

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF SHERBORN, MASSACHUSETTS

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended June 30, 2023



TOWN OF SHERBORN, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Select Board
Town of Sherborn, Massachusetts

Opinions

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, (the "Town") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Town as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers these 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 sufficient evidence to express an opinion or provide any assurance.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Sherborn, Massachusetts (the “Town”), we offer readers of the Town’s financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$19.6 million (*total net position*). This represents an increase of approximately \$34 thousand year-over-year.
- The Town continues to report a deficit in its unrestricted net position in its governmental activities; the deficit is nearly \$13.3 million at June 30, 2023. This deficit is due primarily to the recording of liabilities associated with the net OPEB and net pension liabilities, which totaled nearly \$21.4 million at June 30, 2023 in the aggregate. These liabilities are applied to the Town’s unrestricted net position and represent actuarial estimates of future postemployment benefits payable by the Town for retiree insurance benefits and pensions.
- As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of nearly \$8.5 million, which represents an increase of over \$3.7 million over the prior year due to capital project issuing debt of over \$5.6 million with an additional \$0.6 million of debt premiums received, this was offset by spending exceeding revenues by approximately \$2.6 million.
- The Town’s total long-term debt in its governmental activities increased by over \$4.3 million to approximately \$12.0 million due to the issuance of debt offset by regular scheduled maturities.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town’s basic financial statements. The Town’s 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 the Town’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town’s assets and deferred outflows of resources and its liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government’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 sick and vacation pay).

The government-wide financial statements consist of two classifications: 1) those activities are principally supposed by taxes and intergovernmental revenue (*governmental activities*); and 2) those whose activities are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, education, health and human services, culture and recreation, fringe benefits and debt service. The Town has no business-type activities.

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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Nonspendable – amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid items) or (b) legally or contractually required to be maintained intact.
- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed – amounts constrained by a government using its highest level of decision-making authority.
- Assigned – amounts a government intends to use for a particular purpose.
- Unassigned – amounts that are not constrained at all will be reported in the general fund or in other major funds if negative.

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. Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund, Library Fund, ARPA Fund, and the aggregate Nonmajor Governmental Funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes, as indicated within the table of contents.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town includes the activities of its Other Postemployment Benefits Trust Funds herein. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the 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 concerning the Town’s progress in funding its obligation to provide pension and other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.

Government-Wide Financial Analysis

The following table represents the condensed statement of net position:

| Governmental Activities | | |
|---------------------------------------|----------------------|----------------------|
| | June 30, | |
| | 2023 | 2022 |
| Assets | | |
| Current and other assets | \$ 15,014,375 | \$ 13,506,312 |
| Capital assets, net | 42,143,801 | 39,660,652 |
| Total assets | 57,158,176 | 53,166,964 |
| Deferred outflows of resources | 4,418,860 | 3,674,054 |
| Liabilities | | |
| Long-term liabilities | 33,160,828 | 25,472,471 |
| Other liabilities | 7,238,201 | 8,571,422 |
| Total liabilities | 40,399,029 | 34,043,893 |
| Deferred inflows of resources | 1,532,937 | 3,186,041 |
| Net Position | | |
| Net investment in capital assets | 27,252,217 | 26,912,914 |
| Restricted | 5,643,547 | 5,027,428 |
| Unrestricted | (13,250,694) | (12,329,258) |
| Total Net Position | \$ 19,645,070 | \$ 19,611,084 |

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$19.6 million (*total net position*), which represents an approximate \$34 thousand increase from the prior year’s balance.

The largest portion (\$27.3 million) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, 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 significant portion of the Town's total net position (\$5.6 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position* which is currently in a deficit position of nearly \$13.3 million. The governmental activities deficit is primarily the result of nearly \$21.4 million in obligations related to OPEB and pensions. The Town expects that its deficit in unrestricted net position will continue for the foreseeable future until a mechanism to more adequately fund its annual OPEB obligation is in place.

The following table represents the condensed statement of changes in net position:

| | | Governmental Activities | |
|--|--|-------------------------|----------------------|
| | | June 30, | |
| | | 2023 | 2022 |
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | | \$ 1,940,767 | \$ 1,753,938 |
| Operating grants and contributions | | 3,503,791 | 3,000,705 |
| Capital grants and contributions | | 1,526,171 | 1,125,028 |
| General revenues: | | | |
| Property taxes | | 28,469,052 | 27,148,553 |
| Excise taxes | | 986,257 | 1,078,199 |
| Unrestricted investment earnings | | 790,894 | (311,128) |
| Other | | 291,180 | 285,630 |
| Total Revenues | | <u>37,508,112</u> | <u>34,080,925</u> |
| Expenses | | | |
| General government | | | |
| Public safety | | 4,592,821 | 3,021,072 |
| Education | | 5,233,274 | 4,670,888 |
| Public works | | 22,012,055 | 20,453,423 |
| Health and human services | | 2,762,487 | 3,061,434 |
| Culture and recreation | | 961,164 | 849,208 |
| Debt service | | 1,364,918 | 1,113,969 |
| Total Expenses | | <u>547,407</u> | <u>247,694</u> |
| Increase (decrease) in net position | | <u>37,474,126</u> | <u>33,417,688</u> |
| Net position, beginning of year | | <u>33,986</u> | <u>663,237</u> |
| Net position, end of year | | <u>\$ 19,645,070</u> | <u>\$ 19,611,084</u> |

Governmental Activities – Total revenues overall increased approximately \$3.4 million. Property taxes continue to represent the largest source of revenues reported in governmental activities. Revenues from property taxes represented 75.9% of fiscal year 2023 governmental activities' revenues, which is slightly lower compared with 79.7% in fiscal year 2022. In fiscal year 2023, property tax revenues increased nearly 4.9% from the prior year, which was due to normal, statutorily set increases (Prop 2 ½) together with new growth. This represents an increase of over \$1.3 million as compared to the prior year.

Operating grants and contributions increased approximately \$0.5 million. Revenues from operating grants and contributions represented 9.3% of fiscal year 2023 governmental activities' revenues, which was lower compared to 8.8% in fiscal year 2022.

No other revenues were greater than 10% of total revenues in 2023 or 2022.

Total expenditures overall increased approximately \$37.5 million. Education continues to represent the largest expense category for the Town. Education expenditures represented 58.7% and 61.2%, respectively, of fiscal year 2023 and 2022 total expenditures. Public safety expenses represented approximately 14.0% of fiscal year 2023 expenses, the same as in the prior year. General government expenses represented approximately 12.3% of fiscal year 2023 expenses, up from 9.0% in the prior year.

No other expense types were greater than 10% of total expenses in fiscal years 2023 and 2022.

Government Funds Financial Analysis

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's 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 close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of nearly \$8.5 million, which is over \$3.7 million more than the prior year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was over \$4.2 million, while the total General Fund balance was approximately \$5.1 million. 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 fund expenditures. Unassigned fund balance represents approximately 13.0% of total General Fund expenditures, while total fund balance represents approximately 15.7% of that same amount. Total fund balance of the General Fund increased \$0.4 million during the year.

The Town maintains the major Capital Projects Fund to account for its various capital projects. The Town reported a restricted fund balance of over \$0.4 million while showing a negative unassigned fund balance of almost \$2.2 million. This fund received revenues of nearly \$0.8 million from combined grants and donations towards projects, which was combined with \$5.6 million of long-term debt proceeds, with an additional \$0.6 million of debt premiums from the debt issuance. This resulted in total Capital Project Fund inflows of \$6.9 million, which was offset by approximately \$3.8 million of expenditures. The outflows were primarily comprised of library construction costs of \$2.0 million and \$1.3 million spent on other Town buildings.

The Town also maintains a major Library Fund to account for the activity of its library endowment funds. The fund reported a nonspendable fund balance of over \$2.4 million and a restricted fund balance of nearly \$0.4 million. The nonspendable portion represents amounts that cannot be spent because they are legally required to be maintained intact as the corpus of the endowment. Fund balance increased by less than \$0.1 million mainly due to a strong investment year offset by the yearly supplementation of the operating library department budget.

The Town created a new major ARPA Fund to account for the ARPA grant funds that have been received but have yet to be spent. The fund balance in the ARPA Fund was \$0, as the full amount of unspent grant money was deferred. During the year, ARPA grant funds of nearly \$0.9 million were recognized as revenues and expenditures.

The Town's aggregate Nonmajor Governmental Funds includes the Town's special revenue funds and trust funds. The fund balances in the Nonmajor Governmental Funds increased nearly \$0.1 million from the prior year to a total of approximately \$2.3 million. The increase was primarily due to an increase from bond premiums that were issued in the current year of over \$0.1 million. The fund reports over \$2.1 million as restricted, over \$0.2 million is nonspendable while showing a negative unassigned fund balance of approximately \$0.1 million.

Fiduciary Fund – The Town's fiduciary fund is comprised solely of the Town OPEB Trust Fund. The OPEB Trust's net position of about \$2.6 million reflected a current year increase of nearly \$0.3 million.

General Fund Budgetary Highlights

A budget to actual schedule for the General Fund has been provided as required supplementary information. The differences between the original and the final amended budget were minor.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets for its governmental activities as of June 30, 2023, amounts to approximately \$42.1 million, net of accumulated depreciation/amortization. This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment and infrastructure. The balance increased nearly \$2.5 million as the capital additions in the current year exceeded depreciation expense. Additions were primarily related to municipal public library renovations and street/roadwork projects.

Additional information on the Town capital assets can be found in Note II, Section C of this report.

Long-Term Debt – At June 30, 2023, the Town had total debt outstanding of approximately \$12.0 million, all reported in the governmental activities. Debt increased to over \$4.3 million due to the issuance of over \$5.6 million offset by regular scheduled maturities.

Standard and Poor's has assigned a bond rating of AAA for its general obligation debt.

Additional information on the Town's debt can be found in Note II, Sections E and F of this report.

Economic Factors and Next Year's Budgets and Rates

- The Town's property tax base is made up predominantly of residential real estate taxes, which comprise about 95.2% of the Town's property tax base. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- The Town's housing market has been very strong for the past several years. This has been bolstered by mortgage rates at historic lows. Current actions by the Federal Open Market Committee to soften the economy due to inflation have caused mortgage rates to spike during fiscal year 2023. Such trends may have an adverse effect on the housing market, and the Town is monitoring this.
- The Town enters fiscal year 2024 with the following financial reserves:
 - Certified free cash of approximately \$2.78 million
 - General Stabilization Fund with nearly \$851 thousand
 - Capital Stabilization Fund with over \$104 thousand
 - Special Education Stabilization Fund with over \$60 thousand
 - Elder Housing Capital Stabilization Fund with nearly \$53 thousand
- Net state aid for fiscal year 2024 is expected to be over \$1.0 million.
- Inflation is peaking near 40-year historic highs. This is having adverse impacts on the Town. Wage inflation cannot guarantee that the Town will be able to maintain employees without increasing wages. Energy inflation is causing a spike in energy costs. Price inflation is causing a spike in the price of the delivery and cost of goods and services. The construction building index is nearing historic highs which may cause the estimates of major capital projects to increase, in addition to the financing costs of these projects. The Town continues to monitor this situation.

The above items were considered when the Town accepted its budget for fiscal year 2024 at the April 2023 Town Meeting and expects to have its tax rate certified by December 2023.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or a request for additional financial information should be addressed to the Office of the Town Accountant, 19 Washington Street, Sherborn, Massachusetts 01770.

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF NET POSITION
JUNE 30, 2023

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 10,073,778 |
| Investments | 3,881,325 |
| Receivables, net: | |
| Property taxes | 248,038 |
| Excise taxes | 65,205 |
| Departmental and other | 110,984 |
| Intergovernmental | 59,020 |
| Lease receivables | 321,023 |
| Tax foreclosures | 255,002 |
| Capital assets not being depreciated or amortized | 10,157,370 |
| Capital assets, net of accumulated depreciation/amortization | <u>31,986,431</u> |
| Total Assets | <u>57,158,176</u> |
| Deferred Outflows of Resources | |
| Related to net pension liability | 1,989,727 |
| Related to net other postemployment benefits liability | <u>2,429,133</u> |
| Total Deferred Outflows of Resources | <u>4,418,860</u> |
| Liabilities | |
| Warrants and accounts payable | 216,456 |
| Accrued payroll and withholdings | 855,540 |
| Accrued interest expense | 239,151 |
| Retainage payable | 64,509 |
| Tax refund payable | 250,000 |
| Unearned revenue | 869,058 |
| Other liabilities | 25,938 |
| Bond anticipation notes payable | 3,247,719 |
| Noncurrent liabilities: | |
| Due within one year | 1,469,830 |
| Due in more than one year | <u>33,160,828</u> |
| Total Liabilities | <u>40,399,029</u> |
| Deferred Inflows of Resources | |
| Related to leases | 321,023 |
| Related to net pension liability | 240,975 |
| Related to net other postemployment benefits liability | <u>970,939</u> |
| Total Deferred Inflows of Resources | <u>1,532,937</u> |
| Net Position | |
| Net investment in capital assets | 27,252,217 |
| Restricted for: | |
| Nonexpendable permanent funds | 233,340 |
| Nonexpendable library trust funds | 2,439,135 |
| Expendable permanent funds | 175,384 |
| Expendable library trust funds | 380,952 |
| Other specific purposes | 2,414,736 |
| Unrestricted | <u>(13,250,694)</u> |
| Total Net Position | <u>\$ 19,645,070</u> |

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2023

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | |
|---|-----------------------|-------------------------|--|--|---|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 4,592,821 | \$ 265,578 | \$ 328,015 | \$ 100,000 | \$ (3,899,228) | |
| Public safety | 5,233,274 | 729,639 | 188,101 | - | (4,315,534) | |
| Education | 22,012,055 | 199,277 | 2,694,030 | - | (19,118,748) | |
| Public works | 2,762,487 | 31,748 | 3,850 | 744,697 | (1,982,192) | |
| Health and human services | 961,164 | 452,893 | 46,297 | - | (461,974) | |
| Culture and recreation | 1,364,918 | 261,632 | 243,498 | 681,474 | (178,314) | |
| Interest expense | 547,407 | - | - | - | (547,407) | |
| Total governmental activities | <u>37,474,126</u> | <u>1,940,767</u> | <u>3,503,791</u> | <u>1,526,171</u> | <u>(30,503,397)</u> | |
| General Revenues: | | | | | | |
| Property taxes | | | | | 28,469,052 | |
| Motor vehicle and other excise | | | | | 986,257 | |
| Grants and contributions not restricted to specific programs | | | | | 250,918 | |
| Penalties and interest on taxes | | | | | 40,262 | |
| Unrestricted investment income (loss) | | | | | <u>790,894</u> | |
| Total general revenues | <u></u> | <u></u> | <u></u> | <u></u> | <u>30,537,383</u> | |
| Change in Net Position | <u></u> | <u></u> | <u></u> | <u></u> | <u>33,986</u> | |
| Net Position: | | | | | | |
| Beginning of year | | | | | <u>19,611,084</u> | |
| End of year | | | | | <u>\$ 19,645,070</u> | |

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

| | General Fund | Capital Projects | Library Fund | ARPA Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|---------------------|-------------------|-----------------------------|--------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 5,400,519 | \$ 1,525,497 | \$ 61,100 | \$ 869,058 | \$ 2,217,604 | \$ 10,073,778 |
| Investments | 963,632 | - | 2,758,987 | - | 158,706 | 3,881,325 |
| Receivables, net of allowance for uncollectibles: | | | | | | |
| Property taxes | 232,490 | - | - | - | - | 232,490 |
| Excise taxes | 65,205 | - | - | - | - | 65,205 |
| Departmental and other | 24,274 | - | - | - | 102,258 | 126,532 |
| Intergovernmental | - | - | - | - | 59,020 | 59,020 |
| Lease receivables | 321,023 | - | - | - | - | 321,023 |
| Tax foreclosures | 255,002 | - | - | - | - | 255,002 |
| Total Assets | 7,262,145 | 1,525,497 | 2,820,087 | \$ 869,058 | \$ 2,537,588 | \$ 15,014,375 |
| Deferred Outflows of Resources | | | | | | |
| Total Assets and Deferred Outflows of Resources | \$ 7,262,145 | \$ 1,525,497 | \$ 2,820,087 | \$ 869,058 | \$ 2,537,588 | \$ 15,014,375 |
| Liabilities | | | | | | |
| Warrants and accounts payable | \$ 177,477 | \$ 2,310 | \$ - | \$ - | \$ 36,669 | \$ 216,456 |
| Accrued payroll and withholdings | 804,216 | - | - | - | 51,324 | 855,540 |
| Retainage payable | - | - | - | - | 64,509 | 64,509 |
| Tax refund payable | 250,000 | - | - | - | - | 250,000 |
| Unearned revenue | - | - | - | 869,058 | - | 869,058 |
| Other liabilities | 25,938 | - | - | - | - | 25,938 |
| Bond anticipation notes payable | - | 3,247,719 | - | - | - | 3,247,719 |
| Total Liabilities | 1,257,631 | 3,250,029 | - | 869,058 | 152,502 | 5,529,220 |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenues - leased property | 321,023 | - | - | - | - | 321,023 |
| Unavailable revenues - property taxes | 248,038 | - | - | - | - | 248,038 |
| Unavailable revenues - excise taxes | 65,205 | - | - | - | - | 65,205 |
| Unavailable revenues - other | 263,728 | - | - | - | 102,258 | 365,986 |
| Total Deferred Inflows of Resources | 897,994 | - | - | - | 102,258 | 1,000,252 |
| Fund Balances | | | | | | |
| Nonspendable | - | - | 2,439,135 | - | 233,340 | 2,672,475 |
| Restricted | - | 444,364 | 380,952 | - | 2,145,756 | 2,971,072 |
| Committed | 93,958 | - | - | - | - | 93,958 |
| Assigned | 774,008 | - | - | - | - | 774,008 |
| Unassigned | 4,238,554 | (2,168,896) | - | - | (96,268) | 1,973,390 |
| Total Fund Balances | 5,106,520 | (1,724,532) | 2,820,087 | - | 2,282,828 | 8,484,903 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 7,262,145 | \$ 1,525,497 | \$ 2,820,087 | \$ 869,058 | \$ 2,537,588 | \$ 15,014,375 |

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

| | |
|---|-----------------------------|
| Total Governmental Fund Balances | \$ 8,484,903 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 42,143,801 |
| Other long-term assets are unavailable to pay current-period expenditures | 679,229 |
| Deferred outflows and inflows of resources to be recognized in future fiscal years are not available resources and, therefore, are not reported in the funds: | |
| Deferred outflows related to pensions | 1,989,727 |
| Deferred outflows related to other postemployment benefits | 2,429,133 |
| Deferred inflows related to pensions | (240,975) |
| Deferred inflows related to other postemployment benefits | <u>(970,939)</u> |
| Net effect of reporting deferred outflows and inflows of resources | 3,206,946 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds: | |
| Bonds and notes payable | (12,005,000) |
| Unamortized premiums on bonds | (963,361) |
| Compensated absences | (273,540) |
| Net pension liability | (11,793,029) |
| Net other postemployment benefits liability | <u>(9,595,728)</u> |
| Net effect of reporting long-term liabilities | <u>(34,630,658)</u> |
| Net Position of Governmental Activities | <u>\$ 19,645,070</u> |

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2023**

| | General Fund | Capital Projects | Library Fund | ARPA Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|---------------------|----------------|-----------------------------|--------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 28,621,622 | \$ - | \$ - | \$ - | \$ - | \$ 28,621,622 |
| Intergovernmental | 2,167,764 | 463,460 | - | 299,111 | 1,770,815 | 4,701,150 |
| Motor vehicle and other excises | 973,170 | - | - | - | - | 973,170 |
| Licenses and permits | 258,398 | - | - | - | - | 258,398 |
| Departmental and other revenue | 268,889 | - | - | - | 1,340,603 | 1,609,492 |
| Penalties and interest on taxes | 40,262 | - | - | - | - | 40,262 |
| Fines and forfeitures | 42,105 | - | - | - | - | 42,105 |
| Investment income (loss) | 549,701 | - | 231,968 | - | 9,225 | 790,894 |
| Contributions and donations | - | 318,014 | 233,191 | - | 28,525 | 579,730 |
| Total Revenues | 32,921,911 | 781,474 | 465,159 | 299,111 | 3,149,168 | 37,616,823 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | 2,394,798 | 1,395,487 | - | 142,509 | 264,077 | 4,196,871 |
| Public safety | 3,216,962 | 155 | - | - | 502,359 | 3,719,476 |
| Education | 18,125,930 | - | - | - | 1,036,070 | 19,162,000 |
| Public works | 1,713,673 | 660,241 | - | 160,538 | 712,624 | 3,247,076 |
| Health and human services | 337,750 | - | - | (3,936) | 369,952 | 703,766 |
| Culture and recreation | 727,153 | 1,745,055 | 411,955 | - | 237,438 | 3,121,601 |
| Pension and employee benefits | 4,240,427 | - | - | - | - | 4,240,427 |
| State and county assessments | 101,302 | - | - | - | - | 101,302 |
| Debt service: | | | | | | |
| Principal | 1,330,000 | - | - | - | - | 1,330,000 |
| Interest | 395,691 | - | - | - | - | 395,691 |
| Total Expenditures | 32,583,686 | 3,800,938 | 411,955 | 299,111 | 3,122,520 | 40,218,210 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 338,225 | (3,019,464) | 53,204 | - | 26,648 | (2,601,387) |
| Other Financing Sources (Uses) | | | | | | |
| Issuance of bonds and notes | - | 5,645,000 | - | - | - | 5,645,000 |
| Premiums from bonds and notes | - | 510,990 | - | - | 127,865 | 638,855 |
| Gain (loss) on capital asset disposal | - | - | - | - | 32,800 | 32,800 |
| Transfers in | 81,884 | - | - | - | - | 81,884 |
| Transfers out | - | - | - | - | (81,884) | (81,884) |
| Total Other Financing Sources (Uses) | 81,884 | 6,155,990 | - | - | 78,781 | 6,316,655 |
| Net Change in Fund Balances | 420,109 | 3,136,526 | 53,204 | - | 105,429 | 3,715,268 |
| Fund Balances - Beginning of Year | 4,686,411 | (4,861,058) | 2,766,883 | - | 2,177,399 | 4,769,635 |
| Fund Balances - End of Year | \$ 5,106,520 | \$ (1,724,532) | \$ 2,820,087 | \$ - | \$ 2,282,828 | \$ 8,484,903 |

See accompanying notes to basic 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
FISCAL YEAR ENDED JUNE 30, 2023**

| | |
|---|---------------------|
| Net Change in Fund Balances - Total Governmental Fund Balances | \$ 3,715,268 |
|---|---------------------|

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. The net amounts are reflected here as reconciling items:

| | |
|---------------------------|--------------------|
| Capital outlays | 4,149,975 |
| Depreciation/amortization | <u>(1,666,826)</u> |

| | |
|--|-----------|
| Net effect of reporting capital assets | 2,483,149 |
|--|-----------|

The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

| | |
|---|------------------|
| Issuances of general obligation bonds and notes | (5,645,000) |
| Premiums from bonds and notes | (630,529) |
| Amortization of premiums on bonds and notes payable | 87,435 |
| Repayments of debt | <u>1,330,000</u> |

| | |
|--|-------------|
| Net effect of reporting long-term debt | (4,858,094) |
|--|-------------|

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.

(149,837)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

| | |
|-------------------------------------|------------------|
| Interest on bonds and notes payable | (239,151) |
| Compensated absences | (36,793) |
| Pension benefits | (112,701) |
| Other postemployment benefits | <u>(767,855)</u> |

| | |
|---|--------------------|
| Net effect of reporting long-term liabilities | <u>(1,156,500)</u> |
|---|--------------------|

| | |
|--|------------------|
| Change in Net Position of Governmental Activities | \$ 33,986 |
|--|------------------|

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2023

| | Other Postemployment Benefits Trust Fund |
|--|--|
| Assets | |
| Cash and cash equivalents | \$ 10,722 |
| Investments: | |
| Equities - common stock | 145,548 |
| Mutual funds - equities | 1,101,399 |
| Mutual funds - fixed income | 367,049 |
| Pension Reserves Investment Trust (PRIT) | <u>978,884</u> |
| Total Assets | <u>2,603,602</u> |
| Liabilities | |
| Other liabilities | <u>-</u> |
| Total Liabilities | <u>-</u> |
| Net Position | |
| Restricted for other postemployment benefits | <u>2,603,602</u> |
| Total Net Position | <u>\$ 2,603,602</u> |

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2023

| | <u>Other Postemployment Benefits Trust Fund</u> |
|---|---|
| Additions | |
| Contributions: | |
| Employer | <u>\$ 557,867</u> |
| Total contributions | <u>557,867</u> |
| Investment income (loss) | 163,036 |
| Net investment earnings | <u>163,036</u> |
| Total Additions | <u>720,903</u> |
| Deductions | |
| Retiree benefits | <u>457,867</u> |
| Total Deductions | <u>457,867</u> |
| Change in Net Position | 263,036 |
| Net Position - Beginning of Year | <u>2,340,566</u> |
| Net Position - End of Year | <u>\$ 2,603,602</u> |

See accompanying notes to basic financial statements.

TOWN OF SHERBORN, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

I. Summary of Significant Accounting Policies

The accompanying basic financial statements of the Town of Sherborn, Massachusetts (the “Town”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

Sherborn is a Town in Middlesex County, approximately eighteen miles southwest of Boston. It is bordered by the Towns of Natick, Dover, Medfield, Millis, Holliston, Ashland and the City of Framingham. The Town was settled in 1652 and incorporated as a Town in 1674; and uses the open town meeting form of government. It is governed by a three-member elected Board of Selectmen with an appointed Town Administrator. Members of the Town’s Board of Selectmen serve three-year terms.

The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12 through a regional school district, street maintenance, library, parks, and recreational facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

Joint Venture – The Dover-Sherborn Regional School District is governed by an appointed six-member school committee (three from the towns of Dover and Sherborn, respectively). It is considered a joint venture whereby each of the two member towns participate to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specific recipients. The current year assessment paid to the School District by the Town was nearly \$10.5 million. Separate financial statements may be obtained by writing to the Business Administrator of the School District at 157 Farm Street, Dover, MA 02030

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The primarily government reports no business-type activities on these statements.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows of financial resources, liabilities and deferred inflows of financial resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows of financial resources, liabilities and deferred inflows of financial resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets and deferred outflows of financial resources, liabilities and deferred inflows of financial resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, 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 fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. 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. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In the first, monies must be expended for a specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized as expenditures are incurred. In the second, funds are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

The Town considers property tax revenues to be available if they are collected within sixty days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

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.

Capital Projects Fund – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Library Fund – is used to account for all trust activity related to the Town Library.

ARPA Fund – is used to account for financial resources that are restricted, committed or assigned to expenditures related to the ARPA grant.

The *Nonmajor Governmental Funds* consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the Nonmajor Governmental Funds column on the Governmental Funds financial statements. The following describes the general use of these fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than capital projects funds) that are restricted or committed to expenditures for specified purposes.

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The government reports the following fiduciary funds:

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations, or OPEB, for retirees, such as health, dental, and life insurance.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of its investments is recognized as an increase or decrease to investment assets and investment income.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes may be secured through a lien process within sixty days after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental receivables are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

The Town’s lease receivable is measured at the present value of lease payments expected to be received during the lease terms. The payments are recorded as an inflow of resources in the period the payments are received. Deferred inflows are recorded at the initiation of the leases in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized using the effective interest method over the terms of the leases.

Inventories and Prepaid Expenses – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment (including leased equipment), vehicles and infrastructure (e.g. roads, sewer mains, and similar items), are reported in the governmental activities column in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased, leased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases, the present value of leased assets and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. 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.

Capital assets (excluding land and construction-in-process) are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|----------|
| Buildings and improvements | 40 years |
| Land improvements | 20 years |
| Machinery and equipment | 5 years |
| Infrastructure | 20 years |
| Vehicles | 5 years |

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities.

Investment Income – Investment income derived from major and nonmajor governmental funds is legally assigned to the General Fund unless otherwise directed by state law. Investment income of the permanent funds and proprietary funds is retained in the funds.

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-Term Obligations – Long-term debt is reported as liabilities in the government-wide statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Town has two types of items that qualify for reporting as a deferred outflows of resources in its government-wide statement of net position which relate to outflows from changes in the net pension liability and net other postemployment benefit liability. The deferred pensions will be recognized in pension expense in future years, and the deferred other postemployment benefits will be recognized in employee benefits expense in future years. The Town does not report deferred outflows of resources in its governmental fund's financial statements.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time.

The Town has four types of items which qualify for reporting in this category. The first arises under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, excise taxes, leases and other departmental revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items are reported on the government-wide statement of net position and relate to inflows from leases, changes in the net pension liability and the net other postemployment benefit liability. The deferred lease revenues will be recognized in charges for services and investment income in future years over the life of the lease based on the terms of their agreements. The deferred pensions will be recognized in pension expense in future years, and the deferred other postemployment benefits will be recognized in employee benefits expense in future years.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets,” includes capital assets, net of accumulated depreciation/amortization, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

Nonexpendable permanent funds represent the endowment portion of donor restricted trusts that support governmental programs.

Nonexpendable library trust funds represent the endowment portion of donor restricted trusts that support library programs.

Expendable permanent funds represent the spendable portion of donor restricted trusts that support governmental programs.

Expendable library trust funds represent the spendable portion of donor restricted trusts that support library programs.

Other specific purposes represent assets that are restricted by third parties for specific governmental programs and uses.

Fund Equity – The Town presents its fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid) or (b) legally or contractually required to be maintained intact as the corpus of the endowment.

Restricted represents amounts that have constraints placed either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. The Town has by ordinance authorized the Town Accountant to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Encumbrances – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted or committed are included within the classification of those fund balances and not reported separately. The Town reports \$56,526 of encumbrances from normal purchasing activity in the General Fund as assigned and \$93,958 of encumbrances from Town Meeting Articles in the General Fund as committed. The Town also reports \$717,482 of appropriations reserved for subsequent year expenditures as assigned at June 30, 2023. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations:

| | General Fund | Capital Project Funds | Library Fund | ARPA Fund | Nonmajor Governmental Funds | Total |
|------------------------------|---------------------|-----------------------|---------------------|-------------|-----------------------------|---------------------|
| Nonspendable: | | | | | | |
| Perpetual permanent funds | \$ - | \$ - | \$ 2,439,135 | \$ - | \$ 233,340 | \$ 2,672,475 |
| Restricted: | | | | | | |
| General government | - | 239,151 | - | - | 297,182 | 536,333 |
| Public safety | - | 12,802 | - | - | 141,554 | 154,356 |
| Education | - | 136,881 | - | - | 441,433 | 578,314 |
| Public works | - | 55,530 | - | - | 47,562 | 103,092 |
| Health and human services | - | - | - | - | 873,535 | 873,535 |
| Culture and recreation | - | - | 380,952 | - | 344,490 | 725,442 |
| Committed: | | | | | | |
| General government | 23,150 | - | - | - | - | 23,150 |
| Public safety | 203 | - | - | - | - | 203 |
| Public works | 70,605 | - | - | - | - | 70,605 |
| Assigned: | | | | | | |
| Subsequent year expenditures | 717,482 | - | - | - | - | 717,482 |
| General government | 5,208 | - | - | - | - | 5,208 |
| Public safety | 1,216 | - | - | - | - | 1,216 |
| Education | 17,700 | - | - | - | - | 17,700 |
| Public works | 31,623 | - | - | - | - | 31,623 |
| Culture and recreation | 779 | - | - | - | - | 779 |
| Unassigned | <u>4,238,554</u> | <u>(2,168,896)</u> | <u>-</u> | <u>-</u> | <u>(96,268)</u> | <u>1,973,390</u> |
| Totals | \$ 5,106,520 | \$ (1,724,532) | \$ 2,820,087 | \$ - | \$ 2,282,828 | \$ 8,484,903 |

Stabilization Funds – The Town maintains a General Stabilization Fund, in accordance with Massachusetts General Law Chapter 40, Section 5B, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. At June 30, 2023, the Town reported a balance in its General Stabilization Fund of \$850,733, which is reported as unassigned in the General Fund.

The Town maintains a Special Education Stabilization Fund, in accordance with Massachusetts General Law Chapter 40, Section 5B, which may be used for any special education purpose upon a two-thirds vote of the Town Meeting. At June 30, 2023, the Town reported a balance in its Special Education Stabilization Fund of \$60,136, which is reported as unassigned in the General Fund.

The Town maintains a Capital Stabilization Fund, in accordance with Massachusetts General Law Chapter 40, Section 5B, which may be used for any capital purpose upon a two-thirds vote of the Town Meeting. At June 30, 2023, the Town reported a balance in its Capital Stabilization Fund of \$104,165, which is reported as unassigned in the General Fund.

The Town maintains a Elder Housing Stabilization Fund, in accordance with Massachusetts General Law Chapter 40, Section 5B, which may be used for elder housing costs upon a two-thirds vote of the Town Meeting. At June 30, 2023, the Town reported a balance in its Elder Housing Stabilization Fund of \$52,763, which is reported as unassigned in the General Fund.

E. Excess of Expenditures Over Appropriations and Fund Deficits

The Town incurred individual fund deficits totaling \$2,168,896 in its Capital Projects Funds and \$96,268 in its Nonmajor Funds. These deficits will be funded in future fiscal year with grant revenues, debt issuances and other available funds. No other appropriation or fund deficits existed.

F. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

II. Detailed Notes to All Funds

A. Deposits and Investments

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents." The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and investment pools. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

The Town maintains two investment accounts meeting the criteria of an external investment pool. The Massachusetts Municipal Depository Trust, or MMDT, was established by the Treasurer of the Commonwealth, who serves as Trustee. The fair value of the position in the MMDT is the same as the value of the MMDT shares. Additionally, the Pension Reserves Investment Trust, or PRIT, is managed by the Massachusetts Pension Reserves Investment Management (PRIM) Board established by the Commonwealth, whose Treasurer serves as the Board Chair.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$8,776,745 and the total of the bank deposit balances was \$9,188,028. Of the Town's bank balance, \$8,770,455 was covered by the Federal Deposit Insurance Corporation (FDIC), the Depositors' Insurance Fund (DIF) or collateralization agreements. The remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. All securities not held directly by the Town will be held

in the Town's name and tax identification number by a third-party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

The investments in MMDT and PRIT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town does not have a formal investment policy related to custodial credit risk. The Town's investments in negotiable certificates of deposits totaling \$23,855 are fully covered by FDIC.

Fair Value of Investments – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categories its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- *Level 3* – Inputs reflect the Town's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2023:

| | Amounts | Fair Value Measurements Using | | |
|---|--------------|-------------------------------|--------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| <u>Investments by fair value level</u> | | | | |
| Debt securities: | | | | |
| U.S. government obligations | \$ 551,579 | \$ 447,246 | \$ 104,333 | \$ - |
| Corporate fixed income securities | 1,440,335 | - | 1,440,335 | - |
| Fixed income mutual funds | 360,458 | - | 360,458 | - |
| Fixed income ETF funds | 323,076 | - | 323,076 | - |
| Negotiable certificates of deposit | 23,855 | - | 23,855 | - |
| Total debt securities | 2,699,303 | 447,246 | 2,252,057 | - |
| Equity securities: | | | | |
| Common stock | 1,694,619 | 1,694,619 | - | - |
| Equity mutual funds | 1,101,399 | - | 1,101,399 | - |
| Total equity securities | 2,796,018 | 1,694,619 | 1,101,399 | - |
| Total investments by fair value level | 5,495,321 | \$ 2,141,865 | \$ 3,353,456 | \$ - |
| <u>Investments measured at amortized costs</u> | | | | |
| Pooled funds - PRIT | 978,884 | | | |
| Pooled funds - MMDT | 1,047,013 | | | |
| Money market mutual funds | 260,741 | | | |
| Total investments measured at fair value | \$ 7,781,959 | | | |

Direct U.S. government obligations and equity mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The remaining investments including U.S. government agency obligations, corporate bond fixed income, and fixed income and equity mutual funds are classified in Level 2. Negotiable certificates of deposit and fixed income ETF funds are valued using matrix pricing based on the securities' relationship to benchmark quoted prices under Level 2 also. The PRIT fund is valued at an amortized cost, based on the composition and fair value of the underlying investments contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly. The State Treasurer's investment pool (MMDT) is valued at amortized cost. The MMDT's investment advisor may value the pool using an alternative valuation method that more accurately reflects the fair value in accordance with the pools fair value pricing policies should amortized cost not approximate the fair value of the pool.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates. The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2023, the Town had the following investments with maturities:

| Investments | Amounts | Maturities in Years | | | |
|--------------------------------------|----------------------------|---------------------|---------------------|-------------------|------------------|
| | | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| U.S. government obligations | \$ 551,579 | \$ 40,364 | \$ 488,325 | \$ - | \$ 22,890 |
| Corporate fixed income securities | 1,440,335 | 239,732 | 1,007,991 | 192,612 | - |
| Negotiable certificates of deposit | 1,231,750 | 1,231,750 | - | - | - |
| Total investments with maturities | <u>3,223,664</u> | <u>\$ 1,511,846</u> | <u>\$ 1,496,316</u> | <u>\$ 192,612</u> | <u>\$ 22,890</u> |
| <u>Other investments</u> | | | | | |
| Common stock - equities | 1,694,619 | | | | |
| Pooled funds - PRIT | 978,884 | | | | |
| Pooled funds - MMDT | 1,047,013 | | | | |
| Equity mutual funds | 1,101,399 | | | | |
| Fixed income mutual funds | 360,458 | | | | |
| Money market mutual funds | 260,741 | | | | |
| Fixed income exchange traded funds | 323,076 | | | | |
| Total investments without maturities | <u>5,766,190</u> | | | | |
| Total Investments | <u><u>\$ 8,989,854</u></u> | | | | |

Credit Risk – Credit risk is the risk of loss due to the failure of the security issuer or backer. The Town manages credit risk for deposits and investments through its careful selection of depository institutions and investment instruments. The Town also follows the prudent investor standard and invests only in financial instruments that are allowed under Massachusetts General Laws. The Town has not adopted a formal policy related to credit risk. Securities with maturities have their credit ratings disclosed below.

At June 30, 2023, the credit quality ratings of the Town's investments were as follows:

| Moody's Rating | U.S. Government Obligations | Corporate Bonds | Unrated Investments | Total |
|----------------|-----------------------------|---------------------|---------------------|---------------------|
| Aaa | \$ 551,579 | \$ 113,954 | \$ - | \$ 665,533 |
| Aa2 | - | 48,413 | - | 48,413 |
| Aa3 | - | 48,878 | - | 48,878 |
| A1 | - | 304,189 | - | 304,189 |
| A2 | - | 316,818 | - | 316,818 |
| A3 | - | 198,816 | - | 198,816 |
| Baa1 | - | 172,400 | - | 172,400 |
| Baa2 | - | 168,301 | - | 168,301 |
| Baa3 | - | 68,566 | - | 68,566 |
| Not Rated | - | - | 1,231,750 | 1,231,750 |
| Totals | \$ 551,579 | \$ 1,440,335 | \$ 1,231,750 | \$ 3,223,664 |

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2023, Town has 13% of its investments in MMDT, 13% in the PRIT fund and 7% in U. S. government obligations.

B. Receivables

Receivables as of year-end for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---|-------------------|------------------------------|-------------------|
| Receivables: | | | |
| Real estate and personal property taxes | \$ 88,140 | \$ - | \$ 88,140 |
| Tax liens and deferrals | 159,898 | - | 159,898 |
| Motor vehicle and other excise taxes | 65,205 | - | 65,205 |
| Ambulance fees | 202,244 | (99,986) | 102,258 |
| Other | 8,726 | - | 8,726 |
| Intergovernmental | 59,020 | - | 59,020 |
| Total | \$ 583,233 | \$ (99,986) | \$ 483,247 |

Intergovernmental Receivables – The Town annually receives a significant amount of operating and capital funding from federal and state agencies relative to aid, grants, reimbursements, and subsidies. Some of the funds may be earned or awarded as entitlements but not received at year end and therefore have been recognized as receivables.

Lease Receivables – The Town leases property to telecommunication providers that is set to conclude in fiscal year 2040. Lease receivables have been recorded in the Town’s general fund related to this lease agreement. The net present value of future receipts from the leased property totaled \$321,023 at June 30, 2023 and is reported as lease receivables and deferred inflows. Lease revenues and interest income related to this lease transactions totaled \$77,683 and \$13,402, respectively, in fiscal year 2023. The deferred inflows are amortized to revenue over the life of the lease.

Deferred Inflows – Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

| | General Fund | Other Governmental | Total |
|---|-------------------|-----------------------|-------------------|
| Receivables and other asset type: | | | |
| Real estate and personal property taxes | \$ 88,140 | \$ - | \$ 88,140 |
| Tax liens and deferrals | 159,898 | - | 159,898 |
| Motor vehicle and other excise taxes | 65,205 | - | 65,205 |
| Ambulance fees | - | 102,258 | 102,258 |
| Other | 8,726 | - | 8,726 |
| Tax foreclosures | 255,002 | - | 255,002 |
| Total | <u>\$ 576,971</u> | <u>\$ 102,258</u> | <u>\$ 679,229</u> |

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------------|-----------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 10,037,692 | \$ - | \$ - | \$ 10,037,692 |
| Construction in process | 12,583,863 | 119,678 | (12,583,863) | 119,678 |
| Total capital assets not being depreciated | <u>22,621,555</u> | <u>119,678</u> | <u>(12,583,863)</u> | <u>10,157,370</u> |
| Capital assets being depreciated/amortized: | | | | |
| Land improvements | 2,753,000 | 61,025 | - | 2,814,025 |
| Buildings and improvements | 18,418,729 | 14,843,996 | - | 33,262,725 |
| Machinery, equipment and vehicles | 10,218,504 | 352,019 | (355,474) | 10,215,049 |
| Infrastructure | 22,919,704 | 1,712,593 | - | 24,632,297 |
| Total capital assets being depreciated/amortized | <u>54,309,937</u> | <u>16,969,633</u> | <u>(355,474)</u> | <u>70,924,096</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | (350,484) | (135,105) | - | (485,589) |
| Buildings and improvements | (9,664,003) | (930,785) | - | (10,594,788) |
| Machinery, equipment and vehicles | (7,002,538) | (701,819) | 355,474 | (7,348,883) |
| Infrastructure | (20,253,815) | (254,590) | - | (20,508,405) |
| Total accumulated depreciation | <u>(37,270,840)</u> | <u>(2,022,299)</u> | <u>355,474</u> | <u>(38,937,665)</u> |
| Total capital assets being depreciated, net | <u>17,039,097</u> | <u>14,947,334</u> | <u>-</u> | <u>31,986,431</u> |
| Governmental activities capital assets, net | <u>\$ 39,660,652</u> | <u>\$ 15,067,012</u> | <u>\$(12,583,863)</u> | <u>\$ 42,143,801</u> |

Depreciation expense was charged to functions/programs as follows:

| Governmental Activities | Amount |
|---------------------------|---------------------|
| General government | \$ 137,910 |
| Public safety | 547,546 |
| Education | 207,014 |
| Public works | 689,941 |
| Health and human services | 66,715 |
| Culture and recreation | 373,173 |
| Total | <u>\$ 2,022,299</u> |

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2023, are summarized as follows:

| Transfers Out | Transfers In | |
|-----------------------------|------------------|------------------|
| | General Fund | Total |
| Nonmajor Governmental Funds | 81,884 | 81,884 (1) |
| Total | <u>\$ 81,884</u> | <u>\$ 81,884</u> |

(1) Transfers to General Fund to supplement operating budgets and close out grants

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue (“RANS”) or tax anticipation notes (“TANS”).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or grant anticipation notes (“GANS”). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and generally carry maturity dates of less than one year and are interest bearing and will be paid through future issuance of general obligation bonds.

Temporary notes outstanding at June 30, 2023, are payable as follows:

| Type | Interest Rate | Maturity Date | Beginning Balance | Additions | Retirements | Ending Balance |
|--------------------------|---------------|---------------|---------------------|---------------------|-----------------------|---------------------|
| BAN | 1.00% | matured | \$ 1,611,735 | \$ - | \$ (1,611,735) | \$ - |
| BAN | 0.29% | matured | 3,324,906 | - | (3,324,906) | - |
| SAAN | 1.84% | matured | 363,360 | - | (363,360) | - |
| BAN | 2.94% | 08/24/23 | - | 109,719 | - | 109,719 |
| BAN | 3.75% | 08/24/23 | - | 2,898,000 | - | 2,898,000 |
| BAN | 4.34% | 12/05/23 | - | 240,000 | - | 240,000 |
| Total Governmental Notes | | | <u>5,300,001</u> | <u>3,247,719</u> | <u>(5,300,001)</u> | <u>3,247,719</u> |
| Total Notes Payable | | | <u>\$ 5,300,001</u> | <u>\$ 3,247,719</u> | <u>\$ (5,300,001)</u> | <u>\$ 3,247,719</u> |

Short-term BAN's were issued for library building construction project (\$1,900,000), roadway management (\$500,000), building improvements (\$240,000), various departmental equipment (\$109,719), stormwater management (\$200,000), window replacement (\$230,000), and municipal building flooring (\$68,000).

F. Long-Term Obligations

The following reflects the current year activity in the long-term liability accounts:

| | Beginning Balance | Additions | Deletions | Ending Balance | Due within one year |
|---|----------------------|----------------------|-----------------------|----------------------|---------------------|
| Bond and note indebtedness | \$ 7,690,000 | \$ 5,645,000 | \$ (1,330,000) | \$ 12,005,000 | \$ 1,285,000 |
| Unamortized bond premium | 420,267 | 630,529 | (87,435) | 963,361 | 116,445 |
| Compensated absences | 236,747 | 95,980 | (59,187) | 273,540 | 68,385 |
| Net pension liability | 8,564,819 | 4,582,092 | (1,353,882) | 11,793,029 | - |
| Net other postemployment benefits liability | 9,623,155 | 3,754,855 | (3,782,282) | 9,595,728 | - |
| Total Governmental Activities | <u>\$ 26,534,988</u> | <u>\$ 14,708,456</u> | <u>\$ (6,612,786)</u> | <u>\$ 34,630,658</u> | <u>\$ 1,469,830</u> |

The governmental activities liabilities will be liquidated by the General Fund.

Bond and Note Indebtedness - The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations related to personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of five percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

The following is a summary of the current year activity for outstanding long-term debt obligations:

| Description of Issue | Interest Rate | Beginning Balance | Additions | Maturities | Ending Balance |
|------------------------------------|---------------|---------------------|---------------------|-----------------------|----------------------|
| General Obligation Bonds | 1.00 - 5.00% | \$ 7,690,000 | \$ 5,645,000 | \$ (1,330,000) | \$ 12,005,000 |
| Total Governmental Activities | | 7,690,000 | 5,645,000 | (1,330,000) | 12,005,000 |
| Add: Unamortized bond premium | | 420,267 | 630,529 | (87,435) | 963,361 |
| Total Governmental Activities, net | | <u>\$ 8,110,267</u> | <u>\$ 6,275,529</u> | <u>\$ (1,417,435)</u> | <u>\$ 12,968,361</u> |

Payments on long-term debt due in future years consist of the following:

| Year Ending June 30, | General Obligation Bonds | |
|-------------------------|--------------------------|---------------------|
| | Principal | Interest |
| 2024 | \$ 1,285,000 | \$ 438,235 |
| 2025 | 1,210,000 | 382,486 |
| 2026 | 1,090,000 | 331,184 |
| 2027 | 890,000 | 291,834 |
| 2028 | 775,000 | 258,668 |
| 2029 - 2033 | 3,260,000 | 889,069 |
| 2034 - 2038 | 2,500,000 | 361,510 |
| 2039 - 2042 | 995,000 | 65,017 |
| Total | <u>\$ 12,005,000</u> | <u>\$ 3,018,003</u> |

The following table summarizes authorized but unissued debt at June 30, 2023:

| Project | Amount |
|-------------------------------|---------------------|
| Library Expansion | \$ 843,921 |
| Elder Housing | 25,000 |
| DPW Stormwater Management | 170,000 |
| Town Facilities | 175,000 |
| School Equipment | 552,600 |
| Roadway Management | 250,000 |
| Total Authorized and Unissued | <u>\$ 2,016,521</u> |

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Middlesex County Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Middlesex County Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2022, were issued and may be obtained by writing to the Middlesex County Retirement System, 25 Linnell Circle, Billerica, Massachusetts 01865.

Membership – Membership in the System as of December 31, 2022, was as follows:

| | |
|---|---------------|
| Active members | 9,432 |
| Inactive members entitled to a return of their employee contributions | 3,581 |
| Inactive members with a vested right to deferred or immediate benefit | 403 |
| Retirees and beneficiaries currently receiving benefits | 6,284 |
| Total | <u>19,700</u> |

Benefit Terms – The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the System do not participate in the Federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, and level of compensation and job classification.

Fiduciary Net Position – The elements of the System's basic financial statements (that is, all information about the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the System's full financial statements as of and for the year ended December 31, 2022, which can be obtained by contacting the Retirement Board.

The System's fiduciary net position was determined using the accrual basis of accounting. The System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC.

Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under the provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,112,907 to the System in fiscal year 2023, which was the actuarially determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 22.7% in fiscal year 2023.

Pension Expense – The Town recognized \$1,225,608 in pension expense in the statement of activities in fiscal year 2023.

Net Pension Liability – At June 30, 2023, the Town reported a liability of \$11,793,029 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. These figures were updated by the independent actuary as of December 31, 2022. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 0.695% at December 31, 2022.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023 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 |
|---|-----------------------------------|----------------------------------|
| Net differences between projected and actual earnings on pension plan investments | \$ 948,118 | \$ - |
| Differences between expected and actual experience | 86,654 | - |
| Changes of assumptions | 203,626 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 751,329 | 240,975 |
| Total | \$ 1,989,727 | \$ 240,975 |

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

| Year Ended | |
|--------------|---------------------|
| June 30, | Amount |
| 2024 | \$ 154,987 |
| 2025 | 389,386 |
| 2026 | 486,024 |
| 2027 | 718,355 |
| Total | \$ 1,748,752 |

Actuarial Valuation – The measurement of the System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2022. The significant actuarial assumptions used in the January 1, 2022, actuarial valuation included:

| | |
|---------------------------|---|
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Asset Valuation Method | The difference between the expected return and the actual investment return on a market value basis is recognized over a five year period. Asset value is adjusted as necessary to be within 20% of the market value. |
| Investment Rate of Return | Full prefunding: 7.15% per year, net of investment expenses |
| Discount Rate | 7.15% |
| Inflation | 3.25% |
| Salary Increases | Varies by length of service 4.00% group one, 4.25% group two, and 4.50% group four |
| Cost of Living Adjustment | 3% of first \$16,000 of retirement income |
| Pre-Retirement Mortality | RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2021 |
| Post-Retirement Mortality | RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2021 |
| Disabled Mortality | RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2021 |

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on those assumptions, the System’s fiduciary 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.

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 real rates of return (expected returns, net of pension plan 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.

The target allocations and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|-------------------|--|
| Domestic equity | 20.50% | 6.59% |
| International developed markets equity | 12.00% | 6.87% |
| International emerging markets equity | 4.50% | 8.30% |
| Core fixed income | 15.00% | 1.53% |
| High-yield fixed income | 8.00% | 3.54% |
| Real estate | 10.00% | 3.44% |
| Timber | 4.00% | 4.01% |
| Hedge funds, GTAA, risk parity | 10.00% | 3.06% |
| Private equity | 16.00% | 9.49% |
| Total | <u>100.00%</u> | |

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.15% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

| Town Proportionate Share of Net Pension Liability | | | |
|---|---------------|---------------|--------------|
| Current Rate | Decrease 1% | Current | Increase 1% |
| 7.15% | \$ 14,598,149 | \$ 11,793,029 | \$ 9,431,350 |

B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the Town’s school department participate in the Massachusetts Teachers’ Retirement System (“MTRS”), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth’s legislature has the authority to amend or modify the MTRS’s funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2023, (measured as of June 30, 2022) the Commonwealth contributed \$1,103,608 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.052438%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town's proportionate share of the following:

| | Paid (or assumed) | | |
|-----------------------|-------------------------|--------------------------|-----------------|
| | Commonwealth Portion | On-behalf of the Town | Town Portion |
| Net pension liability | \$ 13,575,168 | \$ (13,575,168) | \$ - |
| Pension expense | 1,116,690 | (1,116,690) | - |

The Town recognized \$1,116,690 in intergovernmental revenue and pension expenses relative to this arrangement.

C. Other Postemployment Benefits

The Town administers a single-employer defined benefit healthcare plan (the “OPEB Plan”) that provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Massachusetts General Law Chapter 32B.

An employee shall become eligible to retire under this plan upon the completion of 10 years of creditable service and the attainment of age 55 as an active member or with 20 years of service regardless of age.

Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. All benefits are provided through the Town's premium-based insurance programs, and these include comprehensive medical insurance. Pre-65 retirees are provided with HMO and PPO coverage options provided through Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Group, Tufts Health Plan, and Fallon Healthcare; Post 65 retirees have Medex. Life insurance coverage is provided through a group term life policy.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of the actuarial valuation date of July 1, 2021:

| | |
|--------------------|------------|
| Active employees | 116 |
| Inactive employees | 89 |
| Total | <u>205</u> |

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. For healthcare coverage, retirees contribute 21 – 50% of premiums for medical plans. For life insurance coverage, retirees contribute 50% of premiums for the group term life insurance plan. The remainder of the cost is funded by general revenues of the Town.

The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis and annually anticipates contributing additional funding above that amount into the OPEB Trust Fund. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2023, the Town's average contribution rate was approximately 6.47% of covered payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2023, using an actuarial valuation as of July 1, 2021. The components of the net OPEB liability of the Town at June 30, 2023, were as follows:

| | |
|---|----------------------------|
| Total OPEB Liability | \$ 12,199,330 |
| Plan fiduciary net position | <u>(2,603,602)</u> |
| Net OPEB liability | <u><u>\$ 9,595,728</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 21.3% |

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

| | |
|---------------------------------|--|
| Actuarial cost method | Individual entry age normal |
| Investment rate of return | 6.26%, net of OPEB plan investment expenses, including inflation. |
| Municipal bond rate | 4.13% as of June 30, 2023 |
| Single equivalent discount rate | 6.08%, net of OPEB plan investment expense, including inflation. |
| Inflation | 2.50% annually |
| Health care trend rate | 6.50% for year, reducing 1.5% annually through 2024 and reducing 0.04% annually through 2030 and holding there at 4.77% until 2037 and trending down to 3.63% by 2060 |
| Salary increases | 3.00% annually |
| Pre-Retirement Mortality | General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females |
| Post-Retirement Mortality | General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females |
| Disabled Mortality | General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females |

Key Change in Assumptions – Key assumption changes for fiscal year 2023 included:

Increase in the discount rate to 6.08% from 5.82%. This lowered the disclosed liability by approximately \$380 thousand.

Discount Rate – The discount rate used to measure the total OPEB liability was 6.08%. The rate is a blend of the expected long-term rate of return on investments and the 20-year municipal bond index, as the plan is being partially funded.

Long Term Expected Rate of Return – 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 OPEB Plan 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.

The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table:

| Asset Class | Target Allocation | Expected Investment Rate of Return |
|--|-------------------|------------------------------------|
| Domestic equity - large cap | 21.50% | 4.10% |
| Domestic equity - small/mid cap | 11.50% | 4.55% |
| International equity - developed markets | 14.25% | 4.64% |
| International equity - emerging markets | 7.50% | 5.45% |
| Domestic fixed income | 19.25% | 1.05% |
| International fixed income | 4.00% | 0.96% |
| Alternatives | 14.50% | 5.95% |
| Real estate | 7.00% | 6.25% |
| Cash | 0.50% | 0.00% |
| | <u>100.00%</u> | |
| Real rate of return | | 4.01% |
| Inflation assumption | | 2.50% |
| Total nominal rate of return | | 6.51% |
| Investment expense | | -0.25% |
| Net investment return | | <u>6.26%</u> |

Sensitivity Analyses – The following presents the Town’s net OPEB liability as well as what the Town’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

| Net OPEB Liability - Healthcare Trend Rate | | | |
|--|--------------|---------------|---------------|
| Current | 1% Decrease | Current Trend | 1% Increase |
| 6.50% | \$ 8,017,985 | \$ 9,595,728 | \$ 11,539,651 |

| Net OPEB Liability - Discount Rate | | | |
|------------------------------------|---------------|--------------|--------------|
| Current | 1% Decrease | Current Rate | 1% Increase |
| 6.08% | \$ 11,348,586 | \$ 9,595,728 | \$ 8,170,059 |

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2023:

| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
|---|-----------------------------|------------------------------------|---------------------------------|
| Balances at June 30, 2022 | \$ 11,963,721 | \$ 2,340,566 | \$ 9,623,155 |
| Changes for the year: | | | |
| Service cost | 371,236 | - | 371,236 |
| Interest | 704,759 | - | 704,759 |
| Change in assumptions | - | | - |
| Difference between expected and actual experience | (382,519) | - | (382,519) |
| Net investment income (loss) | - | 163,036 | (163,036) |
| Employer contributions | - | 557,867 | (557,867) |
| Benefit payments withdrawn from OPEB plan | - | (457,867) | 457,867 |
| Benefit payments | (457,867) | - | (457,867) |
| Net changes | 235,609 | 263,036 | (27,427) |
| Balances at June 30, 2023 | \$ 12,199,330 | \$ 2,603,602 | \$ 9,595,728 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2023, the Town recognized OPEB expense of \$1,325,722. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2023, were reported as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Differences between actual and expected experience | \$ - | \$ 652,386 |
| Change in assumptions | 2,291,482 | 318,553 |
| Net difference between projected and actual earnings on OPEB plan investments | 137,651 | - |
| Totals | \$ 2,429,133 | \$ 970,939 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (benefit) as follows:

| | June 30, | Amount |
|--|----------|-------------------------|
| | 2024 | \$ 390,070 |
| | 2025 | 380,712 |
| | 2026 | 439,610 |
| | 2027 | 310,491 |
| | 2028 | <u>(62,689)</u> |
| | Total | <u><u>1,458,194</u></u> |

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

Investment Policy – The OPEB Plan follows the same investment policies that apply to all other Town Trust funds. Notably, it can be invested in accordance with State Statutes that govern Trust investments including PRIM which has an external investment pool (PRIT) managed by the State in which the Town has deposited the full amount of its OPEB Plan investment assets.

Investment Rate of Return – For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 6.94%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

E. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2023, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2023.

Grant Compliance – Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitration laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

IV. Implementation of New GASB Pronouncements

Current Year Implementations –

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement was to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement became effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town’s financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement was to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town’s financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement was to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town’s financial statements.

Future Implementations –

In June 2022, the GASB issued GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for decision making or assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2023 (fiscal year 2024). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to update the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2023 (fiscal year 2025). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

* * * * *

TOWN OF SHERBORN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2023

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

| Year Ended December 31, | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Covered Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|----------------------------|---|--|--------------------|--|--|
| 2022 | 0.695% | \$ 11,793,029 | \$ 4,827,222 | 244.30% | 52.61% |
| 2021 | 0.639% | 8,564,819 | 4,623,108 | 185.26% | 61.14% |
| 2020 | 0.640% | 9,801,713 | 4,571,874 | 214.39% | 53.42% |
| 2019 | 0.653% | 10,450,215 | 4,382,686 | 238.44% | 49.50% |
| 2018 | 0.752% | 11,725,506 | 4,115,258 | 284.93% | 46.40% |
| 2017 | 0.740% | 10,500,304 | 3,961,023 | 265.09% | 49.30% |
| 2016 | 0.758% | 10,736,551 | 4,009,692 | 267.76% | 45.50% |
| 2015 | 0.796% | 10,262,053 | 3,936,908 | 260.66% | 46.10% |
| 2014 | 0.788% | 9,464,261 | 3,785,488 | 250.01% | 47.70% |

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN

| Year Ended June 30, | Contributions in Relation to the | | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|------------------------|---|---|--|--------------------|--|
| | Actuarially Determined Contribution | Actuarially Determined Contribution | | | |
| 2023 | \$ 1,112,907 | \$ 1,112,907 | \$ - | \$ 4,899,630 | 22.71% |
| 2022 | 1,047,555 | 1,047,555 | - | 4,692,455 | 22.32% |
| 2021 | 1,087,478 | 1,087,478 | - | 4,640,452 | 23.43% |
| 2020 | 1,018,037 | 1,018,037 | - | 4,448,426 | 22.89% |
| 2019 | 975,181 | 975,181 | - | 4,176,987 | 23.35% |
| 2018 | 916,985 | 916,985 | - | 4,020,438 | 22.81% |
| 2017 | 874,648 | 874,648 | - | 4,069,837 | 21.49% |
| 2016 | 821,360 | 821,360 | - | 3,995,962 | 20.55% |
| 2015 | 700,612 | 700,612 | - | 3,842,270 | 18.23% |

This schedule is presented to illustrate the requirement to show information for ten years.

However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

TOWN OF SHERBORN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2023

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM

| Year Ended June 30, * | Commonwealth's Proportionate Share of the Collective Net Pension Liability | Town's Share of the Collective Net Pension Liability | Proportion with the Town | Commonwealth's Proportionate Share of the Net Pension Liability Associated with the Town | Expense and Revenue Recognized for the Commonwealth's Support | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------------|---|--|-----------------------------|--|--|---|
| 2023 | 100.0% | 0.0% | \$ | 13,575,168 | \$ 1,116,690 | 57.75% |
| 2022 | 100.0% | 0.0% | | 11,581,257 | 929,348 | 62.03% |
| 2021 | 100.0% | 0.0% | | 16,004,937 | 1,976,839 | 50.67% |
| 2020 | 100.0% | 0.0% | | 14,210,542 | 1,723,275 | 53.95% |
| 2019 | 100.0% | 0.0% | | 12,824,461 | 1,299,573 | 54.84% |
| 2018 | 100.0% | 0.0% | | 12,467,172 | 1,301,235 | 54.25% |
| 2017 | 100.0% | 0.0% | | 11,924,906 | 1,216,419 | 52.73% |
| 2016 | 100.0% | 0.0% | | 10,513,487 | 852,737 | 55.38% |
| 2015 | 100.0% | 0.0% | | 9,100,762 | 632,274 | 61.64% |

* Amounts determined for the previous year ended June 30.

Contributions to the MTRS are the responsibility of the Commonwealth of Massachusetts. Accordingly, the Town has not recognized any portion of the net pension liability relative to Town employees covered under the MTRS pension plan.

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

TOWN OF SHERBORN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)
YEAR ENDED JUNE 30, 2023

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
 LAST 10 FISCAL YEARS**

| | June 30, | | | | | | |
|---|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total OPEB liability: | | | | | | | |
| Service cost | \$ 371,236 | \$ 264,007 | \$ 240,367 | \$ 227,644 | \$ 255,935 | \$ 234,938 | \$ 239,889 |
| Interest | 704,759 | 626,521 | 605,402 | 567,222 | 547,586 | 523,483 | 503,919 |
| Difference between expected and actual plan experience | - | (849,625) | - | (305,567) | - | 305,437 | (54,976) |
| Changes of assumptions | (382,519) | 3,157,368 | 255,614 | 251,911 | - | - | - |
| Benefit payments | (457,867) | (496,566) | (486,975) | (529,960) | (440,042) | (405,105) | (383,395) |
| Net change in total OPEB liability | 235,609 | 2,701,705 | 614,408 | 211,250 | 363,479 | 658,753 | 305,437 |
| Total OPEB liability - beginning of year | 11,963,721 | 9,262,016 | 8,647,608 | 8,436,358 | 8,072,879 | 7,414,126 | 7,108,689 |
| Total OPEB liability - end of year (a) | <u>\$ 12,199,330</u> | <u>\$ 11,963,721</u> | <u>\$ 9,262,016</u> | <u>\$ 8,647,608</u> | <u>\$ 8,436,358</u> | <u>\$ 8,072,879</u> | <u>\$ 7,414,126</u> |
| Plan fiduciary net position: | | | | | | | |
| Contributions - employer | \$ 557,867 | \$ 796,566 | \$ 686,975 | \$ 729,960 | \$ 640,042 | \$ 737,133 | \$ 583,395 |
| Net investment income | 163,036 | (306,395) | 477,308 | 38,781 | 67,693 | 57,907 | 57,897 |
| Benefit payments | (457,867) | (496,566) | (486,975) | (529,960) | (440,042) | (405,105) | (383,395) |
| Net change in Plan fiduciary net position | 263,036 | (6,395) | 677,308 | 238,781 | 267,693 | 389,935 | 257,897 |
| Plan fiduciary net position - beginning of year | 2,340,566 | 2,346,961 | 1,669,653 | 1,430,872 | 1,163,179 | 773,244 | 515,347 |
| Plan fiduciary net position - end of year (b) | <u>\$ 2,603,602</u> | <u>\$ 2,340,566</u> | <u>\$ 2,346,961</u> | <u>\$ 1,669,653</u> | <u>\$ 1,430,872</u> | <u>\$ 1,163,179</u> | <u>\$ 773,244</u> |
| Net OPEB liability - end of year (a) - (b) | <u>\$ 9,595,728</u> | <u>\$ 9,623,155</u> | <u>\$ 6,915,055</u> | <u>\$ 6,977,955</u> | <u>\$ 7,005,486</u> | <u>\$ 6,909,700</u> | <u>\$ 6,640,882</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 21.34% | 19.56% | 25.34% | 19.31% | 16.96% | 14.41% | 10.43% |
| Covered payroll | \$ 8,620,391 | \$ 8,369,312 | \$ 6,779,806 | \$ 6,582,336 | \$ 7,522,769 | \$ 7,303,659 | \$ 7,090,931 |
| Net OPEB liability as a percentage of covered payroll | 111.31% | 114.98% | 101.99% | 106.01% | 93.12% | 94.61% | 93.65% |

Note: This schedule is presented to illustrate the requirement to show information for 10 years.

However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

TOWN OF SHERBORN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)
YEAR ENDED JUNE 30, 2023

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS

| | June 30, | | | | | | |
|--|---|---------------------------|---------------------------|-------------------------|--------------------------|---------------------------|--------------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Actuarially-determined contribution | \$ 845,992 | \$ 725,840 | \$ 609,567 | \$ 753,125 | \$ 771,566 | \$ 723,733 | \$ 751,165 |
| Contributions in relation to the actuarially-determined contribution | <u>(557,867)</u> | <u>(796,566)</u> | <u>(686,975)</u> | <u>(729,960)</u> | <u>(640,042)</u> | <u>(737,133)</u> | <u>(583,395)</u> |
| Contribution deficiency (excess) | <u><u>\$ 288,125</u></u> | <u><u>\$ (70,726)</u></u> | <u><u>\$ (77,408)</u></u> | <u><u>\$ 23,165</u></u> | <u><u>\$ 131,524</u></u> | <u><u>\$ (13,400)</u></u> | <u><u>\$ 167,770</u></u> |
| Covered payroll | \$ 8,620,391 | \$ 8,369,312 | \$ 6,779,806 | \$ 6,582,336 | \$ 7,522,769 | \$ 7,303,659 | \$ 7,090,931 |
| Contribution as a percentage of covered payroll | 6.47% | 9.52% | 10.13% | 11.09% | 8.51% | 10.09% | 8.23% |
| Valuation Date | July 1, 2021 | | | | | | |
| Amortization Period | 30 years | | | | | | |
| Investment rate of return | 6.26% | | | | | | |
| Municipal Bond Rate | 4.13% | | | | | | |
| Single Equivalent Discount Rate | 6.08% | | | | | | |
| Inflation | 2.50% | | | | | | |
| Healthcare cost trend rates | 6.50% | | | | | | |
| Salary increases | 3.00% | | | | | | |
| Actuarial Cost Method | Individual Entry Age Normal (for all years presented) | | | | | | |
| Asset Valuation Method | Market Value of Assets as of Reporting Date (for all years presented) | | | | | | |

SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS

| | June 30, | | | | | | |
|---|----------|---------|--------|-------|-------|-------|-------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Annual money-weighted rate of return, net of investment expense | 6.94% | -12.55% | 27.30% | 2.71% | 5.74% | 6.02% | 9.44% |

Note: These schedules are presented to illustrate the requirement to show information for 10 years.

However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

TOWN OF SHERBORN, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2023**

| | Budgeted Amounts | | Actual Budgetary Amounts | Encumbrances | Actual Budgetary Adjusted | Variance Positive (Negative) |
|---|--------------------|-------------------|--------------------------------|----------------|---------------------------------|------------------------------------|
| | Original Budget | Final Budget | | | | |
| Real estate and personal property taxes, net | \$ 28,504,206 | \$ 28,504,206 | \$ 28,621,001 | | \$ 28,621,001 | \$ 116,795 |
| Intergovernmental | 1,053,211 | 1,053,211 | 1,051,074 | | 1,051,074 | (2,137) |
| Motor vehicle and other excises | 891,200 | 891,200 | 973,170 | | 973,170 | 81,970 |
| License and permits | 291,000 | 291,000 | 258,398 | | 258,398 | (32,602) |
| Departmental and other revenue | 262,700 | 262,700 | 282,291 | | 282,291 | 19,591 |
| Penalties and interest on taxes | 44,000 | 44,000 | 40,262 | | 40,262 | (3,738) |
| Fines and forfeitures | 1,600 | 1,600 | 42,105 | | 42,105 | 40,505 |
| Investment income | 86,000 | 86,000 | 511,488 | | 511,488 | 425,488 |
| Total Revenues | 31,133,917 | 31,133,917 | 31,779,789 | \$ - | 31,779,789 | 645,872 |
| EXPENDITURES | | | | | | |
| General government | 2,634,900 | 2,564,043 | 2,394,798 | 28,358 | 2,423,156 | 140,887 |
| Public safety | 3,191,790 | 3,251,790 | 3,216,962 | 1,419 | 3,218,381 | 33,409 |
| Education | 17,856,789 | 18,156,789 | 18,125,930 | 17,700 | 18,143,630 | 13,159 |
| Public works | 1,826,859 | 1,895,716 | 1,713,673 | 102,228 | 1,815,901 | 79,815 |
| Health and human services | 326,962 | 344,962 | 337,750 | - | 337,750 | 7,212 |
| Culture and recreation | 767,402 | 767,402 | 727,153 | 779 | 727,932 | 39,470 |
| Pension and employee benefits | 3,052,518 | 3,052,518 | 3,023,737 | - | 3,023,737 | 28,781 |
| State and county tax assessments | 92,122 | 92,122 | 101,302 | - | 101,302 | (9,180) |
| Debt service | 1,794,672 | 1,794,672 | 1,725,691 | - | 1,725,691 | 68,981 |
| Total Expenditures | 31,544,014 | 31,920,014 | 31,366,996 | 150,484 | 31,517,480 | 402,534 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | 103,505 | 153,505 | 131,884 | | 131,884 | (21,621) |
| Transfers out | (180,000) | (180,000) | (180,000) | | (180,000) | - |
| Total Other Financing Sources (Uses) | (76,495) | (26,495) | (48,116) | \$ - | \$ (48,116) | (21,621) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE | (486,592) | (812,592) | \$ 364,677 | | | \$ 1,026,785 |
| Other Budgetary Items: | | | | | | |
| Undesignated surplus (free cash) | 412,907 | 738,907 | | | | |
| Prior year encumbrance and article carryovers | 73,685 | 73,685 | | | | |
| Net Budget | \$ - | \$ - | | | | |

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

TOWN OF SHERBORN, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund. Financial orders are initiated by department heads, recommended by the Select Board and approved by the Town Meeting at the Town's annual meeting. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within each department. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During the fiscal year, Town Meeting adjustments to the original budget were not significant. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town's accounting system.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2023, is as follows:

| | Basis of Accounting Differences | Fund Perspective Differences | Total |
|---|---------------------------------------|---------------------------------|---------------|
| Revenues on a budgetary basis | | | \$ 31,779,789 |
| Stabilization revenue | \$ - | \$ 24,811 | 24,811 |
| Revenue recognition | 621 | - | 621 |
| MTRS pension on-behalf payments | 1,116,690 | - | 1,116,690 |
| Revenues on a GAAP basis | \$ 1,117,311 | \$ 24,811 | \$ 32,921,911 |
| Expenditures on a budgetary basis | | | \$ 31,366,996 |
| Other postemployment benefits trust contribution | \$ - | \$ 100,000 | 100,000 |
| MTRS pension on-behalf payments | 1,116,690 | - | 1,116,690 |
| Expenditures on a GAAP basis | \$ 1,116,690 | \$ 100,000 | \$ 32,583,686 |
| Other financing sources (uses) on a budgetary basis | | | \$ (48,116) |
| Stabilization transfers, net | \$ - | \$ 30,000 | 30,000 |
| Other postemployment benefits trust contribution | - | 100,000 | 100,000 |
| Other financing sources (uses) on a GAAP basis | \$ - | \$ 130,000 | \$ 81,884 |