



**TOWN OF
DOUGLAS, MASSACHUSETTS**

Annual Financial Statements
For the Year Ended June 30, 2019

(With Independent Auditors' Report Thereon)

Town of Douglas, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Douglas, Massachusetts

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Melanson Heath

December 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Douglas, Massachusetts (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water/sewer, and transfer station 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term outflows and inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water/sewer and transfer station operations, which are considered to be major funds.

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$44,387,424 (i.e., net position), a change of \$(1,631,643) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$9,096,581, a change of \$631,323 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,528,761, a change of \$646,579 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

<u>NET POSITION</u>						
	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 11,420	\$ 10,902	\$ 2,337	\$ 2,214	\$ 13,757	\$ 13,116
Capital assets	<u>82,353</u>	<u>83,758</u>	<u>8,757</u>	<u>9,054</u>	<u>91,110</u>	<u>92,812</u>
Total assets	93,773	94,660	11,094	11,268	104,867	105,928
Deferred outflows of resources	4,855	2,405	86	50	4,941	2,455
Long-term liabilities outstanding	57,492	54,815	2,884	3,178	60,376	57,993
Other liabilities	<u>3,054</u>	<u>3,293</u>	<u>486</u>	<u>455</u>	<u>3,540</u>	<u>3,748</u>
Total liabilities	60,546	58,108	3,370	3,633	63,916	61,741
Deferred inflows of resources	1,498	611	7	12	1,505	623
Net investment in capital assets	64,970	63,704	6,326	6,109	71,296	69,813
Restricted	3,893	3,388	-	-	3,893	3,388
Unrestricted	<u>(32,279)</u>	<u>(28,746)</u>	<u>1,477</u>	<u>1,564</u>	<u>(30,802)</u>	<u>(27,182)</u>
Total net position	<u>\$ 36,584</u>	<u>\$ 38,346</u>	<u>\$ 7,803</u>	<u>\$ 7,673</u>	<u>\$ 44,387</u>	<u>\$ 46,019</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$44,387,424, a change of \$(1,631,643) in comparison to the prior year.

The largest portion of net position \$71,295,378 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$3,893,301 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(30,801,255) primarily resulting from unfunded pension and OPEB liabilities (see Notes 16 and 18).

	<u>CHANGES IN NET POSITION</u>						<u>Total</u>	
	<u>Governmental</u>		<u>Business-Type</u>					
	<u>Activities</u>	<u>Activities</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>		
Revenues:								
Program revenues:								
Charges for services	\$ 1,214	\$ 1,365	\$ 1,412	\$ 1,817	\$ 2,626	\$ 3,182		
Operating grants and contributions	15,097	14,528	-	-	15,097	14,528		
Capital grants and contributions	479	365	-	-	479	365		
General revenues:								
Property taxes	17,793	15,730	-	-	17,793	15,730		
Excises	1,359	1,350	-	-	1,359	1,350		
Penalties and interest on taxes	132	153	-	-	132	153		
Grants and contributions not restricted to specific programs	1,109	1,039	-	-	1,109	1,039		
Investment income	170	35	1	1	171	36		
Other	513	347	65	71	578	418		
Total revenues	37,866	34,912	1,478	1,889	39,344	36,801		

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Expenses:						
General government	4,545	2,795	-	-	4,545	2,795
Public safety	4,466	5,415	-	-	4,466	5,415
Education	26,329	24,049	-	-	26,329	24,049
Public works	1,834	2,147	-	-	1,834	2,147
Human services	511	468	-	-	511	468
Culture and recreation	641	553	-	-	641	553
Interest on long-term debt	616	756	-	-	616	756
Intergovernmental	374	455	-	-	374	455
Water/sewer operations	-	-	1,405	1,390	1,405	1,390
Transfer station	-	-	255	239	255	239
Total expenses	<u>39,316</u>	<u>36,638</u>	<u>1,660</u>	<u>1,629</u>	<u>40,976</u>	<u>38,267</u>
Change in net position before transfers	(1,450)	(1,726)	(182)	260	(1,632)	(1,466)
Transfers in (out)	<u>(312)</u>	<u>(218)</u>	<u>312</u>	<u>218</u>	<u>-</u>	<u>-</u>
Change in net position	(1,762)	(1,944)	130	478	(1,632)	(1,466)
Net position - beginning of year, as restated	<u>38,346</u>	<u>40,290</u>	<u>7,673</u>	<u>7,195</u>	<u>46,019</u>	<u>47,485</u>
Net position - end of year	<u>\$ 36,584</u>	<u>\$ 38,346</u>	<u>\$ 7,803</u>	<u>\$ 7,673</u>	<u>\$ 44,387</u>	<u>\$ 46,019</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,761,750). Key elements of this change are as follows:

General fund operating results	\$ 133,132
Receipts reserved major fund operating results	88,527
School choice major fund operating results	629,599
Nonmajor funds accrual basis	542,138
Excess of depreciation (a non-budgeted expense) over principal maturities and gain on debt refunding	(1,157,081)
Change in other post employment benefits liability	(4,245,418)
Change in deferred outflows/inflows related to OPEB	2,411,203
Change in net pension liability	(1,488,412)
Change in deferred outflows/inflows related to pensions	315,390
Other GAAP accruals	<u>1,009,172</u>
Total	<u>\$ (1,761,750)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$130,107. Key elements of this change are as follows:

Water/sewer operations	\$ 159,264
Transfer station operations	(29,157)
Total	\$ <u>130,107</u>

D. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term outflows, inflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,096,581, a change of \$631,323 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 133,132
Receipts reserved major fund operating results	88,527
School choice major fund operating results	629,599
Nonmajor funds operating results	(219,935)
Total	\$ <u>631,323</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,528,761, while total fund balance was \$5,101,541. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

General Fund	6/30/19	6/30/18	Change	% of Total General Fund Expenditures
Unassigned fund balance	\$ 3,528,761	\$ 2,882,182	\$ 646,579	11.2%
Total fund balance	\$ 5,101,541	\$ 4,968,409	\$ 133,132	16.2%

The total fund balance of the general fund changed by \$133,132 during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 933,589
Budgetary appropriation surplus	575,466
Deficiency of other financing sources/uses	(24,019)
Shortfall of tax collections over budget	(24,534)
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	430,934
Use of free cash	(1,782,785)
Reserve for reduction of excluded debt	-
Other sources	(348,612)
Change in stabilization balance	<u>373,093</u>
Total	\$ <u>133,132</u>

Included in the total general fund balance is the Town's stabilization account with the following balances:

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
General stabilization	\$ 1,478,678	\$ 1,105,585	\$ 373,093

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,477,688, a change of \$(86,554) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriation and reclassifications of \$1,130,387. Major reasons for these amendments include:

- \$104,749 – Various general government lines
- \$85,523 – Public safety police/fire
- \$145,000 - Ambulance purchase (to be combined with earmark grant from state)
- \$137,043 – Public works

- \$(4,400) – Health and human services
- \$42,099 – Culture and recreation
- \$24,850 – School
- \$221,770 – Insurance/employee benefits
- \$49,890 – Transfers
- \$316,271 – Debt and interest
- \$7,592 – Municipal building expenses

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$91,109,970 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery and equipment.

Major capital asset events during the current fiscal year reported as follows:

- \$405,377 road improvements
- \$158,152 LED streetlights

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$20,232,083, all of which was backed by the full faith and credit of the Town.

In fiscal year 2019, the Town refunded debt which resulted in a savings (see Note 13E).

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Douglas' finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Finance Director
 Town of Douglas
 29 Depot Street
 Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 8,364,304	\$ 1,845,929	\$ 10,210,233
Investments	1,563,618	-	1,563,618
Receivables, net of allowance for uncollectibles:			
Property taxes	274,539	-	274,539
Excises	84,047	-	84,047
User fees	-	491,885	491,885
Departmental and other	105,276	-	105,276
Intergovernmental	552,228	-	552,228
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	475,217	-	475,217
Capital assets:			
Land and construction in progress	6,914,479	801,122	7,715,601
Other capital assets, net of accumulated depreciation	75,438,598	7,955,771	83,394,369
Deferred Outflows of Resources			
Related to pensions	2,302,282	46,985	2,349,267
Related to OPEB	<u>2,553,050</u>	<u>38,616</u>	<u>2,591,666</u>
Total Assets and Deferred Outflows of Resources	98,627,638	11,180,308	109,807,946
Liabilities			
Current:			
Warrants payable	318,344	76,338	394,682
Accrued liabilities	1,144,813	20,678	1,165,491
Other current liabilities	118,824	-	118,824
Current portion of long-term liabilities:			
Bonds payable	1,455,629	389,016	1,844,645
Other	16,431	336	16,767
Noncurrent:			
Bonds payable, net of current portion	16,216,918	2,170,520	18,387,438
Net pension liability	15,931,328	325,129	16,256,457
Net OPEB liability	25,250,658	381,925	25,632,583
Other, net of current portion	92,595	6,387	98,982
Deferred Inflows of Resources			
Related to pensions	316,332	6,456	322,788
Related to OPEB	18,026	273	18,299
Other	<u>1,163,566</u>	<u>-</u>	<u>1,163,566</u>
Total Liabilities and Deferred Inflows of Resources	62,043,464	3,377,058	65,420,522
Net Position			
Net investment in capital assets	64,969,816	6,325,562	71,295,378
Restricted for:			
Grants and other statutory restrictions	3,799,358	-	3,799,358
Permanent funds:			
Nonexpendable	37,502	-	37,502
Expendable	56,441	-	56,441
Unrestricted	<u>(32,278,943)</u>	<u>1,477,688</u>	<u>(30,801,255)</u>
Total Net Position	<u>\$ 36,584,174</u>	<u>\$ 7,803,250</u>	<u>\$ 44,387,424</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General government	\$ 4,544,649	\$ 210,598	\$ 1,734,463	\$ -	\$ (2,599,588)	\$ -	\$ (2,599,588)
Public safety	4,465,855	524,268	305,252	-	(3,636,335)	-	(3,636,335)
Education	26,329,462	430,068	13,021,290	-	(12,878,104)	-	(12,878,104)
Public works	1,833,636	33,725	-	478,612	(1,321,299)	-	(1,321,299)
Health and human services	511,273	13,966	14,872	-	(482,435)	-	(482,435)
Culture and recreation	640,663	965	21,138	-	(618,560)	-	(618,560)
Interest	615,579	-	-	-	(615,579)	-	(615,579)
Intergovernmental	<u>373,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(373,557)</u>	<u>-</u>	<u>(373,557)</u>
Total Governmental Activities	39,314,674	1,213,590	15,097,015	478,612	(22,525,457)	-	(22,525,457)
Business-Type Activities							
Water/sewer services	1,405,181	1,186,485	-	-	-	(218,696)	(218,696)
Transfer station services	<u>256,152</u>	<u>225,858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,294)</u>	<u>(30,294)</u>
Total Business-Type Activities	<u>1,661,333</u>	<u>1,412,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(248,990)</u>	<u>(248,990)</u>
Total	\$ <u>40,976,007</u>	\$ <u>2,625,933</u>	\$ <u>15,097,015</u>	\$ <u>478,612</u>	(22,525,457)	(248,990)	(22,774,447)
General Revenues and Transfers							
Property taxes					17,793,315	-	17,793,315
Excises					1,358,632	-	1,358,632
Penalties, interest and other taxes					132,402	-	132,402
Grants and contributions not restricted to specific programs					1,108,513	-	1,108,513
Investment income					169,902	1,372	171,274
Miscellaneous					513,378	65,290	578,668
Transfers, net					(312,435)	312,435	-
Total general revenues and transfers					<u>20,763,707</u>	<u>379,097</u>	<u>21,142,804</u>
Change in Net Position					(1,761,750)	130,107	(1,631,643)
Net Position							
Beginning of year, as restated					38,345,924	7,673,143	46,019,067
End of year					\$ <u>36,584,174</u>	\$ <u>7,803,250</u>	\$ <u>44,387,424</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	<u>Receipts Reserved</u>	<u>School Choice</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and short-term investments	\$ 4,699,015	\$ 732,623	\$ 1,736,675	\$ 1,195,991	\$ 8,364,304
Investments	1,478,678	-	-	84,940	1,563,618
Receivables:					
Property taxes	862,542	-	-	-	862,542
Excises	135,183	-	-	-	135,183
Departmental and other	-	575,326	-	-	575,326
Intergovernmental	56,033	-	-	496,195	552,228
Total Assets	<u>\$ 7,231,451</u>	<u>\$ 1,307,949</u>	<u>\$ 1,736,675</u>	<u>\$ 1,777,126</u>	<u>\$ 12,053,201</u>
Liabilities					
Warrants payable	\$ 173,693	\$ -	\$ 5,004	\$ 139,647	\$ 318,344
Accrued liabilities	897,209	-	-	-	897,209
Other liabilities	118,824	-	-	-	118,824
Total Liabilities	1,189,726	-	5,004	139,647	1,334,377
Deferred Inflows of Resources					
Unavailable revenues	940,184	575,326	-	106,733	1,622,243
Fund Balances					
Nonspendable	-	-	-	37,502	37,502
Restricted	-	732,623	1,731,671	1,498,239	3,962,533
Committed	767,541	-	-	101,739	869,280
Assigned	805,239	-	-	-	805,239
Unassigned	3,528,761	-	-	(106,734)	3,422,027
Total Fund Balances	<u>5,101,541</u>	<u>732,623</u>	<u>1,731,671</u>	<u>1,530,746</u>	<u>9,096,581</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,231,451</u>	<u>\$ 1,307,949</u>	<u>\$ 1,736,675</u>	<u>\$ 1,777,126</u>	<u>\$ 12,053,201</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION**

JUNE 30, 2019

Total governmental fund balances	\$ 9,096,581
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	82,353,077
Revenues are reported on the accrual basis of accounting and are not deferred until collection.	988,271
Long-term liabilities, including bonds payable, net pension liability, net OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(55,606,151)
Other	<u>(247,604)</u>
Net position of governmental activities	<u>\$ 36,584,174</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Receipts Reserved</u>	<u>School Choice</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 17,743,203	\$ -	\$ -	\$ -	\$ 17,743,203
Excises	1,377,847	3,284	-	-	1,381,131
Penalties, interest and other taxes	132,402	-	-	-	132,402
Charges for services	156,174	295,314	-	557,526	1,009,014
Intergovernmental	11,409,544	87,024	915,675	2,810,572	15,222,815
Licenses and permits	275,880	-	-	-	275,880
Fines and forfeitures	45,935	-	-	1,475	47,410
Investment income	164,700	-	-	5,202	169,902
Miscellaneous	248,835	93,976	-	174,071	516,882
Total Revenues	31,554,520	479,598	915,675	3,548,846	36,498,639
Expenditures					
General government	1,918,832	-	-	-	1,918,832
Public safety	2,991,337	-	-	219,470	3,210,807
Education	17,761,069	-	286,076	139,082	18,186,227
Public works	1,106,519	-	-	2,884,380	3,990,899
Health and human services	205,607	-	-	427,164	632,771
Culture and recreation	337,667	-	-	13,053	350,720
Employee benefits	4,167,185	-	-	25,255	4,192,440
Miscellaneous	-	-	-	43,305	43,305
Debt service	2,655,323	-	-	-	2,655,323
Intergovernmental	373,557	-	-	-	373,557
Total Expenditures	31,517,096	-	286,076	3,751,709	35,554,881
Excess (deficiency) of revenues over expenditures	37,424	479,598	629,599	(202,863)	943,758
Other Financing Sources (Uses)					
Issuance of refunding bonds	-	-	-	(14,429,838)	(14,429,838)
Payments to refunded escrow agent	-	-	-	14,429,838	14,429,838
Transfers in	432,162	24,019	-	-	456,181
Transfers out	(336,454)	(415,090)	-	(17,072)	(768,616)
Total Other Financing Sources (Uses)	95,708	(391,071)	-	(17,072)	(312,435)
Change in fund balance	133,132	88,527	629,599	(219,935)	631,323
Fund Balance, at Beginning of Year, as restated	4,968,409	644,096	1,102,072	1,750,681	8,465,258
Fund Balance, at End of Year	\$ 5,101,541	\$ 732,623	\$ 1,731,671	\$ 1,530,746	\$ 9,096,581

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

TOWN OF DOUGLAS, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2019

Net changes in fund balances - total governmental funds	\$ 631,323
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	1,437,955
Depreciation	(2,843,515)

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

Repayments of debt	2,850,000
Gain on refunding	(1,163,566)

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

(26,219)

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.

Net pension liability and related deferred outflows and inflows of resources	(1,173,022)
Net OPEB liability and related deferred outflows and inflows of resources	(1,834,215)
Other	<u>359,509</u>

Change in net position of governmental activities	\$ <u>(1,761,750)</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues				
Property taxes	\$ 17,767,737	\$ 17,767,737	\$ 17,767,737	\$ -
Excise	1,043,327	1,043,327	1,377,847	334,520
Penalties, interest and other taxes	137,000	137,000	132,402	(4,598)
Charges for services	125,778	125,778	156,174	30,396
Intergovernmental	9,771,218	9,771,218	9,841,842	70,624
Licenses and permits	105,000	105,000	275,880	170,880
Fines and forfeitures	20,000	20,000	45,935	25,935
Investment income	19,000	19,000	105,997	86,997
Miscellaneous	30,000	30,000	248,835	218,835
Total Revenues	29,019,060	29,019,060	29,952,649	933,589
Expenditures				
General government	2,174,354	2,286,695	2,168,351	118,344
Public safety	2,980,480	3,211,003	3,114,746	96,257
Education	16,224,044	16,248,894	16,230,365	18,529
Public works	1,054,201	1,191,244	1,127,672	63,572
Health and human services	251,160	246,760	207,832	38,928
Culture and recreation	321,263	363,362	337,667	25,695
Employee benefits	4,054,222	4,275,992	4,164,815	111,177
Debt service	2,655,141	2,971,412	2,967,758	3,654
Intergovernmental	472,867	472,867	373,557	99,310
Total Expenditures and Transfers Out	30,187,732	31,268,229	30,692,763	575,466
Excess (deficiency) of revenues over expenditures	(1,168,672)	(2,249,169)	(740,114)	1,509,055
Other Financing Sources/Uses				
Transfers in	432,162	432,162	432,162	-
Transfers out	(264,500)	(314,390)	(338,409)	(24,019)
Use of free cash:				
Operating budget	133,873	1,186,760	1,186,760	-
Capital budget	518,525	578,525	578,525	-
OPEB trust fund contribution	-	17,500	17,500	-
Other source(s)	348,612	348,612	348,612	-
Total Other Financing Sources/Uses	1,168,672	2,249,169	2,225,150	(24,019)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,485,036	\$ 1,485,036

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities		
	Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Assets			
Current:			
Cash and short-term investments	\$ 1,522,025	\$ 323,904	\$ 1,845,929
User fees, net of allowance for uncollectibles	<u>491,885</u>	-	<u>491,885</u>
Total current assets	2,013,910	323,904	2,337,814
Noncurrent:			
Capital assets:			
Land and construction in progress	789,384	11,738	801,122
Other capital assets, net of accumulated depreciation	<u>7,939,802</u>	<u>15,969</u>	<u>7,955,771</u>
Total noncurrent assets	8,729,186	27,707	8,756,893
Deferred Outflows of Resources			
Related to pensions	46,985	-	46,985
Related to OPEB	<u>38,616</u>	-	<u>38,616</u>
Total Assets and Deferred Outflows of Resources	10,828,697	351,611	11,180,308
Liabilities			
Current:			
Warrants payable	55,858	20,480	76,338
Accrued liabilities	20,678	-	20,678
Current portion of long-term liabilities:			
Bonds payable	389,016	-	389,016
Other	<u>336</u>	-	<u>336</u>
Total current liabilities	465,888	20,480	486,368
Noncurrent:			
Bonds payable, net of current portion	2,170,520	-	2,170,520
Net pension liability	325,129	-	325,129
Net OPEB liability	381,925	-	381,925
Other, net of current portion	<u>6,387</u>	-	<u>6,387</u>
Total noncurrent liabilities	2,883,961	-	2,883,961
Deferred Inflows of Resources			
Related to pensions	6,456	-	6,456
Related to OPEB	<u>273</u>	-	<u>273</u>
Total Liabilities and Deferred Inflows of Resources	3,356,578	20,480	3,377,058
Net Position			
Net investment in capital assets	6,297,856	27,706	6,325,562
Unrestricted	<u>1,174,263</u>	<u>303,425</u>	<u>1,477,688</u>
Total Net Position	<u>\$ 7,472,119</u>	<u>\$ 331,131</u>	<u>\$ 7,803,250</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities		
	Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Operating Revenues			
Charges for services	\$ 1,186,485	\$ 225,858	\$ 1,412,343
Other	<u>64,450</u>	<u>840</u>	<u>65,290</u>
Total Operating Revenues	1,250,935	226,698	1,477,633
Operating Expenses			
Salaries and benefits	384,806	57,666	442,472
Other operating expenses	532,530	197,159	729,689
Depreciation	<u>371,938</u>	<u>1,327</u>	<u>373,265</u>
Total Operating Expenses	<u>1,289,274</u>	<u>256,152</u>	<u>1,545,426</u>
Operating Income (Loss)	(38,339)	(29,454)	(67,793)
Nonoperating Revenues (Expenses)			
Investment income	1,075	297	1,372
Interest expense	<u>(115,907)</u>	<u>-</u>	<u>(115,907)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(114,832)</u>	<u>297</u>	<u>(114,535)</u>
Income (Loss) Before Transfers	(153,171)	(29,157)	(182,328)
Transfers			
Transfers in	<u>312,435</u>	<u>-</u>	<u>312,435</u>
Change in Net Position	159,264	(29,157)	130,107
Net Position at Beginning of Year, as restated	<u>7,312,855</u>	<u>360,288</u>	<u>7,673,143</u>
Net Position at End of Year	<u>\$ 7,472,119</u>	<u>\$ 331,131</u>	<u>\$ 7,803,250</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities		
	Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 1,241,422	\$ 226,698	\$ 1,468,120
Payments to vendors and employees	<u>(836,955)</u>	<u>(251,871)</u>	<u>(1,088,826)</u>
Net Cash Provided By (Used For) Operating Activities	404,467	(25,173)	379,294
Cash Flows From Noncapital Financing Activities			
Transfers in	<u>312,435</u>	-	<u>312,435</u>
Net Cash Provided By Noncapital Financing Activities	312,435	-	312,435
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(75,907)	-	(75,907)
Principal payments on bonds	(385,813)	-	(385,813)
Interest expense	<u>(115,907)</u>	-	<u>(115,907)</u>
Net Cash (Used For) Capital and Related Financing Activities	(577,627)	-	(577,627)
Cash Flows From Investing Activities			
Investment income	<u>1,075</u>	<u>297</u>	<u>1,372</u>
Net Cash Provided By Investing Activities	<u>1,075</u>	<u>297</u>	<u>1,372</u>
Net Change in Cash and Short-Term Investments	140,350	(24,876)	115,474
Cash and Short-Term Investments, Beginning of Year	<u>1,381,675</u>	<u>348,780</u>	<u>1,730,455</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,522,025</u>	<u>\$ 323,904</u>	<u>\$ 1,845,929</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities			
Operating (loss)	\$ (38,339)	\$ (29,454)	\$ (67,793)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	371,938	1,327	373,265
Changes in assets, liabilities, and deferred outflows/inflows:			
User fees	(9,513)	-	(9,513)
Other assets	793	-	793
Deferred outflows - related to pensions	(429)	-	(429)
Deferred outflows - related to OPEB	(35,595)	-	(35,595)
Warrants and accounts payable	28,106	2,954	31,060
Accrued liabilities	(327)	-	(327)
Net pension liability	30,375	-	30,375
Net OPEB liability	63,191	-	63,191
Deferred inflows - related to pensions	(6,006)	-	(6,006)
Deferred inflows - related to OPEB	<u>273</u>	-	<u>273</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 404,467</u>	<u>\$ (25,173)</u>	<u>\$ 379,294</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	Other Post-Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
Assets			
Cash and short-term investments	\$ -	\$ -	\$ 187,939
Investments:			
Certificates of deposit	-	16,606	-
Federal agency securities	-	39,560	-
Corporate bonds	-	19,937	-
Corporate equities	-	15,426	-
Mutual funds	<u>723,182</u>	<u>9,032</u>	<u>-</u>
Total Investments	<u>723,182</u>	<u>100,561</u>	<u>-</u>
Accounts receivable	<u>-</u>	<u>-</u>	<u>9,071</u>
Total Assets	<u>723,182</u>	<u>100,561</u>	<u>197,010</u>
Liabilities			
Accounts payable	-	-	3,964
Other liabilities	<u>-</u>	<u>-</u>	<u>193,046</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 197,010</u>
Net Position			
Restricted for OPEB purposes	723,182	-	-
Restricted for other purposes	<u>-</u>	<u>100,561</u>	<u>-</u>
Total Net Position	<u>\$ 723,182</u>	<u>\$ 100,561</u>	<u>-</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

	Other Post-Employment Benefits Trust <u>Fund</u>	Private Purpose <u>Trust Funds</u>
Additions		
Employer contributions	\$ 459,700	\$ -
Interest income	<u>38,726</u>	<u>4,451</u>
Total additions	498,426	4,451
Deductions		
Benefit payments to plan members, beneficiaries and other systems	307,200	-
Education	<u>-</u>	<u>1,400</u>
Total deductions	<u>307,200</u>	<u>1,400</u>
Net increase	191,226	3,051
Net position restricted for pensions and other purposes		
Beginning of year	<u>531,956</u>	<u>97,510</u>
End of year	<u>\$ 723,182</u>	<u>\$ 100,561</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Douglas, Massachusetts (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2019, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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 Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *receipts reserved fund* accounts primarily for the operations pertaining to ambulance and cable services.
- The *school choice fund* accounts for state revenues received for students coming into the District from other towns.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- Water/sewer operations
- Transfer station operations

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The other post-employment benefit trust fund is used to accumulate resources for health and life insurance benefits for retired employees.
- The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The agency funds account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on

the combined financial statements under the caption “cash and short-term investments”. The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the trust funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at fair value.

F. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5% (excluding new growth), unless an override is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$9,727.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

Per individual contractual agreement, the Town permits employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those

assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the reserve fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
GAAP basis	\$ 31,554,520	\$ 31,517,096	\$ 95,708
Adjust tax revenue to accrual basis	24,534	-	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(369,960)	-
To book current year appropriation carryforwards	-	800,894	-
To record use of free cash	-	-	1,782,785
Other sources	-	-	348,612
To remove unbudgeted stabilization fund	(58,703)	-	(314,390)
To reverse the effect of non-budgeted State contributions for teachers retirement	(1,567,702)	(1,567,702)	-
To reclassify debt service expenditures	-	312,435	312,435
Budgetary basis	\$ <u>29,952,649</u>	\$ <u>30,692,763</u>	\$ <u>2,225,150</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2019.

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

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding 60% of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such

bank or trust company or banking company for such excess.” The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2019, \$1,618 of the Town’s bank balances of \$10,520,517 was exposed to custodial credit risk as uninsured and/or uncollateralized. \$1,618 of the Town’s uninsured and uncollateralized amount is on deposit with the Massachusetts Municipal Depository Trust, which is the state investment pool as authorized by Massachusetts General Law, Chapter 29, Section 38A.

4. Investments

Town (Excluding the OPEB Trust Fund)

The following is a summary of the Town’s investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposits	\$ 274,804
Corporate bonds	329,943
Corporate equities	255,280
Equity mutual funds	149,472
Federal agency securities	<u>654,680</u>
 Total investments	<u>\$ 1,664,179</u>

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town does not have formal investment policies related to credit risk.

Presented below is the actual rating as of year-end for each investment type of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Rating as of Year End</u>								
	<u>Amount</u>	<u>AAA</u>	<u>AA+</u>	<u>AA-</u>	<u>A+</u>	<u>A-</u>	<u>BBB</u>	<u>N/A</u>	
Certificates of deposit	\$ 274,804	\$ 274,804	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	329,943	-	-	64,786	59,849	145,334	59,974	-	-
Corporate equities	255,280	-	-	-	-	-	-	-	255,280
Equity mutual funds	149,472	-	-	-	-	-	-	-	149,472
Federal agency securities	<u>654,680</u>	<u>300,081</u>	<u>354,599</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,664,179</u>	<u>\$ 574,885</u>	<u>\$ 354,599</u>	<u>\$ 64,786</u>	<u>\$ 59,849</u>	<u>\$ 145,334</u>	<u>\$ 59,974</u>	<u>\$ 404,752</u>	

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have formal investment policies related to custodial credit risk.

As of June 30, 2019, \$1,664,179 of the Town's total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>
Certificates of deposits	\$ 274,804	\$ 274,804
Corporate bonds	329,943	329,943
Corporate equities	255,280	255,280
Equity mutual funds	149,472	149,472
Federal agency securities	<u>654,680</u>	<u>654,680</u>
Total	<u>\$ 1,664,179</u>	<u>\$ 1,664,179</u>

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of June 30, 2019, the Town does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	Investment Maturities (in Years)	
		<u>Less</u> <u>Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 274,804	\$ 74,809	\$ 199,995
Corporate bonds	329,943	59,849	270,094
Federal agency securities	<u>654,680</u>	<u>134,864</u>	<u>519,816</u>
Total	<u>\$ 1,259,427</u>	<u>\$ 269,522</u>	<u>\$ 989,905</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy is not to invest in foreign currency investments.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The Town has the following fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>	
		Quoted prices in active markets for identical assets	Significant observable inputs
		<u>(Level 1)</u>	<u>(Level 2)</u>
Investments by fair value level:			
Certificates of deposits	\$ 274,804	\$ -	\$ 274,804
Corporate bonds	329,943	-	329,943
Corporate equities	255,280	255,280	-
Equity mutual funds	149,472	149,472	-
Federal agency securities	<u>654,680</u>	654,680	-
Total	<u>\$ 1,664,179</u>		

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

5. Investments - OPEB Trust Fund

The following is a summary of the OPEB Trust Fund's investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Equity mutual funds	\$ <u>723,182</u>
Total investments	\$ <u>723,182</u>

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The OPEB Trust Fund does not have formal investment policies related to credit risk.

Presented below is the actual rating as of year-end for each investment type of the OPEB Trust Fund. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Amount</u>	<u>Unrated</u>
Equity mutual funds	\$ <u>723,182</u>	\$ <u>723,182</u>
Total	\$ <u>723,182</u>	\$ <u>723,182</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The OPEB Trust Fund does not have formal investment policies related to custodial credit risk. The Town manages custodial credit risk exposure with SIPC and excess SIPC insurance.

As of June 30, 2019, \$723,182 of the OPEB Trust Fund's total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the OPEB Trust Fund's brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by</u>
		<u>Counterparty</u>
Equity mutual funds	\$ <u>723,182</u>	\$ <u>723,182</u>
Total	\$ <u>723,182</u>	\$ <u>723,182</u>

C. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of June 30, 2019, the OPEB Trust Fund does not have an investment in one issuer greater than 5% of total investments.

D. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The OPEB Trust Fund does not have formal investment policies related to foreign currency risk.

E. Fair Value

The OPEB Trust Fund categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The OPEB Trust Fund has the following fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>	<u>(Level 1)</u>
Investments by fair value level:		
Equity mutual funds	\$ <u>723,182</u>	\$ 723,182
Total	\$ <u><u>723,182</u></u>	

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

6. Property Taxes and Excises Receivables

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Boat excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

Property taxes and excise receivables at June 30, 2019 consist of the following:

	<u>Gross</u> <u>Amount</u> <u>(fund basis)</u>	<u>Allowance</u> <u>for Doubtful</u> <u>Accounts</u>	<u>Current</u> <u>Portion</u>	<u>Long-</u> <u>Term</u> <u>Portion</u>
Real estate taxes	\$ 308,106	\$ (44,195)	\$ 263,911	\$ -
Personal property taxes	26,417	(15,789)	10,628	-
Tax liens	<u>528,019</u>	<u>(52,802)</u>	<u>-</u>	<u>475,217</u>
Total property taxes	<u>\$ 862,542</u>	<u>\$ (112,786)</u>	<u>\$ 274,539</u>	<u>\$ 475,217</u>
Motor vehicle excise	\$ 130,586	\$ (48,234)	\$ 82,352	
Boat excise	<u>4,597</u>	<u>(2,902)</u>	<u>1,695</u>	
Total excises	<u>\$ 135,183</u>	<u>\$ (51,136)</u>	<u>\$ 84,047</u>	
Ambulance	<u>\$ 575,326</u>	<u>\$ (470,050)</u>	<u>\$ 105,276</u>	
Total departmental	<u>\$ 575,326</u>	<u>\$ (470,050)</u>	<u>\$ 105,276</u>	

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019.

8. Interfund Fund Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers.

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 432,162	\$ 336,454
Receipts reserved	24,019	415,090
Nonmajor Funds:		
Special Revenue Funds	-	10,000
Capital Project Funds	<u>-</u>	<u>7,072</u>
Subtotal Nonmajor Funds	-	17,072
<u>Business-Type Funds:</u>		
Water/Sewer Fund	<u>312,435</u>	<u>-</u>
Subtotal Business-Type Funds	<u>312,435</u>	<u>-</u>
Grand Total	<u>\$ 768,616</u>	<u>\$ 768,616</u>

The amount \$312,435 represents the Town's annual transfer from the general fund to pay a portion of the water/sewer enterprise debt service expenses. The majority of the transfer out of the receipts reserved fund is \$318,350 from the ambulance fund. The ambulance fund generates approximately \$350,000 in revenue annually. The Town's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

9. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows (in thousands):

	<u>Beginning Balance</u>		<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 80,913	\$ 811	\$ -	\$ 81,724	
Machinery, equipment, and furnishings	8,689	706	(102)	9,293	
Infrastructure	<u>12,131</u>	<u>479</u>	<u>-</u>	<u>12,610</u>	
Total capital assets, being depreciated	101,733	1,996	(102)	103,627	
Less accumulated depreciation for:					
Buildings and improvements	(16,070)	(1,976)	-	(18,046)	
Machinery, equipment, and furnishings	(6,760)	(443)	102	(7,101)	
Infrastructure	<u>(2,617)</u>	<u>(425)</u>	<u>-</u>	<u>(3,042)</u>	
Total accumulated depreciation	<u>(25,447)</u>	<u>(2,844)</u>	<u>102</u>	<u>(28,189)</u>	
Total capital assets, being depreciated, net	76,286	(848)	-	75,438	
Capital assets, not being depreciated:					
Land	6,915	-	-	6,915	
Construction in progress	<u>557</u>	<u>-</u>	<u>(557)</u>	<u>-</u>	
Total capital assets, not being depreciated	<u>7,472</u>	<u>-</u>	<u>(557)</u>	<u>6,915</u>	
Governmental activities capital assets, net	<u>\$ 83,758</u>	<u>\$ (848)</u>	<u>\$ (557)</u>	<u>\$ 82,353</u>	

	Beginning Balance				Ending Balance
		Increases	Decreases		
Business-Type Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 8,063	\$ 58	\$ -	\$	8,121
Machinery, equipment, and furnishings	533	18	-		551
Infrastructure	<u>5,569</u>	<u>-</u>	<u>-</u>		<u>5,569</u>
Total capital assets, being depreciated	14,165	76	-		14,241
Less accumulated depreciation for:					
Buildings and improvements	(2,458)	(191)	-		(2,649)
Machinery, equipment, and furnishings	(165)	(47)	-		(212)
Infrastructure	<u>(3,289)</u>	<u>(135)</u>	<u>-</u>		<u>(3,424)</u>
Total accumulated depreciation	<u>(5,912)</u>	<u>(373)</u>	<u>-</u>		<u>(6,285)</u>
Total capital assets, being depreciated, net	8,253	(297)	-		7,956
Capital assets, not being depreciated:					
Land	<u>801</u>	<u>-</u>	<u>-</u>		<u>801</u>
Total capital assets, not being depreciated	<u>801</u>	<u>-</u>	<u>-</u>		<u>801</u>
Business-type activities capital assets, net	<u>\$ 9,054</u>	<u>\$ (297)</u>	<u>\$ -</u>	<u>\$</u>	<u>8,757</u>

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

Governmental Activities					
General government		\$ 237			
Public safety		252			
Education		1,891			
Public works		457			
Culture and recreation		<u>7</u>			
Total governmental activities		<u>\$ 2,844</u>			
Business-Type Activities					
Water		\$ 372			
Transfer station		<u>1</u>			
Total business-type activities		<u>\$ 373</u>			

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

11. Warrants Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019.

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/19
<u>Governmental Activities</u>			
Land	12/15/21	4.36%	\$ 150,000
Refunding	06/01/22	1.59%	1,220,000
School building, department equipment, and Town building remodel	06/30/31	2.00%	3,290,000
Refunding	02/15/32	5.00%	<u>12,825,000</u>
Total Governmental Activities			\$ <u>17,485,000</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/19
<u>Business-Type Activities</u>			
Water refunding	01/15/20	2.41%	\$ 5,000
Water refunding	01/15/21	2.13%	15,000
Sewer plant	07/15/24	2.00%	111,906
Sewer plant	02/01/25	2.00%	2,317,629
Water	06/30/31	3.00%	<u>110,000</u>
Total Business-Type Activities			\$ <u>2,559,535</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,440,000	\$ 751,025	\$ 2,191,025
2021	1,515,000	690,125	2,205,125
2022	1,590,000	625,975	2,215,975
2023	1,170,000	559,575	1,729,575
2024	1,225,000	504,375	1,729,375
2025 - 2029	6,400,000	1,688,025	8,088,025
2030 - 2033	<u>4,145,000</u>	<u>319,650</u>	<u>4,464,650</u>
Total	<u>\$ 17,485,000</u>	<u>\$ 5,138,750</u>	<u>\$ 22,623,750</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 389,016	\$ 40,869	\$ 429,885
2021	392,227	26,730	418,957
2022	409,729	16,630	426,359
2023	422,953	9,661	432,614
2024	440,469	2,734	443,203
2025 - 2029	485,141	6,796	491,937
2030 - 2033	<u>20,000</u>	<u>900</u>	<u>20,900</u>
Total	<u>\$ 2,559,535</u>	<u>\$ 104,320</u>	<u>\$ 2,663,855</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities (in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
Governmental Activities						
Bonds payable	\$ 20,335	\$ -	\$ (2,850)	\$ 17,485	\$ (1,440)	\$ 16,045
Unamortized premium	<u>512</u>	<u>-</u>	<u>(324)</u>	<u>188</u>	<u>(16)</u>	<u>172</u>
Subtotal	20,847	-	(3,174)	17,673	(1,456)	16,217
Net pension liability	14,443	1,488	-	15,931	-	15,931
Net OPEB liability	21,005	4,246	-	25,251	-	25,251
Other:						
Landfill liability	37	-	(13)	24	(12)	12
Compensated absences	<u>78</u>	<u>7</u>	<u>-</u>	<u>85</u>	<u>(4)</u>	<u>81</u>
Subtotal - other	115	7	(13)	109	(16)	93
Totals	<u>\$ 56,410</u>	<u>\$ 5,741</u>	<u>\$ (3,187)</u>	<u>\$ 58,964</u>	<u>\$ (1,472)</u>	<u>\$ 57,492</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
Business-Type Activities						
Bonds payable	\$ 2,946	\$ -	\$ (386)	\$ 2,560	\$ (389)	\$ 2,171
Subtotal	2,946	-	(386)	2,560	(389)	2,171
Net pension liability	295	30	-	325	-	325
Net OPEB liability	319	63	-	382	-	382
Other:						
Compensated absences	4	2	-	6	-	6
Subtotal - other	4	2	-	6	-	6
Totals	\$ 3,564	\$ 95	\$ (386)	\$ 3,273	\$ (389)	\$ 2,884

D. Long-Term Debt Supporting Governmental and Business-Type Activities

General obligation bonds, issued by the Town for various municipal projects are approved by Town Meeting and repaid with revenues recorded in the general fund and user fees recorded in enterprise funds. All other long-term debt is repaid from the funds that the cost relates to, primarily the general fund and enterprise funds.

E. Current Refunding

On November 6, 2018, the Town issued general obligation refunding bonds in the amount of \$12,825,000 with fixed interest rates ranging from 4.00% to 5.00% (the “Refunding Bonds”) to refund (on a current basis) \$14,135,000 of the \$14,155,000 outstanding principal amount of the Town’s \$20,700,000 General Obligation Municipal Purpose Loan of 2011 Bonds (the “Refunded Bonds”) with interest rates ranging from 3.25% to 5.00% and with maturity dates of January 15, 2020, through January 15, 2032.

After paying issuance costs, including underwriter’s compensation, of \$111,651, the net proceeds of the Refunding Bonds, including original issue premium, were \$13,995,746. In addition to the net proceeds of the Refunding Bonds, the Town provided as a source of funds \$316,271 of available bond premiums and excess bond proceeds from prior issues of general obligation bonds, and both amounts were held by the Town until the Refunded Bonds were called for early redemption on January 15, 2019. The current refunding met the requirements of an in-substance debt defeasance of the Refunded Bonds.

Amounts of \$15,000 and \$5,000 maturing January 15, 2020, and January 15, 2021, respectively, were not refunded by the Refunding Bonds. These amounts of the General Obligation Municipal Purpose Loan of 2011 will remain outstanding until maturity.

As a result of the current refunding, the Town reduced its total debt service cash flow requirements by \$1,076,409, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$842,898.

There was no defeased debt outstanding as of June 30, 2019.

13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$24,400 reported as landfill postclosure care liability at June 30, 2019 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. Deferred inflows of resources related to gain on bond refunding will be amortized as annual interest expense of \$89,505 through fiscal year 2032. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

15. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented *GASB Statement No. 54 (GASB 54) Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2019:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond

issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting resolution, and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2019:

	General <u>Fund</u>	Receipts <u>Reserved</u>	School <u>Choice</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable					
Nonexpendable permanent funds	\$ <u> - </u>	\$ <u> - </u>	\$ <u> - </u>	\$ <u>37,502</u>	\$ <u>37,502</u>
Total Nonspendable	<u> - </u>	<u> - </u>	<u> - </u>	<u>37,502</u>	<u>37,502</u>
Restricted					
Special revenue funds	<u> - </u>	732,623	1,731,671	1,441,798	3,906,092
Expendable permanent funds	<u> - </u>	<u> - </u>	<u> - </u>	<u>56,441</u>	<u>56,441</u>
Total Restricted	<u> - </u>	732,623	1,731,671	1,498,239	3,962,533
Committed					
Reserve for continuing appropriations					
General government	517,099	<u> - </u>	<u> - </u>	<u> - </u>	517,099
Public safety	147,795	<u> - </u>	<u> - </u>	<u> - </u>	147,795
Education	42,746	<u> - </u>	<u> - </u>	<u> - </u>	42,746
Public works	5,001	<u> - </u>	<u> - </u>	<u> - </u>	5,001
Culture and recreation	54,900	<u> - </u>	<u> - </u>	<u> - </u>	54,900
Capital project funds	<u> - </u>	<u> - </u>	<u> - </u>	<u>101,739</u>	<u>101,739</u>
Total Committed	767,541	<u> - </u>	<u> - </u>	<u>101,739</u>	869,280
Assigned					
Encumbrances					
Public safety	2,960	<u> - </u>	<u> - </u>	<u> - </u>	2,960
Education	10,016	<u> - </u>	<u> - </u>	<u> - </u>	10,016
Public works	18,152	<u> - </u>	<u> - </u>	<u> - </u>	18,152
Health and human services	2,224	<u> - </u>	<u> - </u>	<u> - </u>	2,224
Reserve for debt exclusion	187,547	<u> - </u>	<u> - </u>	<u> - </u>	187,547
Reserved for expenditures	584,240	<u> - </u>	<u> - </u>	<u> - </u>	584,240
Other - petty cash	<u>100</u>	<u> - </u>	<u> - </u>	<u> - </u>	<u>100</u>
Total Assigned	805,239	<u> - </u>	<u> - </u>	<u> - </u>	805,239
Unassigned					
General stabilization fund	1,478,678	<u> - </u>	<u> - </u>	<u> - </u>	1,478,678
Unassigned	<u>2,050,083</u>	<u> - </u>	<u> - </u>	<u>(106,734)</u>	<u>1,943,349</u>
Total Unassigned	<u>3,528,761</u>	<u> - </u>	<u> - </u>	<u>(106,734)</u>	<u>3,422,027</u>
Total Fund Balance	<u>\$ 5,101,541</u>	<u>\$ 732,623</u>	<u>\$ 1,731,671</u>	<u>\$ 1,530,746</u>	<u>\$ 9,096,581</u>

16. Worcester Contributory Retirement System

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

A. Plan Description

Substantially all eligible employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Worcester Contributory Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501 or from the System's website at www.worcesterregionalretirement.org.

Participant Contributions

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

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

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

Participant Retirement Benefits

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and

the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

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

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2019 was \$998,134, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2019, the Town reported a liability of \$16,256,457 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2018, the Town's proportion was 1.792803%.

At June 30, 2019, the Town's proportion was 1.792803%, which was a decrease of 0.014551% from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$2,195,096. In addition, the Town reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ 72,057	\$ (120,511)
Changes of assumptions	1,010,112	-
Net difference between projected and actual earnings on pension plan investments	611,617	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>655,481</u>	<u>(202,277)</u>
Total	<u><u>\$ 2,349,267</u></u>	<u><u>\$ (322,788)</u></u>

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

Year ended June 30:

2020	\$ 707,217
2021	549,303
2022	445,528
2023	361,205
2024	<u>(36,774)</u>
Total	<u>\$ 2,026,479</u>

D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3%
Salary increases	4.25% - 7%, based on service
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

E. Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding an expected inflation rate. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	39.00%	4.75%
Fixed income	23.00%	2.28%
Private equity	13.00%	8.15%
Real estate	10.00%	3.43%
Timber/natural resources	4.00%	4.00%
Hedge funds	<u>11.00%</u>	3.76%
Total	<u><u>100.00%</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	Current	
1%	Discount	1%
Decrease	Rate	Increase
<u>(6.75%)</u>	<u>(7.75%)</u>	<u>(8.75%)</u>
\$ 19,581,916	\$ 16,256,457	\$ 13,447,124

H. Pension Plan Fiduciary Net Position

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

17. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage

of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB with a base year of 2014 (gender-distinct).
 - Disability – assumed to be in accordance with the RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

E. Target Allocations

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments

was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.00%	5.00%
Portfolio completion strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private equity	12.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.80%
Timber/natural resources	<u>4.00%</u>	3.40%
Total	<u><u>100.00%</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity Analysis

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

<u>1% Decrease to 6.35%</u>	<u>Current Discount Rate 7.35%</u>	<u>1% Increase to 8.35%</u>
\$ 29,482,300	\$ 23,711,289	\$ 18,771,300

H. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

I. Town Proportions

In fiscal year 2018 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was approximately \$28,272,534 based on a proportionate share of 0.119237%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$1,567,702 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$2,865,012 as both a revenue and expense in the governmental activities.

18. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2014, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2019.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Harvard Pilgrim and Tufts Health Plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The Town provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

Funding Policy

The Town's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on actuarially determined amounts.

Plan Membership

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	126
Active employees	<u>269</u>
Total	<u><u>395</u></u>

B. Investments

The OPEB trust fund assets consist of equity mutual funds.

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 5.8%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3%
Salary increases	3%, average, including inflation
Investment rate of return	2.79%, net of OPEB plan investment expense
Municipal bond rate	2.79%
Discount rate	2.79%
Healthcare cost trend rates	8% for 2019, fluctuating 3% to an ultimate rate of 5% as of 2025 and later years
Participation rate	80%

Mortality rates were based on RP-2014 mortality table with MP-2016 projection.

D. Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	33.94%	6.11%
International equity	20.62%	2.78%
Domestic bond	22.06%	3.82%
International bond	6.26%	3.94%
Alternatives	16.63%	3.67%
Cash and equivalents	<u>0.49%</u>	
Total	<u><u>100.00%</u></u>	

E. Discount Rate

The discount rate used to measure the net OPEB liability was 2.79%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used based on a combination of the investment rate of return of 2.79% and municipal bond rate of 2.79% (based on index provided by Standard and Poor's on 20-year municipal bond rate as of June 30, 2019).

F. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2019, were as follows:

Total OPEB liability	\$ 26,355,765
Plan fiduciary net position	<u>723,182</u>
Net OPEB liability	<u><u>\$ 25,632,583</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability 2.74%

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognizes benefit payments when due and payable.

G. Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability for the past year:

	Increase (Decrease)		
	Plan		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 21,855,930	\$ 531,956	\$ 21,323,974
Changes for the year:			
Service cost	1,280,677	-	1,280,677
Interest	646,729	-	646,729
Contributions - employer	-	459,700	(459,700)
Net investment income	-	38,726	(38,726)
Differences between expected and actual experience	2,028,759	-	2,028,759
Changes in assumptions or other inputs	850,870	-	850,870
Benefit payments	<u>(307,200)</u>	<u>(307,200)</u>	<u>-</u>
Net Changes	<u>4,499,835</u>	<u>191,226</u>	<u>4,308,609</u>
Balances, end of year	<u><u>\$ 26,355,765</u></u>	<u><u>\$ 723,182</u></u>	<u><u>\$ 25,632,583</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13% in 2018 to 2.79% in 2019.

H. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1%	Current	1%
<u>Decrease</u>	<u>Discount</u>	<u>Increase</u>
\$ 30,104,260	\$ 25,632,583	\$ 21,160,907

I. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it is calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1%	Current	1%
<u>Decrease</u>	<u>Healthcare</u>	<u>Increase</u>
<u>Decrease</u>	<u>Cost Trend</u>	<u>Rates</u>
\$ 20,306,275	\$ 25,632,583	\$ 32,197,592

J. OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized an OPEB expense of \$2,194,942. At June 30, 2019, the Town reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ 1,825,883	\$ -
Change in assumptions	765,783	-
Net difference between projected and actual OPEB investment earnings	- <hr style="width: 100px; margin-left: 0; border: 0.5px solid black;"/>	(18,299) <hr style="width: 100px; margin-left: 0; border: 0.5px solid black;"/>
Total	<u>\$ 2,591,666</u>	<u>\$ (18,299)</u>

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

<u>Year Ended June 30:</u>		
2020	\$	255,506
2021		255,506
2022		255,506
2023		251,847
2024		259,166
Thereafter		<u>1,295,836</u>
Total	\$	<u>2,573,367</u>

19. Commitments and Contingencies

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

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

Encumbrances – At year-end the Town's general fund has \$33,352 in encumbrances that will be honored in the next fiscal year.

20. Beginning Fund Balance/Net Position Restatement

The beginning (July 1, 2018) fund balance/net position of the Town has been restated as follows:

Government-Wide Financial Statements:

		Business-
	Governmental	Type
	<u>Activities</u>	<u>Activities</u>
As previously reported	\$ 40,401,534	\$ 7,829,987
GASB 75 restatement	(1,883,994)	147,720
Unbilled receivable restatement	-	(476,180)
Capital project reclass to water/sewer enterprise	<u>(171,616)</u>	<u>171,616</u>
As restated	<u>\$ 38,345,924</u>	<u>\$ 7,673,143</u>

Fund Basis Financial Statements:

	Governmental			Business-Type
	Receipts	School	Nonmajor	
	Reserved Fund	Choice Fund	Governmental Funds	
As previously reported	\$ 367,367	\$ -	\$ 3,301,098	\$ 7,469,699
School choice major fund	-	1,102,072	(1,102,072)	147,720
Receipts reserved major fund	276,729	-	(276,729)	(476,180)
Capital project reclass to water/sewer enterprise	-	-	(171,616)	171,616
As restated	<u>\$ 644,096</u>	<u>\$ 1,102,072</u>	<u>\$ 1,750,681</u>	<u>\$ 7,312,855</u>

21. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year ending June 30, 2020. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported, and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Town beginning with its fiscal year ending June 30, 2021. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2019
 (Unaudited)

Worcester County Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability		Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
			Covered Payroll	Percentage of Covered Payroll		
June 30, 2019	December 31, 2018	1.792803%	\$16,256,457	\$ 5,241,322	310.16%	43.05%
June 30, 2018	December 31, 2017	1.807354%	\$14,737,670	\$ 5,726,211	257.37%	46.40%
June 30, 2017	December 31, 2016	1.665727%	\$13,952,025	\$ 6,111,451	228.29%	42.00%
June 30, 2016	December 31, 2015	1.673328%	\$11,877,399	\$ 5,729,138	207.32%	44.52%
June 30, 2015	December 31, 2014	1.717729%	\$10,221,653	\$ 5,508,787	185.55%	47.94%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town		Total Net Pension Liability	Proportionate Share of the Net Pension Liability as a Percentage of the Total Pension Liability	Plan Fiduciary Net Position Percentage of the Total Pension Liability
			Associated with the Town	Covered Payroll			
June 30, 2019	June 30, 2018	0.119237%	\$ -	\$ 28,272,534	\$ 28,272,534	\$ 8,373,855	- 54.84%
June 30, 2018	June 30, 2017	0.117267%	\$ -	\$ 26,836,952	\$ 26,836,952	\$ 7,962,978	- 54.25%
June 30, 2017	June 30, 2016	0.135543%	\$ -	\$ 30,304,669	\$ 30,304,669	\$ 8,915,551	- 52.73%
June 30, 2016	June 30, 2015	0.133839%	\$ -	\$ 27,423,140	\$ 27,423,140	\$ 8,772,387	- 55.38%
June 30, 2015	June 30, 2014	0.142008%	\$ -	\$ 22,574,170	\$ 22,574,170	\$ 8,707,212	- 61.64%

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

See Independent Auditors' Report.

TOWN OF DOUGLAS, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2019
 (Unaudited)

Worcester Contributory Retirement System

Fiscal Year	Measurement Date	Contributions in Relation to the						Contributions as a Percentage of <u>Covered Payroll</u>
		Contractually Required <u>Contribution</u>	Contractually Required <u>Contribution</u>	Contribution Deficiency (Excess)	Covered Payroll			
June 30, 2019	December 31, 2018	\$ 998,134	\$ 998,134	\$ -	\$ 5,241,322			19.04%
June 30, 2018	December 31, 2017	\$ 914,509	\$ 914,509	\$ -	\$ 5,726,211			15.97%
June 30, 2017	December 31, 2016	\$ 809,124	\$ 809,124	\$ -	\$ 6,111,451			13.24%
June 30, 2016	December 31, 2015	\$ 752,764	\$ 752,764	\$ -	\$ 5,729,138			13.14%
June 30, 2015	December 31, 2014	\$ 678,830	\$ 678,830	\$ -	\$ 5,508,787			12.32%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Contributions in Relation to the						Contributions as a Percentage of <u>Covered Payroll</u>
		Contractually Required <u>Contribution</u>	Contractually Required <u>Contribution</u>	Contribution Deficiency (Excess)	Covered Payroll			
June 30, 2019	June 30, 2018	\$ 1,567,702	\$ 1,567,702	\$ -	\$ 8,373,855			18.72%
June 30, 2018	June 30, 2017	\$ 1,448,848	\$ 1,448,848	\$ -	\$ 7,962,978			18.19%
June 30, 2017	June 30, 2016	\$ 1,524,297	\$ 1,524,297	\$ -	\$ 8,915,551			17.10%
June 30, 2016	June 30, 2015	\$ 1,367,741	\$ 1,367,741	\$ -	\$ 8,772,387			15.59%
June 30, 2015	June 30, 2014	\$ 1,331,158	\$ 1,331,158	\$ -	\$ 8,707,212			15.29%

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

See Independent Auditors' Report.

TOWN OF DOUGLAS, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 1,280,677	\$ 1,244,458	\$ 1,160,278
Interest on unfunded liability - time value of \$	646,729	608,518	778,464
Differences between expected and actual experience	2,028,759	(268,883)	-
Changes of assumptions	850,870	594,117	-
Benefit payments, including refunds of member contributions	<u>(307,200)</u>	<u>(292,466)</u>	<u>(269,884)</u>
Net change in total OPEB liability	4,499,835	1,885,744	1,668,858
Total OPEB liability - beginning	<u>21,855,930</u>	<u>19,970,186</u>	<u>18,301,328</u>
Total OPEB liability - ending (a)	26,355,765	21,855,930	19,970,186
Plan Fiduciary Net Position			
Contributions - employer	459,700	419,308	403,206
Net investment income	38,726	22,627	23,938
Benefit payments, including refunds of member contributions	<u>(307,200)</u>	<u>(292,466)</u>	<u>(269,884)</u>
Net change in plan fiduciary net position	191,226	149,469	157,260
Plan fiduciary net position - beginning	<u>531,956</u>	<u>382,487</u>	<u>225,227</u>
Plan fiduciary net position - ending (b)	<u>723,182</u>	<u>531,956</u>	<u>382,487</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 25,632,583</u>	<u>\$ 21,323,974</u>	<u>\$ 19,587,699</u>

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

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

See Independent Auditors' Report.

TOWN OF DOUGLAS, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability			
Total OPEB liability	\$ 26,355,765	\$ 21,855,930	\$ 19,970,186
Plan fiduciary net position	<u>723,182</u>	<u>531,956</u>	<u>382,487</u>
Net OPEB liability	<u>\$ 25,632,583</u>	<u>\$ 21,323,974</u>	<u>\$ 19,587,699</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.74%	2.43%	1.92%
 Schedule of Contributions			
Actuarially determined contribution	\$ 2,711,333	\$ 1,852,976	\$ 1,938,742
Contributions in relation to the actuarially determined contribution	<u>459,700</u>	<u>419,308</u>	<u>403,206</u>
Contribution deficiency	<u>\$ 2,251,633</u>	<u>\$ 1,433,668</u>	<u>\$ 1,535,536</u>
 Schedule of Investment Returns			
Annual money weighted rate of return, net of investment expense	5.80%	5.08%	8.50%

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

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

See Independent Auditors' Report.