25,372,118	25,625,203	253,085
Expenditures and Other Uses:				
Current:				
General government	1,252,359	1,318,936	1,293,311	25,625
Public safety	1,915,032	2,083,132	2,019,816	63,316
Education	15,663,070	15,663,070	15,306,267	356,803
Public works	1,189,552	1,474,552	1,424,322	50,230
Health and human services	415,385	432,585	426,888	5,697
Culture and recreation	508,435	536,105	535,293	812
Insurance and benefits	2,257,050	2,257,050	2,196,146	60,904
Intergovernmental	81,896	81,896	71,878	10,018
Debt service	1,472,136	1,472,136	1,460,283	11,853
Other financing uses:				
Transfers out	-	50,000	50,419	(419)
Reserve fund	<u>60,000</u>	<u>2,656</u>	<u>-</u>	<u>2,656</u>
Total Expenditures and Other Uses	<u>24,814,915</u>	<u>25,372,118</u>	<u>24,784,623</u>	<u>587,495</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>840,580</u>	\$ <u>840,580</u>

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 2014, it was determined that no entities met the required GASB 14 (as amended) 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.
- The *Library Campaign Fund* is used to account for all activity associated with the Sherborn Library Trustees' three-year, \$3.5 million Capital Campaign for a planned Sherborn Library renovation and expansion project.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue and trust 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 consist of bank certificates of deposit, marketable securities, bonds, and mutual funds. 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 2014 tax levy reflected an excess capacity of \$9,353.

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 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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 25,702,304	\$ 25,531,700
Other financing sources/uses (GAAP basis)	<u>492,796</u>	<u>8,995</u>
Subtotal (GAAP Basis)	26,195,100	25,540,695
Adjust tax revenue to accrual basis	(113,851)	-
Record use of free cash and overlay surplus	658,873	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(385,759)
Add end-of-year appropriation carryforwards to expenditures	-	543,478
Reverse the effect of non-budgeted State contributions for teachers retirement	(1,092,791)	(1,092,791)
Reverse effect of combining general fund and general stabilization funds	<u>(22,128)</u>	<u>179,000</u>
Budgetary basis	<u>\$ 25,625,203</u>	<u>\$ 24,784,623</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2014:

Special Revenue Funds:

State grants	\$ (91,018)
Other special revenue funds	(15,810)

Capital Project Funds:

Highway Chapter 90 projects	(34,305)
Other capital projects	<u>(527,599)</u>
	<u>\$ (668,732)</u>

These temporary deficits will be eliminated through future bond proceeds, 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. Massa-

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, 2014, \$1,617,393 of the Town's and Library Trustees' bank balance of \$8,634,017 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 investment managed by the Town, Library Trustees, and 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>AA1</u>	<u>A1</u>	<u>A2</u>	<u>BAA1</u>	<u>BAA3</u>
Certificates of deposit	\$ 206	N/A	\$ 206	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	271	N/A	-	28	82	56	78	27
Asset-backed securities	716	N/A	716	-	-	-	-	-
Equities	1,149	N/A	1,149	-	-	-	-	-
Mutual funds	<u>1,688</u>	N/A	<u>1,688</u>	-	-	-	-	-
Total investments	\$ <u>4,030</u>		\$ <u>3,759</u>	\$ <u>28</u>	\$ <u>82</u>	\$ <u>56</u>	\$ <u>78</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.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by

the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount that may be invested in any one issuer. Investments in any one issuer (other than mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Ginnie Mae asset backed securities	\$ <u>449</u>	11%
Total	\$ <u><u>449</u></u>	

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 and Library Trustees' 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>	<u>More Than 10</u>
Certificates of deposit	\$ 206	\$ 206	\$ -	\$ -	\$ -
Corporate bonds	271	26	217	28	-
Asset-backed securities	<u>716</u>	-	-	<u>19</u>	<u>697</u>
Total	\$ <u><u>1,193</u></u>	\$ <u><u>232</u></u>	\$ <u><u>217</u></u>	\$ <u><u>47</u></u>	\$ <u><u>697</u></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, 2014 consist of the following:

2014 Real Estate	\$ 211,213
2014 Personal Property	759
Tax Liens	56,601
Tax Deferrals	<u>151,868</u>
Total	<u>\$ 420,441</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	\$ 5,280
Excises	\$ 9,985

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

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, 2014 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 2,183,806
Special Revenue Funds	1,587,415	-
Capital Project Funds	<u>596,391</u>	<u>-</u>
Total	<u>\$ 2,183,806</u>	<u>\$ 2,183,806</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows (in thousands):

	(1) Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 129	\$ 74	\$ -	\$ 203
Buildings and improvements	15,907	424	-	16,331
Machinery, equipment, and vehicles	6,321	167	-	6,488
Intangibles	33	10	-	43
Infrastructure	<u>20,300</u>	<u>222</u>	<u>-</u>	<u>20,522</u>
Total capital assets, being depreciated	42,690	897	-	43,587
Less accumulated depreciation for:				
Land improvements	(78)	(5)	-	(83)
Buildings and improvements	(5,482)	(439)	-	(5,921)
Machinery, equipment, and vehicles	(5,045)	(253)	-	(5,298)
Intangibles	(9)	(4)	-	(13)
Infrastructure	<u>(13,320)</u>	<u>(910)</u>	<u>-</u>	<u>(14,230)</u>
Total accumulated depreciation	<u>(23,934)</u>	<u>(1,611)</u>	<u>-</u>	<u>(25,545)</u>
Total capital assets, being depreciated, net	18,756	(714)	-	18,042
Capital assets, not being depreciated:				
Land	10,038	-	-	10,038
Construction in progress	<u>45</u>	<u>-</u>	<u>-</u>	<u>45</u>
Total capital assets, not being depreciated	<u>10,083</u>	<u>-</u>	<u>-</u>	<u>10,083</u>
Governmental activities capital assets, net	<u>\$ 28,839</u>	<u>\$ (714)</u>	<u>\$ -</u>	<u>\$ 28,125</u>

(1) In fiscal year 2014, various beginning asset and accumulated depreciation balances were adjusted to reflect a more accurate valuation of the Town's capital assets. The net effect of this adjustment was to reduce the beginning balance of the Town's net capital assets by \$(655,998).

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

Governmental Activities:	
General government	\$ (84)
Public safety	(262)
Education	(175)
Public works	(1,021)
Health and human services	(10)
Culture and recreation	<u>(59)</u>
Total depreciation expense - governmental activities	\$ <u><u>(1,611)</u></u>

10. Warrants Payable and Accrued Liabilities

Warrants payable represent 2014 expenditures paid by July 15, 2014 as permitted by law. Accrued liabilities represent 2014 expenditures paid in 2015.

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 Town had the following notes outstanding at June 30, 2014:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/14
Bond anticipation	0.65%	03/12/14	03/12/15	\$ 790,000
Bond anticipation	0.60%	05/08/14	03/12/15	100,000
State anticipation	0.55%	06/19/14	05/21/15	<u>219,243</u>
Total				\$ <u><u>1,109,243</u></u>

The following summarizes activity in notes payable during fiscal year 2014:

	Balance Beginning of Year	New Issues	Rollover	Payoff/ Paydown	Balance End of Year
Bond anticipation	\$ -	\$ 790,419	\$ (790,000)	\$ (419)	\$ -
Bond anticipation	-	-	790,000	-	790,000
Bond anticipation	-	100,000	-	-	100,000
State anticipation	-	295,608	(128,193)	(167,415)	-
State anticipation	-	91,050	128,193	-	219,243
Total	\$ -	\$ <u><u>1,277,077</u></u>	\$ -	\$ <u><u>(167,834)</u></u>	\$ <u><u>1,109,243</u></u>

13. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate %</u>	<u>Amount Outstanding as of 6/30/14</u>
Municipal bond of 2007	05/15/26	3.95%	\$ 3,455,000
Municipal bond of 2010	05/15/27	3.08%	1,715,000
Municipal bond of 2013	05/15/26	1.23%	<u>2,740,000</u>
Total Governmental Activities:			<u>\$ 7,910,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	860,000	103,850	963,850
2020 - 2024	1,905,000	262,900	2,167,900
Thereafter	<u>615,000</u>	<u>41,475</u>	<u>656,475</u>
Total	<u>\$ 7,910,000</u>	<u>\$ 1,188,351</u>	<u>\$ 9,098,351</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, 2014.

General fund	\$ 7,553,466
Special revenue fund	<u>356,534</u>
Total	<u>\$ 7,910,000</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/13</u>	Additions	Reductions	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 9,102	\$ -	\$ (1,192)	\$ 7,910	\$ (1,180)	\$ 6,730
Other:						
Compensated absences	185	7	(2)	190	(38)	152
OPEB	<u>1,720</u>	<u>745</u>	<u>(361)</u>	<u>2,104</u>	<u>-</u>	<u>2,104</u>
Totals	<u>\$ 11,007</u>	<u>\$ 752</u>	<u>\$ (1,555)</u>	<u>\$ 10,204</u>	<u>\$ (1,218)</u>	<u>\$ 8,986</u>

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, 2014:

	<u>Fund Basis</u>	
	<u>Governmental Funds</u>	
	<u>General</u>	<u>Nonmajor</u>
Committed taxes and excises	\$ 391,302	\$ -
Intergovernmental grants	<u>66,581</u>	<u>252,210</u>
Totals	<u>\$ 457,883</u>	<u>\$ 252,210</u>

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, 2014:

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 (now reported as part of the general fund per GASB 54).

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 and capital project fund temporary deficit balances.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Library Campaign Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds:				
Cemetery perpetual care	\$ -	\$ -	\$ 188,440	\$ 188,440
Library endowment funds	-	-	464,097	464,097
Sawin Academy trust	-	-	423,939	423,939
Total Nonexpendable	-	-	1,076,476	1,076,476
Restricted				
Special revenue funds:				
Federal grants	-	-	4,584	4,584
State grants	-	-	426,398	426,398
Receipts reserved for appropriation:				
Elderly housing maintenance	-	-	315,800	315,800
Farm Pond user fees	-	-	217,282	217,282
Ambulance fees	-	-	162,753	162,753
Other	-	-	56,412	56,412
Revolving funds:				
Parks & recreation	-	-	191,340	191,340
School building rental	-	-	56,798	56,798
Other	-	-	129,251	129,251
Gifts and other	-	-	135,625	135,625
Bonded capital projects	-	-	49,053	49,053
Trust funds:				
Expendable:				
Conservation/land acquisition funds	-	-	67,285	67,285
Library funds	-	1,583,104	906,212	2,489,316
Expendable permanent funds:				
Cemetery perpetual care	-	-	107,420	107,420
Library endowment funds	-	-	1,478,627	1,478,627
Total Restricted	-	1,583,104	4,304,840	5,887,944
Committed				
Article carryforwards	356,617	-	-	356,617
OPEB stabilization fund	515,606	-	-	515,606
Total Committed	872,223	-	-	872,223
Assigned				
Encumbrances	186,861	-	-	186,861
Total Assigned	186,861	-	-	186,861
Unassigned				
General fund	2,486,774	-	-	2,486,774
General stabilization	508,622	-	-	508,622
Special revenue fund deficits	-	-	(106,828)	(106,828)
Capital project fund deficits	-	-	(561,904)	(561,904)
Total Unassigned	2,995,396	-	(668,732)	2,326,664
Total Fund Balance	\$ 4,054,480	\$ 1,583,104	\$ 4,712,584	\$ 10,350,168

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 paragraph summarizes the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS. In addition, the Town's general stabilization fund is now required to be reported as part of the general fund per GASB Statement No. 54.

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

GAAP basis balance	\$ 2,995,396
General stabilization fund	(508,622)
Tax refund estimate	<u>14,072</u>
Statutory (UMAS) Balance	<u>\$ 2,500,846</u>

18. Subsequent Events

Debt

Subsequent to June 30, 2014, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 627,545	0.55%	07/07/14	03/12/15
State anticipation note	\$ 233,465	0.55%	10/06/14	06/19/15

19. 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.

20. 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 2014 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 rep-

resents 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, 2014, 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)	\$ 781,866
Interest on net OPEB obligation	68,789
Adjustment to ARC	(95,626)
Amortization of actuarial (gains)/losses	<u>(9,946)</u>
Annual OPEB cost	745,083
Projected benefit payments	<u>(360,655)</u>
Increase in net OPEB obligation	384,428
Net OPEB obligation - beginning of year	<u>1,719,723</u>
Net OPEB obligation - end of year	<u><u>\$ 2,104,151</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 three years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 745,083	48.4%	\$ 2,104,151
2013	\$ 706,151	47.3%	\$ 1,719,723
2012	\$ 701,507	43.5%	\$ 1,347,897

The Town's net OPEB obligation as of June 30, 2014 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 fund are not considered to reduce the Town's net OPEB obligation as reported in accordance with GASB 45. As of June 30, 2014, the balance in the Town's OPEB Stabilization Fund was \$515,606.

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 – Unfunded OPEB Liability

The Town is a member of the Dover-Sherborn Regional School District (District). As of July 1, 2012, the District's most recent actuarial valuation, the District's unfunded actuarial accrued OPEB liability was \$16,323,116, which will be funded by future operating assessments to the District's member towns. In fiscal year 2014, the Town's portion of the District's annual operating assessment was 46.01%.

21. 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 System - 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, 2014, 2013, and 2012 were \$657,489, \$574,354, and \$548,558, respectively, which were equal to its annual required contributions for each of these years.

C. Massachusetts Teachers 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 2014, the Commonwealth of Massachusetts contributed \$1,092,791 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. Beginning Fund Balance Reclassification

The Town's governmental funds classifications have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/13 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/13 (as restated)
General fund	\$ 2,999,125	\$ 400,950	\$ 3,400,075
Library campaign fund	-	1,162,898	1,162,898
Nonmajor governmental funds	<u>6,467,040</u>	<u>(1,563,848)</u>	<u>4,903,192</u>
Total	<u>\$ 9,466,165</u>	<u>\$ -</u>	<u>\$ 9,466,165</u>

24. Beginning Net Position Restatement

The beginning (July 1, 2013) net position of the Town has been restated as follows:

Government-Wide Financial Statements:

	Governmental
As previously reported	\$ 28,332,368
Restate capital assets	<u>(655,998)</u>
As restated	<u>\$ 27,676,370</u>

25. Implementation of New GASB Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the Town is required to implement 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, its portion of the Middlesex County Retirement System's (System) actuarially accrued unfunded liability (UAAL).

As of January 1, 2012, the System's most recent actuarial valuation, the System's total UAAL is \$1,111,821,514. The Town's portion of this liability is estimated to be 0.74% of this total, or \$8,227,479.

**TOWN OF SHERBORN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014**

**(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]
06/30/07	\$ -	\$ 8,584	\$ 8,584	0.0%	N/A	N/A
06/30/10	\$ -	\$ 9,861	\$ 9,861	0.0%	N/A	N/A
06/30/13	\$ -	\$ 9,613	\$ 9,613	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]
01/01/08	\$ 774,864	\$ 1,529,806	\$ 754,942	50.7%	\$ 360,206	209.6%
01/01/10	\$ 819,988	\$ 1,743,582	\$ 923,594	47.0%	\$ 384,934	239.9%
01/01/12	\$ 862,323	\$ 1,974,145	\$ 1,111,822	43.7%	\$ 393,101	282.8%

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

System Wide				Town of Sherborn, MA	
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/11	\$ 79,641	\$ 78,595	98.7%	\$ 549	0.7%
12/31/12	\$ 83,312	\$ 81,896	98.3%	\$ 574	0.7%
12/31/13	\$ 88,723	\$ 88,252	99.5%	\$ 657	0.7%

See Independent Auditors' Report.