

TOWN OF SHERBORN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

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, 2017, 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, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 50 to 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

February 16, 2018

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, 2017.

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 and deferred outflows exceeded liabilities and deferred inflows by \$24,495,773 (i.e., net position), a change of \$2,168,226 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$13,028,855, a change of \$675,672 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,446,917, a change of \$(1,977,181) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>	
	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 16,222,640	\$ 15,035,835
Noncurrent assets	<u>29,173,956</u>	<u>28,223,816</u>
Total assets	45,396,596	43,259,651
Deferred outflows	1,209,510	620,580
Current liabilities	4,189,521	3,674,959
Noncurrent liabilities	<u>17,551,245</u>	<u>17,877,725</u>
Total liabilities	21,740,766	21,552,684
Deferred inflows	369,567	-
Net position:		
Net investment in capital assets	25,620,811	20,451,910
Restricted	5,265,529	8,117,936
Unrestricted	<u>(6,390,567)</u>	<u>(6,242,299)</u>
Total net position	<u>\$ 24,495,773</u>	<u>\$ 22,327,547</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 \$24,495,773, a change of \$2,168,226 from the prior year.

The largest portion of net position \$25,620,811 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 \$5,265,529 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$(6,390,567) resulting from the Town's unfunded OPEB and Net Pension liabilities.

CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,602,467	\$ 1,488,889
Operating grants and contributions	2,783,782	3,012,050
Capital grants and contributions	2,080,858	1,216,380
General revenues:		
Property taxes	23,809,793	23,312,755
Excises	849,876	830,548
Interest, penalties and other taxes	109,726	111,170
Grants and contributions not restricted		
to specific programs	514,556	509,638
Investment income	70,474	52,219
Other	<u>111,018</u>	<u>156,495</u>
Total revenues	<u>31,932,550</u>	<u>30,690,144</u>
Expenses:		
General government	2,272,041	1,747,484
Public safety	3,520,312	2,588,848
Education	19,588,828	16,857,003
Public works	2,698,393	2,401,827
Health and human services	588,601	515,564
Culture and recreation	806,883	816,427
¹ Insurance and benefits	-	2,886,850
Interest on long-term debt	207,521	246,342
Intergovernmental	<u>81,745</u>	<u>70,372</u>
Total expenses	<u>29,764,324</u>	<u>28,130,717</u>
Change in net position before transfers		
permanent fund contributions	2,168,226	2,559,427
Transfers in (out)	<u>-</u>	<u>(200,000)</u>
Change in net position	2,168,226	2,359,427
Net position - beginning of year	<u>22,327,547</u>	<u>19,968,120</u>
Net position - end of year	<u>\$ 24,495,773</u>	<u>\$ 22,327,547</u>

¹ Insurance and benefits allocated to other functions in 2017.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$2,168,226. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 398,477
Major fund change in library construction fund balance (accrual basis)	1,527,372
Major fund change in fire ladder truck fund balance	(14,969)
Nonmajor funds change in fund balance (accrual basis)	957,176
Depreciation expense in excess of principal debt service	(356,192)
Change in net pension liability	(474,498)
Change in net OPEB obligation	(364,481)
Other	<u>495,341</u>
Total	\$ <u>2,168,226</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 \$13,028,855, a change of \$675,672 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 398,477
Library gift construction fund change in fund balance	315,647
Fire ladder truck fund change in fund balance	(14,969)
Nonmajor trust fund revenues over expenditures	<u>(23,483)</u>
Total	\$ <u>675,672</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,446,917, while total fund balance was \$6,037,021. 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>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>Total General Fund Expenditures</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 2,446,917	\$ 4,424,098	\$ (1,977,181)		8.9%
Total fund balance	\$ 6,037,021	\$ 5,638,544	\$ 398,477		21.9%

The total fund balance of the general fund changed by \$398,477 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 415,259
Expenditures less than budget	315,166
Use of free cash and overlay surplus as a funding source	(724,113)
Current year encumbrances and article carryforwards	259,031
Change in stabilization funds	56,687
Other	<u>76,447</u>
Total	\$ <u>398,477</u>

The Town's general stabilization fund is included in general fund unassigned fund balance. The Town's OPEB and special education stabilization funds are included in general fund committed fund balance. The balances in these stabilization funds at June 30, 2017 are noted below:

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization	\$ 674,098	\$ 619,346	\$ 54,752
OPEB stabilization	132,028	230,589	(98,561)
Special education stabilization	<u>100,496</u>	-	<u>100,496</u>
Total	\$ <u>906,622</u>	\$ <u>849,935</u>	\$ <u>56,687</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$331,683. 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 \$28,949,479 (net of accumulated depreciation). 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:

- \$115,903 for building improvements at the Pine Hill School and Elderly Housing.
- \$766,161 for various machinery, equipment, and vehicle purchases.
- \$1,211,726 for various improvements to the Library.
- \$(1,646,191) in current year depreciation expense.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$5,075,000, 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, 2017	
	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 11,760,490
Investments	3,190,104
Receivables, net of allowance for uncollectibles:	
Property taxes	176,652
Excises	23,576
Intergovernmental	24,000
Departmental	95,275
Other current assets	952,543
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	224,477
Capital assets:	
Land and construction in progress	11,905,447
Other capital assets, net of accumulated depreciation	17,044,032
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	<u>1,209,510</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
	46,606,106
LIABILITIES	
Current:	
Warrants payable	235,690
Accrued liabilities	553,639
Tax refunds payable	409
Notes payable	1,995,620
Other current liabilities	181,836
Current portion of long-term liabilities:	
Bonds payable	1,180,000
Other	42,327
Noncurrent:	
Bonds payable, net of current portion	3,895,000
Net pension liability	10,736,551
Net OPEB obligation	2,750,387
Other, net of current portion	169,307
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	<u>369,567</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
	22,110,333
NET POSITION	
Net investment in capital assets	25,620,811
Restricted for:	
Grants and other statutory restrictions	2,888,412
Permanent funds:	
Nonexpendable	653,237
Expendable	1,723,880
Unrestricted	<u>(6,390,567)</u>
TOTAL NET POSITION	
	<u>\$ 24,495,773</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, 2017

	<u>Expenses</u>	Program Revenues			<u>Net (Expenses)</u> Revenues and Changes in Net Position
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
General government	\$ 2,272,041	\$ 201,305	\$ 82,629	\$ -	\$ (1,988,107)
Public safety	3,520,312	435,523	57,113	-	(3,027,676)
Education	19,588,828	268,445	2,368,917	-	(16,951,466)
Public works	2,698,393	43,218	31,412	411,029	(2,212,734)
Health and human services	588,601	419,172	12,448	-	(156,981)
Culture and recreation	806,883	234,804	231,263	1,669,829	1,329,013
Interest	207,521	-	-	-	(207,521)
Intergovernmental	81,745	-	-	-	(81,745)
Total Governmental Activities	<u>\$ 29,764,324</u>	<u>\$ 1,602,467</u>	<u>\$ 2,783,782</u>	<u>\$ 2,080,858</u>	<u>(23,297,217)</u>
General Revenues and Transfers					
Property taxes					23,809,793
Excises					849,876
Interest, penalties and other taxes					109,726
Grants and contributions not restricted to specific programs					514,556
Investment income					70,474
Miscellaneous					<u>111,018</u>
Total general revenues and transfers					<u>25,465,443</u>
Change in Net Position					2,168,226
Net Position:					
Beginning of year					<u>22,327,547</u>
End of year					<u>\$ 24,495,773</u>

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

TOWN OF SHERBORN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	Library Construction	Fire Ladder Truck	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 4,956,275	\$ 3,515,987	\$ 11,074	\$ 3,277,154	\$ 11,760,490
Investments	898,307	-	-	2,291,797	3,190,104
Receivables:					
Property taxes	403,905	-	-	-	403,905
Excises	38,658	-	-	-	38,658
Intergovernmental	-	-	-	24,000	24,000
Departmental	-	-	-	95,275	95,275
Other assets	952,543	-	-	-	952,543
TOTAL ASSETS	\$ 7,249,688	\$ 3,515,987	\$ 11,074	\$ 5,688,226	\$ 16,464,975
LIABILITIES					
Warrants payable	\$ 127,132	\$ -	\$ -	\$ 108,558	\$ 235,690
Accrued liabilities	533,032	-	-	-	533,032
Tax refunds payable	409	-	-	-	409
Notes payable	-	-	882,000	1,113,620	1,995,620
Other liabilities	181,835	-	-	-	181,835
TOTAL LIABILITIES	842,408	-	882,000	1,222,178	2,946,586
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	370,259	-	-	119,275	489,534
FUND BALANCES					
Nonspendable	952,543	-	-	653,237	1,605,780
Restricted	-	3,515,987	-	4,693,154	8,209,141
Committed	612,032	-	-	-	612,032
Assigned	2,025,529	-	-	-	2,025,529
Unassigned	2,446,917	-	(870,926)	(999,618)	576,373
TOTAL FUND BALANCES	6,037,021	3,515,987	(870,926)	4,346,773	13,028,855
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,249,688	\$ 3,515,987	\$ 11,074	\$ 5,688,226	\$ 16,464,975

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, 2017

Total governmental fund balances	\$ 13,028,855
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	28,949,479
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	489,534
• Long-term liabilities, including bonds payable, net pension liability, 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.	(18,773,572)
• Other	<u>801,477</u>
Net position of governmental activities	<u>\$ 24,495,773</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, 2017

	General Fund	Library Construction	Fire Ladder Truck	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 23,896,543	\$ -	\$ -	\$ -	\$ 23,896,543
Excises	860,779	-	-	-	860,779
Interest, penalties and other taxes	54,807	-	-	-	54,807
Charges for services	258,031	-	-	996,914	1,254,945
Licenses and permits	300,358	-	-	-	300,358
Intergovernmental	2,335,377	1,458,811	-	1,094,120	4,888,308
Fines and forfeitures	82,939	-	-	-	82,939
Investment income	70,686	-	-	230,898	301,584
Donations	-	-	-	202,471	202,471
Miscellaneous	105,764	-	-	47,387	153,151
Total Revenues	27,965,284	1,458,811	-	2,571,790	31,995,885
Expenditures:					
Current:					
General government	1,685,311	-	-	62,698	1,748,009
Public safety	2,056,289	-	32,969	564,856	2,654,114
Education	17,168,488	-	-	778,005	17,946,493
Public works	1,576,572	-	-	650,051	2,226,623
Health and human services	266,437	-	-	261,789	528,226
Culture and recreation	448,658	1,143,164	-	224,117	1,815,939
Insurance and benefits	2,824,711	-	-	(8,757)	2,815,954
Debt service	1,503,110	-	-	-	1,503,110
Intergovernmental	81,745	-	-	-	81,745
Total Expenditures	27,611,321	1,143,164	32,969	2,532,759	31,320,213
Excess (deficiency) of revenues over expenditures	353,963	315,647	(32,969)	39,031	675,672
Other Financing Sources (Uses):					
Transfers in	279,780	-	18,000	217,266	515,046
Transfers out	(235,266)	-	-	(279,780)	(515,046)
Total Other Financing Sources (Uses)	44,514	-	18,000	(62,514)	-
Change in fund balance	398,477	315,647	(14,969)	(23,483)	675,672
Fund Balance, at Beginning of Year, as reclassified	5,638,544	3,200,340	(855,957)	4,370,256	12,353,183
Fund Balance, at End of Year	\$ 6,037,021	\$ 3,515,987	\$ (870,926)	\$ 4,346,773	\$ 13,028,855

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

TOWN OF SHERBORN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - total governmental funds	\$ 675,672
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- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	2,553,043
Depreciation	(1,646,192)

- The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Repayments of debt	1,290,000
Change in net pension liability	(474,498)
Change in net OPEB obligation	(364,481)
Other	(18,177)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.

(67,781)

- Other differences

Change in net position of governmental activities	<u>220,640</u>
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\$ 2,168,226

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

TOWN OF SHERBORN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES,
AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	<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	\$ 23,736,411	\$ 23,736,411	\$ 23,736,411	\$ -
Excises	804,300	804,300	860,779	56,479
Interest, penalties and other taxes	50,200	50,200	54,807	4,607
Charges for services	238,000	238,000	258,031	20,031
Licenses and permits	180,000	180,000	300,358	120,358
Intergovernmental	1,098,609	1,098,609	1,118,958	20,349
Fines and forfeitures	75,000	75,000	82,939	7,939
Investment income	10,000	10,000	63,999	53,999
Miscellaneous	37,727	37,727	105,764	68,037
Other financing sources:				
Transfers in	216,320	216,320	279,780	63,460
Use of fund balance	<u>392,430</u>	<u>724,113</u>	<u>724,113</u>	-
Total Revenues and Other Sources	26,838,997	27,170,680	27,585,939	415,259
Expenditures and Other Uses:				
Current:				
General government	1,540,788	1,794,576	1,790,706	3,870
Public safety	1,945,069	2,059,340	2,058,959	381
Education	16,011,872	15,990,092	15,931,587	58,505
Public works	1,463,166	1,661,472	1,495,752	165,720
Health and human services	265,261	283,457	274,199	9,258
Culture and recreation	619,335	604,485	603,996	489
Insurance and benefits	2,815,150	2,814,486	2,813,879	607
Debt service	1,551,388	1,551,388	1,470,698	80,690
Intergovernmental	77,104	81,745	81,745	-
Other financing uses:				
Transfers out	150,000	215,000	296,266	(81,266)
Reserve fund	362,137	76,912	-	76,912
Other uses	<u>37,727</u>	<u>37,727</u>	<u>37,727</u>	-
Total Expenditures and Other Uses	<u>26,838,997</u>	<u>27,170,680</u>	<u>26,855,514</u>	<u>315,166</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 730,425</u>	<u>\$ 730,425</u>

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

TOWN OF SHERBORN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Other Post Employment Benefits Trust <u>Fund</u>	Agency Fund
ASSETS		
Cash and short-term investments	\$ 7,076	\$ (6,308)
Investments	<u>766,168</u>	<u>-</u>
Total Assets	773,244	(6,308)
LIABILITIES AND NET POSITION		
Warrants payable	-	6,657
Other liabilities	<u>-</u>	<u>(12,965)</u>
Total Liabilities	<u>-</u>	<u>(6,308)</u>
NET POSITION		
Total net position held in trust	\$ <u>773,244</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, 2017

	Other Post Employment Benefits Trust <u>Fund</u>
Additions:	
Contributions	\$ 583,395
Employers	<u>57,897</u>
Investment income	
Total additions	641,292
Deductions:	
Benefit payments to plan members, beneficiaries and other systems	<u>383,395</u>
Total deductions	<u>383,395</u>
Net increase	257,897
Net position:	
Beginning of year	<u>515,347</u>
End of year	<u>\$ 773,244</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 2017, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Library Construction Fund is used to account for 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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 fair 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 2017 tax levy reflected an excess capacity of \$248,655.

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, equipment, and infrastructure assets, 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 acquisition 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 the current assets/deferred outflows 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.

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.

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)	\$ 27,965,284	\$ 27,611,321
Other financing sources/uses (GAAP basis)	<u>279,780</u>	<u>235,266</u>
Subtotal (GAAP Basis)	28,245,064	27,846,587
Adjust tax revenue to accrual basis	(160,134)	-
Record use of free cash and overlay surplus	724,113	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(280,184)
Add end-of-year appropriation carryforwards to expenditures	-	539,215
Reverse the effect of non-budgeted State contributions for teachers retirement	(1,216,419)	(1,216,419)
Reverse effect of combining general fund and general stabilization funds	(6,685)	50,000
Other	<u>-</u>	<u>(83,685)</u>
Budgetary basis	<u>\$ 27,585,939</u>	<u>\$ 26,855,514</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2017.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

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, 2017, \$2,021,357 of the Town's and Library Trustees' bank balance of \$12,069,818 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):

Investment Type	Amount	Legal Rating	Minimum Disclosure	Exempt From								Rating as of Year End		
				AAA	A1	A2	A3	Aa3	BAA1	BAA3				
Certificates of deposit	\$ 402	N/A	\$ 402	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Corporate bonds	768	N/A	-	-	25	129	128	76	284	126				
Federal securities	336	N/A	-	336	-	-	-	-	-	-	-	-	-	
Asset-backed securities	122	N/A	122	-	-	-	-	-	-	-	-	-	-	
Equities	1,273	N/A	1,273	-	-	-	-	-	-	-	-	-	-	
PRIT investment pool	349	N/A	349	-	-	-	-	-	-	-	-	-	-	
Mutual funds	706	N/A	706	-	-	-	-	-	-	-	-	-	-	
Total investments	\$ <u>3,956</u>		\$ <u>2,852</u>	\$ <u>336</u>	\$ <u>25</u>	\$ <u>129</u>	\$ <u>128</u>	\$ <u>76</u>	\$ <u>284</u>	\$ <u>126</u>				

*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust (PRIT) is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

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 U.S. treasuries, government

agency securities, and 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>
Vanguard mutual funds	\$ <u>258</u>	7%
Total	\$ <u>258</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>Amount</u>	Investment Maturities (in Years)					<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>		
Certificates of deposit	\$ 402	\$ 105	\$ 297	\$ -	\$ -	\$ -	-
Corporate bonds	768	152	538	78	-	-	-
Federal securities	336	-	336	-	-	-	-
Asset-backed securities	122	-	-	8	114	-	-
Equities	1,273	-	-	-	-	-	1,273
PRIT investment pool	349	-	-	-	-	-	349
Mutual funds	<u>706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>706</u>
Total	<u>\$ 3,956</u>	<u>\$ 257</u>	<u>\$ 1,171</u>	<u>\$ 86</u>	<u>\$ 114</u>	<u>\$ 2,328</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, 2017:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments by fair value level:				
Debt securities:				
Corporate bonds	\$ 768	\$ -	\$ 768	\$ -
Federal securities	336	-	336	-
Asset-backed securities	122	-	122	-
Equity securities:				
Mutual funds	706	706	-	-
Equities	1,273	1,273	-	-
Investments measured at the net asset value (NAV):				
External investment pool	<u>349</u>			
Total	<u>\$ 3,554</u>			
<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 349	\$ -	Monthly	30 days

5. Taxes and Excises 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.

The day after the final tax bill is due, 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.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise

assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and excise receivables at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 111,041	\$ (2,776)	\$ 108,265
Personal property taxes	811	-	811
Tax liens	113,030	-	113,030
Other	179,023	-	179,023
Total property taxes	403,905	(2,776)	401,129
Motor vehicle excise	38,658	(15,082)	23,576
Total excises	38,658	(15,082)	23,576
Grand total	\$ 442,563	\$ (17,858)	\$ 424,705

6. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 235	\$ 30	\$ -	\$ 265
Buildings and improvements	16,845	116	-	16,961
Machinery, equipment, and vehicles	7,820	766	(791)	7,795
Intangibles	63	-	-	63
Infrastructure	20,990	429	-	21,419
Total capital assets, being depreciated	45,953	1,341	(791)	46,503
Less accumulated depreciation for:				
Land improvements	(98)	(9)	-	(107)
Buildings and improvements	(6,853)	(480)	-	(7,333)
Machinery, equipment, and vehicles	(5,673)	(376)	791	(5,258)
Intangibles	(29)	(9)	-	(38)
Infrastructure	(15,951)	(772)	-	(16,723)
Total accumulated depreciation	(28,604)	(1,646)	791	(29,459)
Total capital assets, being depreciated, net	17,349	(305)	-	17,044
Capital assets, not being depreciated:				
Land	10,346	-	-	10,346
Construction in progress	348	1,212	-	1,560
Total capital assets, not being depreciated	10,694	1,212	-	11,906
Governmental activities capital assets, net	\$ 28,043	\$ 907	\$ -	\$ 28,950

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

Governmental Activities:	
General government	\$ 94
Public safety	358
Education	203
Public works	920
Health and human services	9
Culture and recreation	62
Total depreciation expense - governmental activities	\$ <u>1,646</u>

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 15.

8. Warrants Payable and Accrued Liabilities

Warrants payable represent 2017 expenditures paid by July 15, 2017 as permitted by law. Accrued liabilities represent additional 2017 expenditures paid in fiscal 2018.

9. 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.

10. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/17</u>
Bond anticipation	1.25%	03/10/17	03/08/18	\$ <u>1,995,620</u>
Total				\$ <u>1,995,620</u>

The following summarizes activity in notes payable during fiscal year 2017:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Rollover</u>	<u>Payoff/ Paydown</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 1,412,000	\$ -	\$ (1,323,000)	\$ (89,000)	\$ -
Bond anticipation	130,000	-	(130,000)	-	-
Bond anticipation	<u>-</u>	<u>542,620</u>	<u>1,453,000</u>	<u>-</u>	<u>1,995,620</u>
Total	<u><u>\$ 1,542,000</u></u>	<u><u>\$ 542,620</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (89,000)</u></u>	<u><u>\$ 1,995,620</u></u>

11. 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 6/30/17</u>
Municipal bond of 2007	05/15/26	3.95%	\$ 1,575,000
Municipal bond of 2010	05/15/27	3.08%	1,280,000
Municipal bond of 2013	05/15/26	1.23%	1,565,000
Municipal bond of 2015	05/01/30	2.25%	<u>655,000</u>
Total Governmental Activities:			\$ <u><u>5,075,000</u></u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	350,000	58,825	408,825
2023 - 2027	1,360,000	143,925	1,503,925
2028 - 2031	95,000	5,550	100,550
Total	<u><u>\$ 5,075,000</u></u>	<u><u>\$ 647,225</u></u>	<u><u>\$ 5,722,225</u></u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/16				Total Balance 6/30/17		Less Current Portion	Equals Long-Term Portion 6/30/17
<u>Governmental Activities</u>								
Bonds payable	\$ 6,365	\$ -	\$ (1,290)	\$ 5,075	\$ (1,180)	\$ 3,895		
Net pension liability	10,262	475	-	10,737	-	10,737		
Net OPEB obligation	2,386	364	-	2,750	-	2,750		
Other:								
Compensated absences	193	19	-	212	(42)	170		
Subtotal - other	193	19	-	212	(42)	170		
Totals	\$ 19,206	\$ 858	\$ (1,290)	\$ 18,774	\$ (1,222)	\$ 17,552		

12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position 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 Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 15. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

13. 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, 2017:

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, 2017:

	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
Prepayments	<u>952,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>952,543</u>
Total Nonspendable	952,543	-	-	653,237	1,605,780

(continued)

(continued)

	<u>General Fund</u>	<u>Gift Library Construction</u>	<u>Fire Ladder Truck</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted					
Special revenue funds:					
Federal grants	-	-	-	6,624	6,624
State grants	-	-	-	185,439	185,439
Receipts reserved for appropriation	-	-	-	60,068	60,068
Revolving funds:					
Elderly housing maintenance	-	-	-	427,588	427,588
Farm Pond user fees	-	-	-	247,534	247,534
Ambulance	-	-	-	141,514	141,514
Other	-	-	-	395,772	395,772
Gifts and other	-	-	-	123,667	123,667
Capital project funds:					
Bonded capital projects	-	-	-	80,862	80,862
Chapter 90	-	-	-	41,840	41,840
Major capital project fund	-	3,515,987	-	-	3,515,987
Trust funds:					
Expendable:					
Conservation/land acquisition funds	-	-	-	48,255	48,255
Library funds	-	-	-	1,210,111	1,210,111
Expendable permanent funds:					
Cemetery perpetual care	-	-	-	134,923	134,923
Library endowment funds	-	-	-	1,588,957	1,588,957
Total Restricted	-	3,515,987	-	4,693,154	8,209,141
Committed					
Article carryforwards	379,508	-	-	-	379,508
OPEB stabilization fund	132,028	-	-	-	132,028
Special education stabilization	100,496	<u> </u>	<u> </u>	<u> </u>	<u> </u> 100,496
Total Committed	612,032	-	-	-	612,032
Assigned					
Encumbrances	159,708	-	-	-	159,708
Reserved for expenditures	1,586,989	-	-	-	1,586,989
Reserved for MSBA debt paydowns	264,610	-	-	-	264,610
Other	14,222	<u> </u>	<u> </u>	<u> </u>	<u> </u> 14,222
Total Assigned	2,025,529	-	-	-	2,025,529
Unassigned					
General fund	1,772,819	-	-	-	1,772,819
General stabilization	674,098	-	-	-	674,098
Special revenue fund deficits	-	-	-	(20,027)	(20,027)
Capital project fund deficits	-	<u> </u>	<u> </u> (870,926)	<u> </u> (979,591)	<u> </u> (1,850,517)
Total Unassigned	2,446,917	<u> </u>	<u> </u>(870,926)	<u> </u>(999,618)	<u> </u>576,373
Total Fund Balance	\$ 6,037,021	\$ 3,515,987	\$ (870,926)	\$ 4,346,773	\$ 13,028,855

14. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraph summarizes the major differences. The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS. In addition, the Town's general stabilization fund is now required to be reported as part of the general fund per GASB Statement No. 54.

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

GAAP basis balance	\$ 2,446,917
Stabilization fund	(674,098)
Tax refund estimate	409
	<hr/>
Statutory (UMAS) Balance	\$ <u>1,773,228</u>

15. 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 10 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.

If a participant was a member prior to February 2012, 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 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, 2017 was \$874,648, 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, 2017, the Town reported a liability of \$10,736,551 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2016, the Town's proportion was 0.757762%.

For the year ended June 30, 2017, the Town recognized pension expense of \$1,135,724. 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	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 48,354	\$ -
Changes of assumptions	584,997	-
Net difference between projected and actual investment investment earnings on pension plan investments	445,759	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	130,400	369,567
Total	<u>\$ 1,209,510</u>	<u>\$ 369,567</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:

2018	\$ 249,621
2019	249,621
2020	241,939
2021	<u>98,762</u>
Total	\$ <u>839,943</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3.0% of the first \$14,000 of retirement income
	Varies by length of service with ultimate rates of
	4.25% for Group 1, 4.50% for Group 2, and
Salary increases	4.75% for Group 4.
Investment rate of return	7.75%

Mortality rates were based on the RP-2000 mortality table projected generationally from 2009 with scale BB2D for both Pre-and Post Retirement members. For disabled retirees, mortality was based on the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period December 31, 2016.

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	19.50%	7.50%
International equity	16.80%	7.83%
Emerging markets equity	6.90%	9.61%
Core fixed income	12.30%	3.75%
Value-added fixed income	8.30%	7.26%
Private equity	11.10%	9.50%
Real estate	10.00%	6.50%
Timber/natural resources	3.60%	6.00%
Hedge funds	9.00%	6.48%
Liquidating portfolios	0.40%	6.48%
Portfolio completion strategies	1.10%	6.48%
Overlay	1.00%	6.48%
 Total	 100.00%	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. 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 7.75%, 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 (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 12,965,361	\$ 10,736,551	\$ 8,852,903	

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.

16. 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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 6 This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- 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 Healthy 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, 2016 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	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

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 non-employer 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. Town Proportions

In fiscal year 2017 (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 \$11,924,906 and \$1,216,419 respectively, based on a proportionate share of 0.053336%. 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.

17. Other Post-Employment Benefits – OPEN (GASB 45)

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, 2016, the most recent actuarial valuation date, approximately 89 retirees and 110 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 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2016.

Annual Required Contribution (ARC)	\$ 828,685
Interest on net OPEB obligation	107,583
Adjustment to ARC	(149,557)
Amortization of actuarial (gains)/losses	<u>(42,517)</u>
Annual OPEB cost	744,194
Adjustment to OPEB	203,681
Projected benefit payments	<u>(583,395)</u>
Increase in net OPEB obligation	364,480
Net OPEB obligation - beginning of year	<u>2,385,907</u>
Net OPEB obligation - end of year	\$ <u>2,750,387</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
2017	\$ 744,194	78.4%	\$ 2,750,387
2016	\$ 826,906	75.8%	\$ 2,385,907
2015	\$ 787,529	89.7%	\$ 2,185,495

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 9,892,614
Actuarial value of plan assets	<u>(627,014)</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>9,265,600</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>6.3%</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, 2016 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, 2016, the District's most recent actuarial valuation, the District's unfunded actuarial accrued OPEB liability was \$24,196,227, which will be funded by future operating assessments to the District's member towns. In fiscal year 2017, the Town's portion of the District's annual operating assessment was 45.18%.

18. Other Post-Employment Benefits – OPEB (GASB 74)

In April of 2010 the Town established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of pooled funds with the Pension Reserves Invest Trust (PRIT) and equity investments, mutual funds and asset-backed securities with Bartholomew. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 7,414,126
Plan fiduciary net position	<u>773,244</u>
Net OPEB liability	<u>\$ 6,640,882</u>

Plan fiduciary net position as a percentage of the total OPEB liability 10.4%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% as of June 30, 2017 and for future periods
Salary increases	3.00% annually as of June 30, 2017 and for future periods
Investment rate of return	6.92%, net of OPEB plan investment expense, including inflation

Mortality rates were based on:

- Pre-Retirement Mortality: RP-2000 Mortality Table projected to 2017.
- Post-Retirement Mortality: RP-2000 Mortality Table projected to 2017.
- Disabled Mortality: RP-2000 Mortality Table projected to 2017.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2012 through January 1, 2014. As a result of the actuarial experience study, the expectation of life after disability was adjusted in the June 30, 2015 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity - large cap	22.00%	4.00%
Domestic equity - small/mid cap	11.00%	6.00%
International equity - developed market	11.25%	4.50%
International equity - emerging market	5.75%	7.00%
Domestic fixed income	23.00%	2.00%
International fixed income	7.00%	3.00%
Alternatives	20.00%	6.50%
Real estate	0.00%	6.25%
Cash	<u>0.00%</u>	<u>0.00%</u>
Total	<u><u>100.00%</u></u>	

Discount rate. The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would

be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current discount rate:

1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
\$ 7,708,544	\$ 6,640,882	\$ 6,054,856

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.00% decreasing to 4.00%) or 1-percentage-point higher (5.00% increasing to 6.00%) than the current healthcare cost trend rates:

Healthcare Cost Trend		
1% Decrease (4.00%)	Rates (5.00%)	1% Increase (6.00%)
\$ 5,401,833	\$ 6,640,882	\$ 8,640,087

19. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

20. Beginning Fund Balance and Net Position Reclassification

The beginning (July 1, 2016) fund balance and net position of the Town has been reclassified as follows:

Fund Basis Financial Statements:

	<u>Gift Library Construction</u>	<u>Library Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
As previously reported	\$ 2,845,146	\$ -	\$ 4,725,450	\$ 7,570,596
Reclassification of Gift Library Construction Fund	(2,845,146)	2,845,146	-	-
Reclassification of State Grant Library Construction Fund	-	355,194	(355,194)	-
As restated	\$ -	\$ 3,200,340	\$ 4,370,256	\$ 7,570,596

21. Implementation of New GASB Standard

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.

TOWN OF SHERBORN, MASSACHUSETTS

**SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)**

JUNE 30, 2017
(Unaudited)

Middlesex County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</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, 2017	December 31, 2016	0.757762%	\$ 10,736,551	\$ 4,009,692	267.76%	45.49%
June 30, 2016	December 31, 2015	0.795496%	\$ 10,262,053	\$ 3,936,908	260.66%	46.13%
June 30, 2015	December 31, 2014	0.787825%	\$ 9,464,261	\$ 3,785,488	250.01%	47.65%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</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</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, 2017	June 30, 2016	0.053336%	\$ -	\$ 11,924,906	\$ 11,924,906	\$ 3,508,258	- 52.73%
June 30, 2016	June 30, 2015	0.051311%	\$ -	\$ 10,513,487	\$ 10,513,487	\$ 3,252,547	- 55.38%
June 30, 2015	June 30, 2014	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 (GASB 68)

JUNE 30, 2017
(Unaudited)

Middlesex County Retirement System

Fiscal Year	Contributions in Relation to the		Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
	Contractually Required <u>Contribution</u>	Contractually Required <u>Contribution</u>			
June 30, 2017	\$ 874,648	\$ 874,648	\$ -	\$ 4,009,692	21.81%
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.

TOWN OF SHERBORN, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

June 30, 2017
(Unaudited)
(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation	Actuarial Value of Assets	Actuarial			Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
		Accrued Liability (AAL) - Entry Age	AAL (UAAL)	Unfunded (b-a)			
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</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
06/30/16	\$ 627	\$ 9,893	\$ 9,266		6.3%	N/A	N/A

See Independent Auditors' Report.

TOWN OF SHERBORN, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 239,889
Interest on unfunded liability - time value of \$	481,129
Benefit payments, including refunds of member contributions	<u>(383,395)</u>
Net change in total OPEB liability	337,623
Total OPEB liability - beginning	<u>7,076,503</u>
Total OPEB liability - ending (a)	<u>\$ 7,414,126</u>
 Plan fiduciary net position*	
Contributions - employer	\$ 583,395
Net investment income	57,897
Benefit payments, including refunds of member contributions	<u>(383,395)</u>
Net change in plan fiduciary net position	257,897
Plan fiduciary net position - beginning	<u>515,347</u>
Plan fiduciary net position - ending (b)	<u>\$ 773,244</u>
 Net OPEB liability (asset) - ending (a-b)	<u>\$ 6,640,882</u>

*Reflects certain rounding and immaterial classification differences from page 18.

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

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

TOWN OF SHERBORN, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)
 (Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 7,414,126
Plan fiduciary net position	<u>773,244</u>
Net OPEB liability (asset)	<u>\$ 6,640,882</u>
Plan fiduciary net position as a percentage of the total OPEB liability	10.4%
Covered payroll	\$ 7,760,000
Participating employer net OPEB liability (asset) as a percentage of covered payroll	85.6%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 722,254
Contributions in relation to the actuarially determined contribution	<u>583,395</u>
Contribution deficiency (excess)	<u>\$ 138,859</u>
Covered payroll	\$ 7,760,000
Contributions as a percentage of covered payroll	7.52%

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

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.