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December 5, 2024

Town of Sherborn
Select Board
Sherborn, Massachusetts

Dear Honorable Board:

We have audited the financial statements of the Town of Sherborn, Massachusetts “the Town” as of and for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Audit Standards*, issued by the Comptroller General of the United States of America, as well as certain information related to the planned scope and timing of our audit. We communicated such information to the Town’s management prior to our commencement of auditing procedures. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Scope limitation

There were no scope limitations.

GAAP Departure

There were no GAAP departures.

Material Weaknesses/Significant Deficiencies

There were no material weaknesses or significant deficiencies.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2024. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the Town's financial statements were:

The presentation of the Town's total pension liability and related accounts is determined through biennial actuarial studies, which are rolled forward by an actuary to June 30 each year. We have received an AU805 report from the independent auditor of the County pension system.

The presentation of the Town's total OPEB liability and related accounts is determined through biennial actuarial studies, which are rolled forward by an actuary to June 30 each year. We have received the actuarial report from the actuary.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are those that describe the Town's net pension and OPEB liabilities at June 30, 2024.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered in completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in aggregate, to the Town's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 5, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following are some observations we highlight for management:

1. Long-Term Obligations – The Town's two main obligations outside of debt are its Pension and OPEB liabilities. Regarding pension, the Town is a member of the Middlesex County Retirement System. The Town's liability increased by nearly \$1.1 million to over \$12.7 million, but the System was still able to increase the Town's pension funding ratio from 52.6% to 55.2%. The Town statutorily has until only 2040 to fully fund its pension liability; attention should be paid to the fact that the Town is only about half funded at this time. Improved financial conditions subsequent to year-end should help this situation; however, this will remain volatile until full funding is achieved. As the funding deadline approaches, the Town should be prepared for the potential that the annual funding assessment to the Town may increase significantly.

With respect to OPEB, the Town continues to contribute consistent amounts from year to year (\$200,000 annually on average for the last 8 years) and has earned net investment income totaling approximately \$0.9 million since inception of OPEB Trust Fund. The Trust has currently accumulated nearly \$3.1 million, which represents over 35% of the gross liability.

2. Economic Challenges – With inflation peaking near 40-year highs and subsequently largely remaining at those levels, and an aggressive Federal Reserve Board having increased rates at a historic pace and now reducing them as the economy shows signs of stabilizing, the Town can expect challenges in budgeting operational and project costs:
 - Wage inflation – the ability to maintain quality employees at reasonable/affordable wages.
 - Interest rates – the ability to finance capital projects at reasonable financing costs.
 - Construction inflation – the ability to complete capital projects within budgeted costs.
 - Energy inflation – the impacts to operations of the rising costs of oil, gas and electricity.
 - Goods and services – the adaptability toward supply chain disruptions and delivery costs.
3. Fraud Risk – We continue to remind management to review its internal processes and safeguarding of assets, especially in cash handling areas.
4. ARPA – As the deadline for obligating funds received from the American Rescue Plan Act approaches, we remind our clients that funds must be *obligated* by way of a legal commitment, contract or purchase order by December 31, 2024. Merely implementing a plan by approval of the Select Board is not sufficient.
5. Network Security – We continue to alert the Town to challenge its electronic systems with the intent on identifying any vulnerable areas. This would include ongoing training of employees to enable them to identify possible intrusions through email. Malware and ransomware continue to be significant threats, especially to municipalities.

6. School Lunch Revolving Fund – The Massachusetts Department of Elementary and Secondary Education’s Office for Food and Nutrition Programs has established that School Lunch Revolving Funds are allowed to only maintain up to 25% of their annual food service expenditures within fund balance. During the pandemic, there were significant and active changes happening within these funds and services for multiple years; however, fiscal year 2024 effectively was the second year of stabilized school lunch services. It was noted that at June 30, 2024, the Town’s School Lunch Revolving Fund had a fund balance of \$195,220 with costs for the year totaling \$221,179; this results in an 88% fund balance ratio – far exceeding the State allowed 25%. The School Department must address this surplus as soon as possible and lower it to compliant surplus levels. Usage of the surplus fund balance is required to be spent on providing student food services, so this would include food items, supplies and materials, cafeteria facilities, and kitchen food preparation and cleanup equipment.
7. Highway Construction Grant Reimbursements – In early August 2024, the Town paid an invoice for roadway construction costs incurred through June 29, 2024, which totaled nearly \$461,000. This expenditure was subject to reimbursement from the Commonwealth of MA through grant programs. As of mid-November 2024, the Town still has not received reimbursement for these costs. The Town should review its highway related reimbursement request processes to maximum the drawdown of grant funds and reduce the time between payment to contractors and reimbursement by the State. In this situation, the Town has effectively paid this invoice using local Town cash resources, which are presently not being held in a Town bank account earning interest for the Town, until the Town’s bank account is replenished from the State grants.

Other Matters

We applied certain limited procedures to the Town’s required supplementary information (“RSI”) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI. We also made verbal communications about matters that we deemed appropriate to Town management throughout the course of the engagement and through the time of issuance of the financial statements.

Restriction on Use

This information is intended solely for the information and use of the Select Board and management of the Town and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Roselli, Clark & Associates
Certified Public Accountants
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