

TOWN OF SHERBORN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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, 2016, 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.

Auditors' 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 auditors' 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.

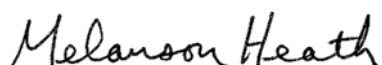
Opinions

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, 2016, 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, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions 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.



March 13, 2016

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, 2016.

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, liabilities and deferred outflows/inflows of resources, with the difference 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. All of the funds can be divided into two categories: governmental funds and fiduciary funds.

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.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

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 \$22,327,547 (i.e., net position), a change of \$2,359,427 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,353,183, a change of \$893,680 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,424,098, a change of \$1,114,859 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$6,365,000, a change of \$(1,383,360) 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>2016</u>	<u>2015</u>
Current assets	\$ 15,035,835	\$ 13,131,110
Noncurrent assets	28,223,816	27,756,630
Deferred outflows	<u>620,580</u>	<u>31,962</u>
Total assets and deferred outflows	43,880,231	40,919,702
Current liabilities	3,674,959	2,773,867
Noncurrent liabilities	<u>17,877,725</u>	<u>18,172,339</u>
Total liabilities	21,552,684	20,946,206
Net position:		
Net investment in capital assets	20,451,910	19,738,862
Restricted	8,117,936	6,685,781
Unrestricted	<u>(6,242,299)</u>	<u>(6,451,147)</u>
Total net position	<u>\$ 22,327,547</u>	<u>\$ 19,973,496</u>

CHANGES IN NET POSITION

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,488,889	\$ 1,563,197
Operating grants and contributions	3,012,050	2,270,277
Capital grants and contributions	1,216,380	545,969
General revenues:		
Property taxes	23,312,755	22,888,244
Excises	830,548	791,791
Interest, penalties and other taxes	111,170	69,621
Grants and contributions not restricted to specific programs	509,638	502,031
Investment income	52,219	27,112
Other	<u>156,495</u>	<u>27,514</u>
Total revenues	30,690,144	28,685,756

(continued)

(continued)

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Expenses:		
General government	1,747,484	1,382,456
Public safety	2,588,848	2,469,937
Education	16,857,003	17,085,744
Public works	2,401,827	2,544,540
Health and human services	515,564	499,939
Culture and recreation	816,427	710,608
Insurance and benefits	2,886,850	2,459,450
Interest on long-term debt	246,342	268,604
Intergovernmental	70,372	73,923
Miscellaneous	-	145,571
Total expenses	<u>28,130,717</u>	<u>27,640,772</u>
Change in net position before transfers		
permanent fund contributions	2,559,427	1,044,984
Transfers in (out)	(200,000)	(300,000)
Permanent fund contributions	<u>-</u>	<u>700</u>
Change in net position	2,359,427	745,684
Net position - beginning of year, as reclassified	<u>19,968,120</u>	<u>19,227,812</u>
Net position - end of year	<u>\$ 22,327,547</u>	<u>\$ 19,973,496</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 \$22,327,547 a change of \$2,359,427 from the prior year.

The largest portion of net position, \$20,451,910 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 \$8,117,936 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit balance of \$(6,242,299), which is caused by unfunded OPEB (see Note 19) and pension (see Note 20).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$2,359,427. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 767,523
Major fund change in library gift construction fund balance	2,845,833
Major fund change in fire ladder truck fund balance (accrual basis)	(21,583)
Nonmajor funds change in fund balance (accrual basis)	(572,909)
Depreciation expense in excess of principal debt service	(271,249)
Change in net pension liability	(797,792)
Change in net pension related deferred outflows	588,618
Other	<u>(178,327)</u>
Total	<u>\$ 2,360,114</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 \$12,353,183, a change of \$893,680 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as disclosed below	\$ 767,523
Library gift construction fund change in fund balance	2,845,146
Fire ladder truck fund change in fund balance	(855,957)
Nonmajor trust fund revenues over expenditures	<u>(1,863,032)</u>
Total	<u>\$ 893,680</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 \$4,424,098, while total fund balance was \$5,638,544. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 4,424,098	\$ 3,309,239	\$ 1,114,859	17.4%
Total fund balance	\$ 5,638,544	\$ 4,871,021	\$ 767,523	22.2%

The total fund balance of the general fund changed by \$767,523 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 248,663
Expenditures less than budget	897,879
Use of free cash and overlay surplus as a funding source	(667,348)
Current year encumbrances and article carryforwards	(48,017)
Excess taxes raised on tax rate	195,699
Close out of recreation funds	187,430
Change in stabilization funds	(41,850)
Other	<u>(4,933)</u>
Total	<u>\$ 767,523</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, 2016 are noted below:

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization	\$ 619,346	\$ 564,816	\$ 54,530
OPEB stabilization	<u>230,589</u>	<u>326,969</u>	<u>(96,380)</u>
Total	<u>\$ 849,935</u>	<u>\$ 891,785</u>	<u>\$ (41,850)</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$181,086. This increase in appropriations was funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$28,042,628 (net of accumulated depreciation), a change of \$469,888 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:

- \$834,374 for a ladder truck for the fire department.
- \$102,597 for building improvements at the Pine Hill School.

- \$576,496 for various machinery, equipment, and vehicle purchases.
- \$302,597 for various improvements to the Library.
- \$308,433 for various land purchases.
- \$(1,654,609) in current year depreciation expense.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$6,365,000, 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, 2016

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 10,438,506
Investments	4,194,803
Receivables, net of allowance for uncollectibles:	
Property taxes	271,679
Excises	34,479
Intergovernmental	24,000
Departmental	69,713
Other current assets	2,655
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	181,188
Capital assets:	
Land and construction in progress	10,693,721
Other capital assets, net of accumulated depreciation	17,348,907
DEFERRED OUTFLOWS OF RESOURCES	<u>620,580</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	43,880,231
LIABILITIES	
Current:	
Warrants payable	202,106
Accounts payable	68,930
Accrued liabilities	516,112
Tax refunds payable	4,092
Notes payable	1,542,000
Other current liabilities	13,028
Current portion of long-term liabilities:	
Bonds payable	1,290,000
Compensated absences	38,691
Noncurrent:	
Bonds payable, net of current portion	5,075,000
Compensated absences, net of current portion	154,766
Other post-employment benefits	2,385,906
Net pension liability	<u>10,262,053</u>
TOTAL LIABILITIES	21,552,684
NET POSITION	
Net investment in capital assets	20,451,910
Restricted for:	
Grants and other statutory restrictions	5,927,133
Permanent funds:	
Nonexpendable	653,237
Expendable	1,537,566
Unrestricted	<u>(6,242,299)</u>
TOTAL NET POSITION	<u>\$ 22,327,547</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, 2016

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	Expenses				
Governmental Activities:					
General government	\$ 1,747,484	\$ 245,999	\$ 134,722	\$ -	\$ (1,366,763)
Public safety	2,588,848	309,451	83,675	-	(2,195,722)
Education	16,857,003	213,540	1,917,087	-	(14,726,376)
Public works	2,401,827	40,140	12,094	350,886	(1,998,707)
Health and human services	515,564	434,849	34,963	-	(45,752)
Culture and recreation	816,427	244,910	829,509	865,494	1,123,486
Insurance and benefits	2,886,850	-	-	-	(2,886,850)
Interest	246,342	-	-	-	(246,342)
Intergovernmental	70,372	-	-	-	(70,372)
Total Governmental Activities	\$ <u>28,130,717</u>	\$ <u>1,488,889</u>	\$ <u>3,012,050</u>	\$ <u>1,216,380</u>	(22,413,398)
General Revenues and Transfers					
Property taxes					23,312,755
Excises					830,548
Interest, penalties and other taxes					111,170
Grants and contributions not restricted to specific programs					509,638
Investment income					52,219
Miscellaneous					156,495
Transfers, Net					<u>(200,000)</u>
Total general revenues and transfers					<u>24,772,825</u>
Change in Net Position					2,359,427
Net Position:					
Beginning of year, as reclassified					<u>19,968,120</u>
End of year					<u>\$ 22,327,547</u>

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

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	Gift Library Construction	Fire Ladder Truck	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 4,303,856	\$ 2,845,146	\$ 44,043	\$ 3,245,460	\$ 10,438,505
Investments	1,940,965	-	-	2,253,838	4,194,803
Receivables:					
Property taxes	458,241	-	-	-	458,241
Excises	42,652	-	-	-	42,652
Intergovernmental	-	-	-	24,000	24,000
Departmental	-	-	-	69,714	69,714
Other assets	2,655	-	-	-	2,655
TOTAL ASSETS	\$ 6,748,369	\$ 2,845,146	\$ 44,043	\$ 5,593,012	\$ 15,230,570
LIABILITIES					
Warrants payable	\$ 139,187	\$ -	\$ -	\$ 62,919	\$ 202,106
Accounts payable	-	-	-	68,930	68,930
Accrued liabilities	489,916	-	-	-	489,916
Tax refunds payable	4,092	-	-	-	4,092
Notes payable	-	-	900,000	642,000	1,542,000
Other liabilities	13,029	-	-	-	13,029
TOTAL LIABILITIES	646,224	-	900,000	773,849	2,320,073
DEFERRED INFLOWS OF RESOURCES	463,601	-	-	93,713	557,314
FUND BALANCES					
Nonspendable	-	-	-	653,237	653,237
Restricted	-	2,845,146	-	4,643,114	7,488,260
Committed	407,780	-	-	-	407,780
Assigned	806,666	-	-	-	806,666
Unassigned	4,424,098	-	(855,957)	(570,901)	2,997,240
TOTAL FUND BALANCES	5,638,544	2,845,146	(855,957)	4,725,450	12,353,183
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 6,748,369	\$ 2,845,146	\$ 44,043	\$ 5,593,012	\$ 15,230,570

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, 2016

Total governmental fund balances	\$ 12,353,183
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	28,042,628
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	543,768
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(26,196)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, capital leases, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(19,206,416)
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>620,580</u>
Net position of governmental activities	\$ <u>22,327,547</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, 2016

	General Fund	Gift Library Construction	Fire Ladder Truck	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 23,345,159	\$ -	\$ -	\$ -	\$ 23,345,159
Excises	820,185	-	-	-	820,185
Interest, penalties and other taxes	51,670	-	-	-	51,670
Charges for services	279,967	-	-	971,245	1,251,212
Licenses and permits	198,378	-	-	-	198,378
Intergovernmental	1,096,949	-	-	1,761,819	2,858,768
Fines and forfeitures	84,945	-	-	-	84,945
Investment income	52,220	-	-	17,216	69,436
Donations	-	-	-	947,425	947,425
Miscellaneous	66,878	-	-	135,157	202,035
Total Revenues	25,996,351	-	-	3,832,862	29,829,213
Expenditures:					
Current:					
General government	1,510,633	-	-	214,694	1,725,327
Public safety	2,347,000	-	855,957	50,531	3,253,488
Education	15,229,301	-	-	680,500	15,909,801
Public works	1,406,150	-	-	688,901	2,095,051
Health and human services	279,656	-	-	227,185	506,841
Culture and recreation	428,801	687	-	627,831	1,057,319
Insurance and benefits	2,477,265	-	-	-	2,477,265
Debt service	1,640,069	-	-	-	1,640,069
Intergovernmental	70,372	-	-	-	70,372
Total Expenditures	25,389,247	687	855,957	2,489,642	28,735,533
Excess (deficiency) of revenues over expenditures	607,104	(687)	(855,957)	1,343,220	1,093,680
Other Financing Sources (Uses):					
Transfers in	466,919	2,845,833	-	106,500	3,419,252
Transfers out	(306,500)	-	-	(3,312,752)	(3,619,252)
Total Other Financing Sources (Uses)	160,419	2,845,833	-	(3,206,252)	(200,000)
Change in fund balance	767,523	2,845,146	(855,957)	(1,863,032)	893,680
Fund Equity, at Beginning of Year, as reclassified	4,871,021	-	-	6,588,482	11,459,503
Fund Equity, at End of Year	\$ 5,638,544	\$ 2,845,146	\$ (855,957)	\$ 4,725,450	\$ 12,353,183

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net changes in fund balances - total governmental funds	\$ 893,680
--	-------------------

- | | |
|--------------|-------------|
| Depreciation | (1,654,609) |
|--------------|-------------|

- 8,195

- | | |
|--------------------|-----------|
| Repayments of debt | 1,383,360 |
|--------------------|-----------|

- 10,367

- (406,063)

Change in net position of governmental activities	\$ 2,359,427
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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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 23,315,179	\$ 23,315,179	\$ 23,315,179	\$ -
Excises	771,363	771,363	820,185	48,822
Interest, penalties and other taxes	49,298	49,298	51,670	2,372
Charges for services	222,770	222,770	279,967	57,197
Licenses and permits	117,375	117,375	198,378	81,003
Intergovernmental	1,069,693	1,069,693	1,096,949	27,256
Fines and forfeitures	83,400	83,400	84,945	1,545
Investment income	9,555	9,555	44,070	34,515
Miscellaneous	67,950	67,950	66,878	(1,072)
Other financing sources:				
Transfers in	261,458	469,894	466,919	(2,975)
Use of fund balance	507,268	667,348	667,348	-
Total Revenues and Other Sources	26,475,309	26,843,825	27,092,488	248,663
Expenditures and Other Uses:				
Current:				
General government	1,328,120	1,579,965	1,537,693	42,272
Public safety	2,212,924	2,351,707	2,347,581	4,126
Education	16,124,805	15,953,284	15,254,339	698,945
Public works	1,276,674	1,372,233	1,364,415	7,818
Health and human services	267,882	286,795	275,435	11,360
Culture and recreation	422,948	422,948	422,244	704
Insurance and benefits	2,750,555	2,677,056	2,574,081	102,975
Intergovernmental	70,372	70,372	70,372	-
Debt service	1,675,330	1,696,336	1,666,657	29,679
Other financing uses:				
Transfers out	50,000	50,000	50,000	-
Reserve fund	100,000	-	-	-
Total Expenditures and Other Uses	26,279,610	26,460,696	25,562,817	897,879
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ 195,699 ¹	\$ 383,129 ^{1&2}	\$ 1,529,671	\$ 1,146,542

¹ Article 23 from the 2015 Annual Town Meeting to reduce the tax rate by use of free cash was incorrectly included as an appropriation on the Town's tax recapulation.

² Article 3 from the 2016 Annual Town Meeting transferred the remaining balance in the recreation revolving fund to the general fund per MLG 44:53D. There is no offsetting appropriation in the Town's 2016 budget for this item.

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

TOWN OF SHERBORN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Other Post Employment Benefits Trust <u>Fund</u>	Agency <u>Fund</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 205,500	\$ 2,526
Investments	<u>309,847</u>	<u>-</u>
Total Assets	515,347	2,526
<u>LIABILITIES AND NET POSITION</u>		
Other liabilities	<u>-</u>	<u>2,526</u>
Total Liabilities	<u>-</u>	<u>2,526</u>
<u>NET POSITION</u>		
Total net position held in trust	\$ <u><u>515,347</u></u>	\$ <u><u>-</u></u>

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

TOWN OF SHERBORN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Other Post Employment Benefits Trust <u>Fund</u>
Additions:	
Investment income	\$ <u>15,302</u>
Total additions	15,302
Other financing sources:	
Transfers in	<u>200,000</u>
Total other financing sources	<u>200,000</u>
Net increase	215,302
Net position:	
Beginning of year	<u>300,045</u>
End of year	\$ <u><u>515,347</u></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 2016, 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 non-fiduciary 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 Gift Construction Fund is used to account for a portion of the activity associated with the Sherborn Library renovation and expansion project.
- The Fire Ladder Truck Fund is used to account for all activity related with the purchase of a new fire truck for the Sherborn Fire Department.

The *agency fund* is used to account for money held by the Town on behalf of others. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

The *other post-employment trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

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. Investments are carried at market value except certificates of deposit which are reported at cost.

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 2016 tax levy reflected an excess capacity of \$199,580.

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)	\$ 25,996,351	\$ 25,389,247
Other financing sources/uses (GAAP basis)	<u>466,919</u>	<u>306,500</u>
Subtotal (GAAP Basis)	26,463,270	25,695,747
Adjust tax revenue to accrual basis	(29,980)	-
Record use of free cash and overlay surplus	667,348	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(328,202)
Add end-of-year appropriation carryforwards to expenditures	-	280,184
Reverse effect of combining general fund and general stabilization funds	(8,150)	(50,000)
Other	<u>-</u>	<u>(34,912)</u>
Budgetary basis	<u>\$ 27,092,488</u>	<u>\$ 25,562,817</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

Special Revenue Funds:

State grants	\$ (45,605)
Other special revenue funds	(20,420)

Capital Project Funds:

Pine Hill capital needs	(104,700)
Fire ladder truck	(855,957)
CMD snow truck	(167,000)
Front end loader	(130,000)
Other capital project funds	<u>(103,176)</u>
	<u>\$ (1,426,858)</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. 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, 2016, \$1,393,455 of the Town's and Library Trustees' bank balance of \$11,046,199 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>6/30/2016 Balance</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>						
				<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Aa3</u>	<u>BAA1</u>	<u>BAA2</u>	<u>BAA3</u>
Certificates of deposit	\$ 1,718	N/A	\$ 1,718	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	682	N/A	-	52	159	52	78	187	51	103
Asset-backed securities	374	N/A	374	-	-	-	-	-	-	-
Equities	831	N/A	831	-	-	-	-	-	-	-
PRIT investment pool	310	N/A	310	-	-	-	-	-	-	-
Mutual funds	590	N/A	590	-	-	-	-	-	-	-
Total investments	<u>\$ 4,505</u>		<u>\$ 3,823</u>	<u>\$ 52</u>	<u>\$ 159</u>	<u>\$ 52</u>	<u>\$ 78</u>	<u>\$ 187</u>	<u>\$ 51</u>	<u>\$ 103</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>
Century Bank CD	\$ 1,510	34%
Vanguard mutual funds	<u>281</u>	6%
Total	<u>\$ 1,791</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>
Corporate bonds	\$ 682	\$ 177	\$ 478	\$ 27	\$ -
Asset-backed securities	<u>374</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>363</u>
Total	<u>\$ 1,056</u>	<u>\$ 177</u>	<u>\$ 478</u>	<u>\$ 38</u>	<u>\$ 363</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.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2016:

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Description</u>				
Investments by fair value level:				
Debt securities:				
Corporate bonds	\$ 682	\$ -	\$ 682	\$ -
Asset-backed securities	374	\$ -	\$ 374	\$ -
Equity securities:				
Mutual funds	590	\$ 590	\$ -	\$ -
Equities	831	\$ 831	\$ -	\$ -
Investments measured at the net asset value (NAV):				
External investment pool	<u>310</u>			
Total	<u>\$ 2,787</u>			
		Unfunded	Redemption	Redemption
		Commitments	Frequency (If currently eligible)	Notice Period
<u>Description</u>	<u>Value</u>			
External investment pool	\$ 310	\$ -	Monthly	30 days

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, 2016 consist of the following:

2016 Real Estate	\$ 214,964
2016 Personal Property	544
Tax Liens	89,943
Tax Deferrals	<u>152,790</u>
Total	<u>\$ 458,241</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	\$ 5,374
Excises	\$ 8,173

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

8. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 203	\$ 32	\$ -	\$ 235
Buildings and improvements	16,705	140	-	16,845
Machinery, equipment, and vehicles	6,626	1,333	(139)	7,820
Intangibles	63	-	-	63
Infrastructure	<u>20,982</u>	<u>8</u>	<u>-</u>	<u>20,990</u>
Total capital assets, being depreciated	44,579	1,513	(139)	45,953
Less accumulated depreciation for:				
Land improvements	(90)	(8)	-	(98)
Buildings and improvements	(6,380)	(473)	-	(6,853)
Machinery, equipment, and vehicles	(5,495)	(317)	139	(5,673)
Intangibles	(20)	(9)	-	(29)
Infrastructure	<u>(15,104)</u>	<u>(847)</u>	<u>-</u>	<u>(15,951)</u>
Total accumulated depreciation	<u>(27,089)</u>	<u>(1,654)</u>	<u>139</u>	<u>(28,604)</u>
Total capital assets, being depreciated, net	17,490	(141)	-	17,349
Capital assets, not being depreciated:				
Land	10,038	308	-	10,346
Construction in progress	<u>45</u>	<u>303</u>	<u>-</u>	<u>348</u>
Total capital assets, not being depreciated	<u>10,083</u>	<u>611</u>	<u>-</u>	<u>10,694</u>
Governmental activities capital assets, net	<u>\$ 27,573</u>	<u>\$ 470</u>	<u>\$ -</u>	<u>\$ 28,043</u>

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

Governmental Activities:	
General government	\$ 88
Public safety	329
Education	196
Public works	970
Health and human services	9
Culture and recreation	<u>62</u>
Total depreciation expense - governmental activities	<u>\$ 1,654</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016:

	<u>Governmental Activities</u>
Pension related:	
Net difference between projected and actual investment earnings on pension plan investments	\$ 523,285
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>97,295</u>
Total	<u>\$ 620,580</u>

10. Warrants Payable and Accrued Liabilities

Warrants payable represent 2016 expenditures paid by July 15, 2016 as permitted by law. Accrued liabilities represent additional 2016 expenditures paid in fiscal 2017.

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, 2016:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/16</u>
Bond anticipation	0.74%	03/11/16	03/10/17	\$ 1,412,000
Bond anticipation	0.85%	06/29/16	03/10/17	<u>130,000</u>
Total				<u>\$ 1,542,000</u>

The following summarizes activity in notes payable during fiscal year 2016:

	Balance Beginning of Year	New Issues	Rollover	Payoff/ Paydown	Balance End of Year
Bond anticipation	\$ 491,000	\$ -	\$ (432,000)	\$ (59,000)	\$ -
Bond anticipation	-	980,000	(980,000)	-	-
Bond anticipation	-	-	1,412,000	-	1,412,000
Bond anticipation	-	130,000	-	-	130,000
Total	<u>\$ 491,000</u>	<u>\$ 1,110,000</u>	<u>\$ -</u>	<u>\$ (59,000)</u>	<u>\$ 1,542,000</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 6/30/16</u>
Municipal bond of 2007	05/15/26	3.95%	\$ 2,185,000
Municipal bond of 2010	05/15/27	3.08%	1,425,000
Municipal bond of 2013	05/15/26	1.23%	1,950,000
Municipal bond of 2015	05/01/30	2.25%	<u>805,000</u>
Total Governmental Activities:			<u>\$ 6,365,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,290,000	\$ 201,800	\$ 1,491,800
2018	1,180,000	158,950	1,338,950
2019	940,000	117,225	1,057,225
2020	615,000	89,425	704,425
2021	535,000	73,325	608,325
2022 - 2026	1,555,000	194,050	1,749,050
2027 - 2030	<u>250,000</u>	<u>14,250</u>	<u>264,250</u>
Total	<u>\$ 6,365,000</u>	<u>\$ 849,025</u>	<u>\$ 7,214,025</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/15</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/16</u>	Less Current Portion <u>6/30/16</u>	Equals Long-Term Portion <u>6/30/16</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 7,748	\$ -	\$ (1,383)	\$ 6,365	\$ (1,290)	\$ 5,075
Other:						
Compensated absences	197	8	(12)	193	(38)	155
OPEB	2,185	950	(749)	2,386	-	2,386
Net pension liability	9,464	798	-	10,262	-	10,262
Totals	<u>\$ 19,594</u>	<u>\$ 1,756</u>	<u>\$ (2,144)</u>	<u>\$ 19,206</u>	<u>\$ (1,328)</u>	<u>\$ 17,878</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, 2016:

	<u>Fund Basis</u>	
	<u>General Fund</u>	<u>Nonmajor</u>
Committed taxed and excises	\$ 463,601	\$ -
Intergovernmental grants	-	24,000
Charges for services	-	69,713
Totals	<u>\$ 463,601</u>	<u>\$ 93,713</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, 2016:

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, 2016:

	General Fund	Gift Library Construction	Fire Ladder Truck	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds:					
Cemetery perpetual care	\$ -	\$ -	\$ -	\$ 189,140	\$ 189,140
Library endowment funds	-	-	-	464,097	464,097
Total Nonexpendable	-	-	-	653,237	653,237
Restricted					
Special revenue funds:					
Federal grants	-	-	-	16,365	16,365
State grants	-	-	-	455,910	455,910
Receipts reserved for appropriation:					
Ambulance fees	-	-	-	166,615	166,615
Other	-	-	-	45,987	45,987
Revolving funds:					
Elderly housing maintenance	-	-	-	414,404	414,404
Farm Pond user fees	-	-	-	252,715	252,715
Pre-K tuition	-	-	-	85,235	85,235
School building rental	-	-	-	79,452	79,452
Other	-	-	-	280,819	280,819
Gifts and other	-	2,845,146	-	111,350	2,956,496
Capital project funds:					
Bonded capital projects	-	-	-	93,275	93,275
Chapter 90	-	-	-	41,840	41,840
Trust funds:					
Expendable:					
Conservation/land acquisition funds	-	-	-	63,429	63,429
Library funds	-	-	-	998,152	998,152
Expendable permanent funds:					
Cemetery perpetual care	-	-	-	131,400	131,400
Library endowment funds	-	-	-	1,406,166	1,406,166
Total Restricted	-	2,845,146	-	4,643,114	7,488,260
Committed					
Article carryforwards	177,191	-	-	-	177,191
OPEB stabilization fund	230,589	-	-	-	230,589
Total Committed	407,780	-	-	-	407,780
Assigned					
Encumbrances	102,991	-	-	-	102,991
Reserved for expenditures	392,430	-	-	-	392,430
Reserved for MSBA debt paydowns	291,708	-	-	-	291,708
Other	19,537	-	-	-	19,537
Total Assigned	806,666	-	-	-	806,666
Unassigned					
General fund	3,804,752	-	-	-	3,804,752
General stabilization	619,346	-	-	-	619,346
Special revenue fund deficits	-	-	-	(66,025)	(66,025)
Capital project fund deficits	-	-	(855,957)	(504,876)	(1,360,833)
Total Unassigned	4,424,098	-	(855,957)	(570,901)	2,997,240
Total Fund Balance	\$ 5,638,544	\$ 2,845,146	\$ (855,957)	\$ 4,725,450	\$ 12,353,183

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	\$ 4,424,098
General stabilization fund	(619,346)
Tax refund estimate	<u>4,092</u>
Statutory (UMAS) Balance	<u>\$ 3,808,844</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, 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 2016 annual OPEB expense is estimated based on the 105% of the most recent actuarial valuation 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, 2016, the amount actually contributed to the plan, and the estimated change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2013.

Annual Required Contribution (ARC)	\$ 849,382
Interest on net OPEB obligation	88,374
Adjustment to ARC	(122,853)
Amortization of actuarial (gains)/losses	<u>12,003</u>
Annual OPEB cost	826,906
Projected benefit payments	<u>(626,494)</u>
Increase in net OPEB obligation	200,412
Net OPEB obligation - beginning of year	<u>2,185,495</u>
Net OPEB obligation - end of year	<u><u>\$ 2,385,907</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
2016	\$ 826,906	75.8%	\$ 2,385,907
2015	\$ 787,529	89.7%	\$ 2,385,907
2014	\$ 745,083	48.4%	\$ 2,185,495

The Town's net OPEB obligation as of June 30, 2016 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, 2016, the balance in the Town's OPEB Stabilization Fund was \$230,589.

In April 2010, the Town voted to establish an OPEB trust fund, pursuant to Massachusetts General Laws Chapter 32B, Section 20, which is considered an irrevocable trust. The June 30, 2016 balance of this account was \$515,347.

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><u>\$ 9,613,010</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></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 OPEB 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, 2014, the District's most recent actuarial valuation, the District's unfunded actuarial accrued OPEB liability was \$17,887,829, which will be funded by future operating assessments to the District's member towns. In fiscal year 2016, the Town's portion of the District's annual operating assessment was 46.67%.

20. Middlesex County Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Middlesex County Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 25 Linnell Circle, P.O. Box 160, Billerica, MA 01865.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least

age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2016 was \$821,360, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Town reported a liability of \$10,262,053 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Town's proportion was 0.795496%.

For the year ended June 30, 2016, the Town recognized pension expense of \$1,030,528. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual investment investment earnings on pension plan investments	\$ 523,285
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>97,295</u>
Total	<u>\$ 620,580</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 157,161
2018	157,161
2019	157,161
2020	<u>149,097</u>
Total	\$ <u><u>620,580</u></u>

D. Actuarial Assumptions:

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4%
	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4.
Salary increases	4.75% for Group 4.
Investment rate of return	7.875%

Mortality rates were based on the RP-2000 mortality table (sex-distinct healthy employees for actives and healthy annuitants for retirees) projected with scale BB and Generational Mortality. For members retired under an accidental disability (job related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality is the healthy retiree table ages set forward 2 years.

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period December 31, 2015.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	19.60%	6.49%
International developed markets equity	15.60%	7.16%
International emerging markets equity	6.50%	9.46%
Core fixed income	15.30%	1.68%
High-yield fixed income	8.30%	4.76%
Real estate	9.90%	4.37%
Commodities	3.90%	4.13%
Short-term government money market	0.00%	1.11%
Hedge fund, GTAA, Risk parity	9.80%	3.60%
Private equity	11.10%	11.04%
Total	100.00%	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.875%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.875%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.875%) or 1 percentage-point higher (8.875%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.875%)</u>	<u>Current Discount Rate (7.875%)</u>	<u>1% Increase (8.875%)</u>
June 30, 2016	\$ 12,322,786	\$ 10,262,053	\$ 8,507,189

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

21. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65.

Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender district)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender district)
 - Disability – assumed to be in accordance with RP-2014 Health Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-

estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	6.90%
Core fixed income	13.00%	2.40%
Private equity	10.00%	8.50%
Real estate	10.00%	6.50%
Value added fixed income	10.00%	5.80%
Hedge funds	9.00%	5.80%
Portfolio completion strategies	4.00%	5.50%
Timber/natural resources	4.00%	6.60%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the

member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68), and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Commonwealth Proportions Associated with the Town

In fiscal year 2015 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense associated with the Town was \$10,513,487 and \$852,737 respectively, based on a proportionate share of 0.051311%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

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 Net Position Reclassification

The beginning (July 1, 2015) net position of the Town has been reclassified as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>
As previously reported	\$ 19,973,496
Reclassification to Agency	<u>(5,376)</u>
Total	<u><u>\$ 19,968,120</u></u>

Fund Basis Financial Statements:

	Nonmajor Governmental <u>Funds</u>	Library Campaign <u>Fund</u>
As previously reported	\$ 4,677,227	\$ 1,916,631
Reclassification of Library Campaign Fund	1,916,631	(1,916,631)
Reclassification to Agency	<u>(5,376)</u>	<u>-</u>
Total	<u><u>\$ 6,588,482</u></u>	<u><u>\$ -</u></u>

24. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, replacing Statement No. 43 and 57, which is required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50. Management's current assessment is that this pronouncement will not have a significant impact on the Plan's financial statements, though the additional note disclosures and required supplementary information will be significant.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

**TOWN OF SHERBORN, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2016

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
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

See Independent Auditors' Report.

TOWN OF SHERBORN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016
(Unaudited)

Middlesex County Retirement System					
<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.795496%	\$ 10,262,053	\$ 3,936,908	260.66%	46.13%
June 30, 2015	0.787825%	\$ 9,464,261	\$ 3,785,488	250.01%	47.65%

Massachusetts Teachers' Retirement System							
<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.051311%	\$ -	\$ 10,513,487	\$ 10,513,487	\$ 3,252,547	-	55.38%
June 30, 2015	0.057251%	\$ -	\$ 9,100,762	\$ 9,100,762	\$ 3,510,342	-	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

TOWN OF SHERBORN, MASSACHUSETTS

**SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016
(Unaudited)**

Middlesex County Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 821,360	\$ 821,360	\$ -	\$ 3,936,908	20.86%
June 30, 2015	\$ 700,612	\$ 700,612	\$ -	\$ 3,785,488	18.51%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.