



TOWN OF TOWNSEND, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Townsend, 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 Townsend, 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 Townsend, 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 certain Pension 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

March 20, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Townsend, 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 required 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 and deferred outflows of resources, and liabilities and deferred 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 Town's 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, sanitation, health and human services, culture and recreation, debt service interest, and intergovernmental expenses. The business-type activities include water operations.

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 inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town'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 Town's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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.

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. The Town uses one enterprise fund to account for water operations, which is considered to be a major fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. 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 of resources exceeded liabilities and deferred inflows of resources by \$30,941,795 (i.e., net position), a change of \$(1,638,757) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$6,322,883, a change of \$(1,264,501), or (16.67)%, in comparison to the prior year, as further discussed on page 7.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,049,495, a change of \$(569,901), or (21.76)%, in comparison to the prior year, as further discussed on page 8.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

| | <u>NET POSITION</u> | | | | | |
|----------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| | Governmental | | Business-Type | | Total | |
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Assets | | | | | | |
| Current and other assets | \$ 8,264,325 | \$ 9,453,599 | \$ 2,959,762 | \$ 2,070,172 | \$ 11,224,087 | \$ 11,523,771 |
| Capital assets | <u>30,695,786</u> | <u>30,448,620</u> | <u>4,328,880</u> | <u>4,273,947</u> | <u>35,024,666</u> | <u>34,722,567</u> |
| Total assets | 38,960,111 | 39,902,219 | 7,288,642 | 6,344,119 | 46,248,753 | 46,246,338 |
| Deferred outflows of resources | 1,683,628 | 1,402,384 | 105,182 | 97,652 | 1,788,810 | 1,500,036 |
| Liabilities | | | | | | |
| Long-term liabilities | 13,555,148 | 12,091,613 | 1,292,370 | 1,348,655 | 14,847,518 | 13,440,268 |
| Other liabilities | <u>593,823</u> | <u>638,172</u> | <u>1,033,202</u> | <u>41,002</u> | <u>1,627,025</u> | <u>679,174</u> |
| Total liabilities | 14,148,971 | 12,729,785 | 2,325,572 | 1,389,657 | 16,474,543 | 14,119,442 |
| Deferred inflows of resources | 584,696 | 978,261 | 36,529 | 68,119 | 621,225 | 1,046,380 |
| Net investment in capital assets | 27,510,228 | 28,316,998 | 3,515,994 | 3,466,520 | 31,026,222 | 31,783,518 |
| Restricted | 3,337,854 | 3,165,300 | - | - | 3,337,854 | 3,165,300 |
| Unrestricted | <u>(4,938,010)</u> | <u>(3,885,741)</u> | <u>1,515,729</u> | <u>1,517,475</u> | <u>(3,422,281)</u> | <u>(2,368,266)</u> |
| Total net position | <u>\$ 25,910,072</u> | <u>\$ 27,596,557</u> | <u>\$ 5,031,723</u> | <u>\$ 4,983,995</u> | <u>\$ 30,941,795</u> | <u>\$ 32,580,552</u> |

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. At the close of the most recent fiscal year, total net position was \$30,941,795, a change of \$(1,638,757) in comparison to the prior year, as reported on page 12.

The largest portion of net position, \$31,026,222, reflects our investment in capital assets (e.g., buildings and improvements, capital improvements, machinery, equipment, and

furnishings, vehicles, library books, infrastructure, land, art and historical treasures, and construction in progress), 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, \$3,337,854, 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 \$(3,422,281) primarily resulting from the Town's unfunded pension liability.

The following is a summary of condensed government-wide statement of changes in net position financial data for the current and prior fiscal years:

| | CHANGES IN NET POSITION | | | | | |
|--|--------------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,472,461 | \$ 1,445,919 | \$ 1,054,363 | \$ 1,046,226 | \$ 2,526,824 | \$ 2,492,145 |
| Operating grants and contributions | 403,058 | 402,634 | - | - | 403,058 | 402,634 |
| Capital grants and contributions | 495 | 505,755 | - | - | 495 | 505,755 |
| General revenues: | | | | | | |
| Property taxes | 18,067,608 | 17,193,781 | - | - | 18,067,608 | 17,193,781 |
| Excises | 1,411,523 | 1,387,023 | - | - | 1,411,523 | 1,387,023 |
| Penalties, interest, and other taxes | 134,763 | 229,369 | - | - | 134,763 | 229,369 |
| Grants and contributions not restricted to specific programs | 1,659,952 | 1,623,847 | - | - | 1,659,952 | 1,623,847 |
| Investment income | 90,795 | 86,077 | 18,109 | 16,524 | 108,904 | 102,601 |
| Miscellaneous | 87,294 | 28,293 | - | - | 87,294 | 28,293 |
| Total Revenues | 23,327,949 | 22,902,698 | 1,072,472 | 1,062,750 | 24,400,421 | 23,965,448 |
| Expenses | | | | | | |
| General government | 2,992,362 | 2,637,538 | - | - | 2,992,362 | 2,637,538 |
| Public safety | 5,372,115 | 4,353,163 | - | - | 5,372,115 | 4,353,163 |
| Education | 12,837,223 | 12,036,331 | - | - | 12,837,223 | 12,036,331 |
| Public works | 1,763,503 | 1,589,061 | - | - | 1,763,503 | 1,589,061 |
| Sanitation | 668,054 | 667,179 | - | - | 668,054 | 667,179 |
| Health and human services | 483,861 | 409,684 | - | - | 483,861 | 409,684 |
| Culture and recreation | 720,577 | 571,119 | - | - | 720,577 | 571,119 |
| Debt service interest | 103,287 | 137,966 | - | - | 103,287 | 137,966 |
| Intergovernmental | 73,452 | 71,818 | - | - | 73,452 | 71,818 |
| Water operations | - | - | 1,024,744 | 774,233 | 1,024,744 | 774,233 |
| Total Expenses | 25,014,434 | 22,473,859 | 1,024,744 | 774,233 | 26,039,178 | 23,248,092 |
| Change in net position before transfers | (1,686,485) | 428,839 | 47,728 | 288,517 | (1,638,757) | 717,356 |
| Transfers in (out) | - | (16,478) | - | 16,478 | - | - |
| Change in net position | (1,686,485) | 412,361 | 47,728 | 304,995 | (1,638,757) | 717,356 |
| Net position - beginning of year | 27,596,557 | 27,184,196 | 4,983,995 | 4,679,000 | 32,580,552 | 31,863,196 |
| Net position - end of year | \$ 25,910,072 | \$ 27,596,557 | \$ 5,031,723 | \$ 4,983,995 | \$ 30,941,795 | \$ 32,580,552 |

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,686,485). Key elements of this change are as follows:

| | |
|---|-----------------------|
| Change in net pension liability, net of related deferrals | \$ (473,518) |
| Change in compensated absences liability | (661,783) |
| Capital assets acquired with current year resources | 604,890 |
| Depreciation expense in excess of principal debt service | (1,034,723) |
| Other | <u>(121,351)</u> |
| Total | <u>\$ (1,686,485)</u> |

Business-type activities. Business-type activities (water fund) for the year resulted in a change in net position of \$47,728.

D. FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town'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 \$6,322,883, a change of \$(1,264,501), or (16.67)%, in comparison to the prior year. Key elements of this change are as follows:

| | |
|---|-----------------------|
| Use of proceeds from long-term debt issued in the previous fiscal year: | |
| Completion of fire station project | \$ (550,705) |
| Acquisition of new fire truck | (489,658) |
| Ambulance fund appropriations exceeding fees | (78,847) |
| Other | <u>(145,291)</u> |
| Total | <u>\$ (1,264,501)</u> |

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,049,495, while total fund balance was \$3,353,957. 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 as illustrated in the table below:

| <u>General Fund</u> | <u>6/30/19</u> | <u>6/30/18</u> | <u>Change</u> | <u>% of Total General Fund Expenditures</u> |
|-------------------------|----------------|----------------|---------------|---|
| Unassigned fund balance | \$ 2,049,495 | \$ 2,619,396 | \$ (569,901) | 8.99% |
| Total fund balance | 3,353,957 | 3,478,717 | (124,760) | 14.71% |

The decrease in the Town's June 30, 2019 unassigned fund balance from the prior year is largely attributable to the use of free cash as noted below as well as the Town committing \$398,600 to be used in fiscal year 2020.

The total fund balance of the general fund changed by \$(124,760) during the current fiscal year. Key factors in this change are as follows:

| | |
|---|----------------------------|
| Use of free cash as a funding source ¹ | \$ (805,635) |
| Revenues in excess of budget | 140,605 |
| Expenditures less than budget | 295,243 |
| Change in stabilization accounts | 23,539 |
| Expenditures of prior year encumbrances and special articles less than current year encumbrances and special articles | 211,040 |
| Transfers in exceeding budget | <u>10,448</u> |
| Total | \$ <u><u>(124,760)</u></u> |

¹ The use of free cash for the general fund operating budget is further detailed on page 17 of the financial statements.

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

| | <u>6/30/19</u> | <u>6/30/18</u> | <u>Change</u> | <u>Fund Balance Classification</u> |
|-----------------------|----------------------------|----------------------------|-------------------------|--|
| General stabilization | \$ 1,361,448 | \$ 1,293,487 | \$ 67,961 | Unassigned |
| Capital stabilization | <u>338,604</u> | <u>383,026</u> | <u>(44,422)</u> | Committed |
| Total | \$ <u><u>1,700,052</u></u> | \$ <u><u>1,676,513</u></u> | \$ <u><u>23,539</u></u> | |

The net increase in the Town's June 30, 2019 stabilization fund balances from the prior year is largely attributable to the following activities:

- \$200,000 to supplement the capital stabilization fund

- \$50,000 to supplement the general stabilization fund
- \$(249,820) to supplement the acquisition of capital outlay in the general fund

All actions noted above were approved at Town Meeting during the fiscal year. Additional activity is attributable to interest earnings related to the funds to be utilized in future periods.

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 \$1,515,729, a change of \$(1,746), 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 appropriations of \$1,199,186.

Significant budget increases were for the following purposes:

- \$537,360 for capital improvements
- \$291,826 for various departmental expenditures
- \$200,000 to supplement the capital stabilization fund
- \$120,000 to fund the snow and ice deficit
- \$50,000 to supplement the general stabilization fund

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$35,024,666 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, capital improvements, machinery, equipment, and furnishings, vehicles, library books, infrastructure, land, art and historical treasures, and construction in progress.

Major capital asset acquisitions during the current fiscal year included the following:

Governmental activities:

- \$550,705 West Townsend fire station
- \$489,658 Fire tanker
- \$149,680 Public works vehicles
- \$110,100 Roadway improvements

Business-type activities:

- \$299,606 Total Water infrastructure and capital improvements

Additional information on capital assets can be found in Note 8 of the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$4,430,271, all of which was backed by the full faith and credit of the Town.

The Town is currently assigned an Aa3 rating from Moody's Investors Services for its general obligation debt.

Additional information on long-term debt can be found in Note 13 of the Notes to Financial Statements.

REQUESTS FOR INFORMATION

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

Town Administrator
Memorial Hall, Upper Level
272 Main Street
Townsend, Massachusetts 01469

TOWN OF TOWNSEND, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

| | <u>Governmental</u> <u>Activities</u> | <u>Business-Type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|----------------------|
| Assets | | | |
| Current: | | | |
| Cash and short-term investments | \$ 4,508,540 | \$ 1,733,449 | \$ 6,241,989 |
| Investments | 2,118,450 | 935,598 | 3,054,048 |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 456,184 | - | 456,184 |
| Excises | 168,970 | - | 168,970 |
| User fees | - | 290,715 | 290,715 |
| Departmental and other | 231,427 | - | 231,427 |
| Intergovernmental | 146,617 | - | 146,617 |
| Loans | 74,614 | - | 74,614 |
| Other assets | 11,052 | - | 11,052 |
| Noncurrent: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 548,471 | - | 548,471 |
| Capital assets depreciable, net | 27,097,145 | 3,642,683 | 30,739,828 |
| Capital assets non-depreciable | 3,598,641 | 686,197 | 4,284,838 |
| Deferred Outflows of Resources | | | |
| Related to pensions | <u>1,683,628</u> | <u>105,182</u> | <u>1,788,810</u> |
| Total Assets and Deferred Outflows of Resources | 40,643,739 | 7,393,824 | 48,037,563 |
| Liabilities | | | |
| Current: | | | |
| Warrants payable | 310,968 | 23,336 | 334,304 |
| Accrued payroll | 181,785 | 10,507 | 192,292 |
| Accrued liabilities | 45,900 | 6,711 | 52,611 |
| Unearned revenues | 48,172 | - | 48,172 |
| Notes payable | - | 981,200 | 981,200 |
| Other current liabilities | 6,998 | 11,448 | 18,446 |
| Current portion of long-term liabilities: | | | |
| Bonds payable | 374,508 | 90,217 | 464,725 |
| Landfill postclosure | 20,200 | - | 20,200 |
| Compensated absences | 70,842 | 1,603 | 72,445 |
| Capital leases | 54,017 | - | 54,017 |
| Noncurrent: | | | |
| Bonds payable, net of current portion | 3,323,677 | 641,869 | 3,965,546 |
| Landfill postclosure, net of current portion | 305,800 | - | 305,800 |
| Compensated absences, net of current portion | 637,581 | 14,428 | 652,009 |
| Capital leases, net of current portion | 56,765 | - | 56,765 |
| Net pension liability | 8,711,758 | 544,253 | 9,256,011 |
| Deferred Inflows of Resources | | | |
| Related to pensions | <u>584,696</u> | <u>36,529</u> | <u>621,225</u> |
| Total Liabilities and Deferred Inflows of Resources | 14,733,667 | 2,362,101 | 17,095,768 |
| Net Position | | | |
| Net investment in capital assets | 27,510,228 | 3,515,994 | 31,026,222 |
| Restricted for: | | | |
| Grants and other statutory restrictions | 2,858,830 | - | 2,858,830 |
| Permanent funds: | | | |
| Nonexpendable | 328,651 | - | 328,651 |
| Expendable | 150,373 | - | 150,373 |
| Unrestricted | <u>(4,938,010)</u> | <u>1,515,729</u> | <u>(3,422,281)</u> |
| Total Net Position | <u>\$ 25,910,072</u> | <u>\$ 5,031,723</u> | <u>\$ 30,941,795</u> |

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

TOWN OF TOWNSEND, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

| | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---------------------------------|---------------|-------------------------|---|--|--|---------------------------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | Total |
| Governmental Activities | | | | | | | |
| General government | \$ 2,992,362 | \$ 342,170 | \$ 188,560 | \$ - | \$ (2,461,632) | \$ - | \$ (2,461,632) |
| Public safety | 5,372,115 | 947,773 | 77,184 | - | (4,347,158) | - | (4,347,158) |
| Education | 12,837,223 | - | - | - | (12,837,223) | - | (12,837,223) |
| Public works | 1,763,503 | 32,661 | 6,339 | 495 | (1,724,008) | - | (1,724,008) |
| Sanitation | 668,054 | - | - | - | (668,054) | - | (668,054) |
| Health and human services | 483,861 | 45,477 | 109,300 | - | (329,084) | - | (329,084) |
| Culture and recreation | 720,577 | 104,380 | 21,675 | - | (594,522) | - | (594,522) |
| Debt service interest | 103,287 | - | - | - | (103,287) | - | (103,287) |
| Intergovernmental | 73,452 | - | - | - | (73,452) | - | (73,452) |
| Total Governmental Activities | 25,014,434 | 1,472,461 | 403,058 | 495 | (23,138,420) | - | (23,138,420) |
| Business-Type Activities | | | | | | | |
| Water operations | 1,024,744 | 1,054,363 | - | - | - | 29,619 | 29,619 |
| Total | \$ 26,039,178 | \$ 2,526,824 | \$ 403,058 | \$ 495 | (23,138,420) | 29,619 | (23,108,801) |
| | | | General Revenues | | | | |
| | | | Property taxes | | 18,067,608 | - | 18,067,608 |
| | | | Excises | | 1,411,523 | - | 1,411,523 |
| | | | Penalties, interest, and other taxes | | 134,763 | - | 134,763 |
| | | | Grants and contributions not restricted to specific programs | | 1,659,952 | - | 1,659,952 |
| | | | Investment income | | 90,795 | 18,109 | 108,904 |
| | | | Miscellaneous | | 87,294 | - | 87,294 |
| | | | Total General Revenues | | 21,451,935 | 18,109 | 21,470,044 |
| | | | Change in net position | | (1,686,485) | 47,728 | (1,638,757) |
| | | | Net Position | | | | |
| | | | Beginning of year | | 27,596,557 | 4,983,995 | 32,580,552 |
| | | | End of year | | \$ 25,910,072 | \$ 5,031,723 | \$ 30,941,795 |

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

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

| | General Fund | Ambulance Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|-----------------------------------|--------------------------------|
| Assets | | | | |
| Cash and short-term investments | \$ 1,912,400 | \$ 721,301 | \$ 1,874,839 | \$ 4,508,540 |
| Investments | 1,700,052 | - | 418,398 | 2,118,450 |
| Receivables: | | | | |
| Property taxes | 1,125,298 | - | - | 1,125,298 |
| Excises | 243,614 | - | - | 243,614 |
| Departmental and other | - | 368,294 | - | 368,294 |
| Intergovernmental | - | - | 146,617 | 146,617 |
| Loans | - | - | 74,614 | 74,614 |
| Other assets | - | - | 11,052 | 11,052 |
| Total Assets | <u>\$ 4,981,364</u> | <u>\$ 1,089,595</u> | <u>\$ 2,525,520</u> | <u>\$ 8,596,479</u> |
| Liabilities | | | | |
| Warrants payable | \$ 174,591 | \$ - | \$ 136,377 | \$ 310,968 |
| Accrued payroll | 170,051 | - | 11,734 | 181,785 |
| Unearned revenue | - | - | 48,172 | 48,172 |
| Other liabilities | - | - | 6,998 | 6,998 |
| Total Liabilities | 344,642 | - | 203,281 | 547,923 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenues | 1,282,765 | 368,294 | 74,614 | 1,725,673 |
| Fund Balances | | | | |
| Nonspendable | - | - | 328,651 | 328,651 |
| Restricted | 738 | 721,301 | 1,871,900 | 2,593,939 |
| Committed | 1,244,194 | - | 63,792 | 1,307,986 |
| Assigned | 59,530 | - | - | 59,530 |
| Unassigned | 2,049,495 | - | (16,718) | 2,032,777 |
| Total Fund Balances | <u>3,353,957</u> | <u>721,301</u> | <u>2,247,625</u> | <u>6,322,883</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 4,981,364</u> | <u>\$ 1,089,595</u> | <u>\$ 2,525,520</u> | <u>\$ 8,596,479</u> |

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

TOWN OF TOWNSEND, 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 | \$ 6,322,883 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | 30,695,786 |
| Deferred outflows of resources related to pensions to be recognized as an increase to pension expense in future periods. | 1,683,628 |
| Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 1,393,519 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | |
| Bonds payable | (3,698,185) |
| Landfill postclosure | (326,000) |
| Compensated absences | (708,423) |
| Capital leases | (110,782) |
| Net pension liability | (8,711,758) |
| Deferred inflows of resources related to pensions to be recognized as a decrease to pension expense in future periods. | (584,696) |
| In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | <u>(45,900)</u> |
| Net position of governmental activities | <u>\$ 25,910,072</u> |

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

TOWN OF TOWNSEND, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2019

| | <u>General Fund</u> | <u>Ambulance Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|---------------------------|--|---|
| Revenues | | | | |
| Property taxes | \$ 17,962,860 | \$ - | \$ - | \$ 17,962,860 |
| Excises | 1,404,780 | - | - | 1,404,780 |
| Penalties, interest, and other taxes | 134,763 | - | - | 134,763 |
| Charges for services | 160,494 | 483,664 | 633,544 | 1,277,702 |
| Intergovernmental | 1,683,817 | - | 379,688 | 2,063,505 |
| Licenses and permits | 198,999 | - | - | 198,999 |
| Fines and forfeitures | 17,312 | - | - | 17,312 |
| Investment income | 73,526 | - | 17,269 | 90,795 |
| Miscellaneous | <u>11,000</u> | <u>21,719</u> | <u>54,575</u> | <u>87,294</u> |
| Total Revenues | 21,647,551 | 505,383 | 1,085,076 | 23,238,010 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 1,810,252 | - | 185,793 | 1,996,045 |
| Public safety | 3,517,640 | - | 1,456,156 | 4,973,796 |
| Education | 12,837,223 | - | - | 12,837,223 |
| Public works | 1,230,654 | - | 32,082 | 1,262,736 |
| Sanitation | 668,054 | - | - | 668,054 |
| Health and human services | 277,876 | - | 104,798 | 382,674 |
| Culture and recreation | 386,081 | - | 105,878 | 491,959 |
| Employee benefits | 1,503,394 | - | - | 1,503,394 |
| Debt service | 497,432 | - | - | 497,432 |
| Intergovernmental | <u>73,452</u> | <u>-</u> | <u>-</u> | <u>73,452</u> |
| Total Expenditures | <u>22,802,058</u> | <u>-</u> | <u>1,884,707</u> | <u>24,686,765</u> |
| Excess (deficiency) of revenues over (under) expenditures | (1,154,507) | 505,383 | (799,631) | (1,448,755) |
| Other Financing Sources (Uses) | | | | |
| Issuance of capital lease | 184,254 | - | - | 184,254 |
| Transfers in | 866,493 | - | 21,000 | 887,493 |
| Transfers out | <u>(21,000)</u> | <u>(584,230)</u> | <u>(282,263)</u> | <u>(887,493)</u> |
| Total Other Financing Sources (Uses) | <u>1,029,747</u> | <u>(584,230)</u> | <u>(261,263)</u> | <u>184,254</u> |
| Net change in fund balances | (124,760) | (78,847) | (1,060,894) | (1,264,501) |
| Fund Balance at Beginning of Year | <u>3,478,717</u> | <u>800,148</u> | <u>3,308,519</u> | <u>7,587,384</u> |
| Fund Balance at End of Year | <u><u>\$ 3,353,957</u></u> | <u><u>\$ 721,301</u></u> | <u><u>\$ 2,247,625</u></u> | <u><u>\$ 6,322,883</u></u> |

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

TOWN OF TOWNSEND, 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 change in governmental fund balances | \$ (1,264,501) |
| <p>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:</p> | |
| Capital outlay | 1,645,163 |
| Loss on disposal of assets | (10,736) |
| Depreciation | (1,387,261) |
| <p>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 taxes, excises, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.</p> | |
| | 89,939 |
| <p>The issuance of long-term debt (e.g., bonds and leases) 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:</p> | |
| Repayments of general obligation bonds, refunding bonds, and state revolving loans | 352,538 |
| Issuance of capital lease | (184,254) |
| Repayments of capital lease | 139,206 |
| <p>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due. This amount represents the change in accrued interest.</p> | |
| | 29,637 |
| <p>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:</p> | |
| Current year amortization of premiums from issuance of refunding bonds | 11,970 |
| Change in landfill postclosure liability | 20,000 |
| Change in compensated absences | (661,783) |
| Change in net pension liability, net of related deferred outflows and deferred inflows of resources | (473,518) |
| Change in total OPEB liability | 7,115 |
| Change in net position of governmental activities | \$ <u>(1,686,485)</u> |

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

TOWN OF TOWNSEND, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2019

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|--------------------|-------------------|-------------------|---|
| | Original Budget | Final Budget | Actual Amounts | |
| Revenues | | | | |
| Property taxes | \$ 18,069,336 | \$ 18,069,336 | \$ 17,962,860 | \$ (106,476) |
| Excises | 1,305,879 | 1,305,879 | 1,404,780 | 98,901 |
| Penalties, interest, and other taxes | 132,803 | 132,803 | 134,763 | 1,960 |
| Charges for services | 139,329 | 139,329 | 160,494 | 21,165 |
| Intergovernmental | 1,628,673 | 1,628,673 | 1,683,817 | 55,144 |
| Licenses and permits | 180,000 | 180,000 | 198,999 | 18,999 |
| Fines and forfeitures | 15,500 | 15,500 | 17,312 | 1,812 |
| Investment income | 10,000 | 10,000 | 50,167 | 40,167 |
| Other | 2,067 | 2,067 | 11,000 | 8,933 |
| | <u>21,483,587</u> | <u>21,483,587</u> | <u>21,624,192</u> | <u>140,605</u> |
| Total Revenues | | | | |
| Expenditures | | | | |
| General government | 1,808,473 | 2,143,809 | 1,982,697 | 161,112 |
| Public safety | 3,193,033 | 3,571,283 | 3,539,120 | 32,163 |
| Education | 12,927,970 | 12,885,970 | 12,837,223 | 48,747 |
| Public works | 852,598 | 1,102,598 | 1,101,027 | 1,571 |
| Sanitation | 669,284 | 668,884 | 668,054 | 830 |
| Health and human services | 259,254 | 293,522 | 287,815 | 5,707 |
| Culture and recreation | 386,817 | 399,317 | 387,577 | 11,740 |
| Employee benefits | 1,714,549 | 1,674,781 | 1,651,391 | 23,390 |
| Debt service | 507,432 | 507,432 | 497,432 | 10,000 |
| Intergovernmental | 73,435 | 73,435 | 73,452 | (17) |
| | <u>22,392,845</u> | <u>23,321,031</u> | <u>23,025,788</u> | <u>295,243</u> |
| Total Expenditures | | | | |
| Excess (deficiency) of revenues over (under) expenditures | (909,258) | (1,837,444) | (1,401,596) | 435,848 |
| Other Financing Sources (Uses) | | | | |
| Use of free cash: | | | | |
| For capital improvements | - | 210,180 | - | (210,180) |
| For capital stabilization funding | - | 200,000 | - | (200,000) |
| Other departmental expenditures | - | 215,500 | - | (215,500) |
| For funding of snow and ice deficit | - | 120,000 | - | (120,000) |
| For general stabilization funding | - | 50,000 | - | (50,000) |
| For reserve fund | - | 9,955 | - | (9,955) |
| Transfers in | 909,258 | 1,302,809 | 1,313,257 | 10,448 |
| Transfers out | - | (271,000) | (271,000) | - |
| | <u>909,258</u> | <u>1,837,444</u> | <u>1,042,257</u> | <u>(795,187)</u> |
| Total Other Financing Sources (Uses) | | | | |
| Deficiency of revenues and other financing sources under expenditures and other financing uses | \$ - | \$ - | \$ (359,339) | \$ (359,339) |

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

| | | Water Enterprise <u>Fund</u> |
|---|----|------------------------------------|
| Assets | | |
| Current: | | |
| Cash and short-term investments | \$ | 1,733,449 |
| Investments | | 935,598 |
| User fees, net of allowance for uncollectibles | | 290,715 |
| Noncurrent: | | |
| Capital assets depreciable, net | | 3,642,683 |
| Capital assets non-depreciable | | 686,197 |
| Deferred Outflows of Resources | | |
| Related to pensions | | 105,182 |
| | | 105,182 |
| Total Assets and Deferred Outflows of Resources | | 7,393,824 |
| Liabilities | | |
| Current: | | |
| Warrants payable | | 23,336 |
| Accrued payroll | | 10,507 |
| Accrued liabilities | | 6,711 |
| Notes payable | | 981,200 |
| Other current liabilities | | 11,448 |
| Current portion of long-term liabilities: | | |
| Bonds payable | | 90,217 |
| Compensated absences | | 1,603 |
| Noncurrent: | | |
| Bonds payable, net of current portion | | 641,869 |
| Compensated absences, net of current portion | | 14,428 |
| Net pension liability | | 544,253 |
| Deferred Inflows of Resources | | |
| Related to pensions | | 36,529 |
| | | 36,529 |
| Total Liabilities and Deferred Inflows of Resources | | 2,362,101 |
| Net Position | | |
| Net investment in capital assets | | 3,515,994 |
| Unrestricted | | 1,515,729 |
| | | 1,515,729 |
| Total Net Position | \$ | 5,031,723 |

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

| | Water Enterprise <u>Fund</u> |
|---|------------------------------------|
| Operating Revenues | |
| Charges for services | \$ 1,054,145 |
| Other | 218 |
| Total Operating Revenues | <u>1,054,363</u> |
| Operating Expenses | |
| Salaries and benefits | 412,649 |
| Other operating expenses | 332,936 |
| Depreciation | 244,673 |
| Total Operating Expenses | <u>990,258</u> |
| Operating income | 64,105 |
| Nonoperating Revenues (Expenses) | |
| Investment income | 18,109 |
| Interest expense | (34,486) |
| Total Nonoperating Revenues (Expenses) | <u>(16,377)</u> |
| Change in net position | 47,728 |
| Net Position at Beginning of Year | <u>4,983,995</u> |
| Net Position at End of Year | <u>\$ 5,031,723</u> |

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

TOWN OF TOWNSEND, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

| | Water Enterprise <u>Fund</u> |
|--|------------------------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers and users | \$ 1,058,741 |
| Payments to vendors and employees | <u>(740,638)</u> |
| Net cash provided by operating activities | 318,103 |
| Cash Flows From Capital and Related Financing Activities | |
| Acquisition and construction of capital assets | (299,606) |
| Principal payments on bonds | (88,431) |
| Proceeds from issuance of notes | 1,962,400 |
| Principal payments on notes | (981,200) |
| Interest expense | <u>(35,407)</u> |
| Net cash provided by capital and related financing activities | 557,756 |
| Cash Flows From Investing Activities | |
| Investment income | 18,109 |
| Investment acquisitions | <u>(78,983)</u> |
| Net cash (used for) investing activities | <u>(60,874)</u> |
| Net change in cash and short-term investments | 814,985 |
| Cash and Short-Term Investments, Beginning of Year | <u>918,464</u> |
| Cash and Short-Term Investments, End of Year | <u><u>\$ 1,733,449</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating income | \$ 64,105 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 244,673 |
| Changes in assets, liabilities, and deferred outflows/inflows: | |
| User fees | 4,378 |
| Deferred outflows of resources related to pensions | (7,530) |
| Warrants payable | 10,057 |
| Accrued payroll | 1,864 |
| Net pension liability | 17,588 |
| Deferred inflows of resources related to pensions | (31,590) |
| Compensated absences | <u>14,558</u> |
| Net cash provided by operating activities | <u><u>\$ 318,103</u></u> |

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

TOWN OF TOWNSEND, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

| | Private Purpose <u>Trust Fund</u> | Agency <u>Fund</u> |
|---------------------------------------|---|-----------------------|
| Assets | | |
| Cash and short-term investments | \$ - | \$ 249,501 |
| Investments: | | |
| Market-linked certificates of deposit | <u>146,649</u> | <u>-</u> |
| Total Assets | 146,649 | 249,501 |
| Liabilities | | |
| Warrants payable | 1,000 | 258 |
| Other liabilities | <u>-</u> | <u>249,243</u> |
| Total Liabilities | <u>1,000</u> | \$ <u>249,501</u> |
| Net Position | | |
| Restricted for other purposes | <u>145,649</u> | |
| Total Net Position | \$ <u>145,649</u> | |

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

TOWN OF TOWNSEND, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Private Purpose Trust Fund</u> |
|---------------------|---|
| Additions | |
| Interest income | \$ 4,501 |
| Deductions | |
| Benefit payments | <u>2,951</u> |
| Net increase | 1,550 |
| Net Position | |
| Beginning of year | <u>144,099</u> |
| End of year | <u>\$ 145,649</u> |

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

TOWN OF TOWNSEND, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

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 government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue from grants, entitlements, and donations is recognized when all eligibility requirements have been satisfied and they are measurable and available. All other revenue items are considered to be measurable and available only when cash is received by the Town. 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, and pensions are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the Town'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 *Ambulance Fund* accumulates the Town's receipts for ambulance services. The receipts of the ambulance fund are used to replenish the general fund for operating expenditures related to the Emergency Medical Services (EMS) department incurred throughout the fiscal year. As such, these funds are reserved for appropriation by Town Meeting votes.

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 recognized 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:

- The *Water Enterprise Fund* accounts for the resources and costs associated with the Town's water supply and distribution.

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 *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in permanent funds, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Agency Fund* accounts for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. This fund is primarily used for

performance deposits and payroll withholdings. 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 guar-anteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guar-anteed by such securities with maturity dates of no more than 90 days from the date of purchase. Municipalities having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than 15% of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half of such funds be invested in the stock of any one bank or insurance company.

Investments consist of certificates of deposit, corporate bonds, corporate equities, federal agency securities, fixed income mutual funds, market-linked certificated of deposits, and U.S. Treasury notes. Investments are carried at fair value, except certificates of deposit which are reported at cost.

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 \$14,791.

G. Capital Assets

Capital assets, which include buildings and improvements, capital improvements, machinery, equipment, and furnishings, vehicles, library books, infrastructure, land, art and historical treasures, and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government using the following thresholds:

| <u>Assets</u> | <u>Value Amount</u> | <u>Estimated Useful Life</u> |
|---------------------------------------|-------------------------|----------------------------------|
| Buildings | \$ 50,000 | 40 |
| Building improvements | 25,000 | 20 |
| Infrastructure | 150,000 | 5 - 40 |
| Machinery and equipment | 25,000 | 3 - 10 |
| Vehicles | 5,000 | 5 |
| Library books | 5,000 | 10 |
| Software | 5,000 | 3 |
| Land | 25,000 | N/A |
| Land improvements | 5,000 | N/A |
| Works of art and historical treasures | 2,500 | N/A |

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 estimated useful lives noted above.

H. Compensated Absences

It is the Town's policy to permit certain employees to accumulate earned but unused vacation and sick pay benefits. All vested vacation and sick pay for those employees is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements and proprietary funds 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. The general fund and water enterprise fund typically repay these obligations.

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 current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. 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 which 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 and deferred outflows of resources and liabilities and deferred inflows of resources. 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 | \$ 21,647,551 | \$ 22,802,058 | \$ 1,029,747 |
| Reverse beginning-of-year appropriation carryforwards from expenditures | - | (257,493) | - |
| Add end-of-year appropriation carryforwards to expenditures | - | 468,533 | - |
| To reverse effect of capital lease proceeds | - | (184,254) | (184,254) |
| Reclass enterprise fund indirect cost reimbursement to budgetary basis | - | 196,944 | 196,944 |
| Remove effect of combining stabilization fund with general fund: | | | |
| Interest income | (23,359) | - | - |
| Transfers | - | - | (180) |
| Budgetary Basis | <u>\$ 21,624,192</u> | <u>\$ 23,025,788</u> | <u>\$ 1,042,257</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 deposit policies related to custodial credit risk.

As of June 30, 2019, \$2,074,543 of the Town’s bank balances of \$6,623,092 were exposed to custodial credit risk.

4. Investments

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

| <u>Investment Type</u> | <u>Amount</u> |
|---------------------------------------|---------------------|
| Certificates of deposit | \$ 3,038 |
| Corporate bonds | 694,337 |
| Corporate equities | 292,871 |
| Federal agency securities | 488,411 |
| Fixed income mutual funds | 107,545 |
| Market-linked certificates of deposit | 1,191,380 |
| U.S. Treasury notes | 423,115 |
| Total investments | <u>\$ 3,200,697</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 U.S. Treasury notes and federal agency securities have an implied credit rating of AAA):

| <u>Investment Type</u> | <u>Amount</u> | <u>Average Rating as of Year End</u> | | |
|---------------------------------------|---------------------|--------------------------------------|-------------------|---------------------|
| | | <u>AAA</u> | <u>A</u> | <u>Unrated</u> |
| Corporate bonds | \$ 694,337 | \$ - | \$ 694,337 | \$ - |
| Fixed income mutual funds | 107,545 | 107,545 | - | - |
| Market linked certificates of deposit | <u>1,191,380</u> | <u>-</u> | <u>-</u> | <u>1,191,380</u> |
| Total | <u>\$ 1,993,262</u> | <u>\$ 107,545</u> | <u>\$ 694,337</u> | <u>\$ 1,191,380</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.

Investments in open-end mutual funds are not exposed to custodial credit risk exposure because their existence is not evidenced by securities that exist in physical of book entry form.

As of June 30, 2019, the Town did not have any investments exposed to custodial credit risk as all investments were held in the Town's name.

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 are excluded from concentration of credit disclosure.

Investments in any one issuer that represent 5% or more of total investments are as follows:

| <u>Investment Issuer</u> | <u>Amount</u> | <u>% of Total Investments</u> |
|--------------------------|---------------|-------------------------------|
| State Bank of India | \$ 180,158 | 5.63% |

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> | <u>Investment Maturities (in Years)</u> | |
|---------------------------------------|---------------------|---|---------------------|
| | | <u>Less Than 1</u> | <u>1-5</u> |
| Corporate bonds | \$ 694,337 | \$ 99,906 | \$ 594,431 |
| Federal agency securities | 488,411 | - | 488,411 |
| Fixed income mutual funds | 107,545 | - | - |
| Market-linked certificates of deposit | 1,191,380 | 444,315 | 747,065 |
| U.S. Treasury notes | 423,115 | 213,076 | 210,039 |
| Total | \$ <u>2,904,788</u> | \$ <u>757,297</u> | \$ <u>2,039,946</u> |

E. Foreign Currency Risk

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

F. Fair Value

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

The hierarchy is based on the valuation inputs used to measure the fair value of the asset 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> | | |
|---------------------------------------|---------------------|---|--|--|
| | | <u>Quoted prices in active markets for identical assets (Level 1)</u> | <u>Significant observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> |
| Investments by fair value level: | | | | |
| Corporate bonds | \$ 694,337 | \$ - | \$ 694,337 | \$ - |
| Corporate equities | 292,871 | 292,871 | - | - |
| Federal agency securities | 488,411 | - | 488,411 | - |
| Fixed income mutual funds | 107,545 | - | 107,545 | - |
| Market-linked certificates of deposit | 1,191,380 | - | 1,191,380 | - |
| U.S. Treasury notes | <u>423,115</u> | - | 423,115 | - |
| Total | \$ <u>3,197,659</u> | | | |

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

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. Property Taxes and Excises Receivable

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.

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

| | Gross Amount (fund basis) | Allowance for Doubtful Accounts | Current Portion | Long- Term Portion |
|-------------------------|---------------------------------|---------------------------------------|--------------------|--------------------------|
| Real estate taxes | \$ 505,817 | \$ (52,324) | \$ 453,493 | \$ - |
| Personal property taxes | 9,551 | (7,326) | 2,225 | - |
| Deferred taxes | 518 | (52) | 466 | - |
| Tax liens | <u>609,412</u> | <u>(60,941)</u> | <u>-</u> | <u>548,471</u> |
| Total property taxes | \$ <u>1,125,298</u> | \$ <u>(120,643)</u> | \$ <u>456,184</u> | \$ <u>548,471</u> |
| Excises | \$ 243,614 | \$ (74,644) | \$ 168,970 | \$ - |

6. User Fees Receivables

Water user charges are based on meter readings that are done by the Townsend Water Department at the end of each quarter – March, June, September, and December – and are billed in the months following the meter readings. An overdue notice will be sent to water users whose bill remains outstanding by the end of the month in which the first bill is rendered. A demand charge of \$2 per unit will be added to the original bill, plus 1.5% interest. If the bill remains outstanding for 15 days following the overdue notice, the Water Commissioners may order the Superintendent to shut off the water service following Sec IIA, Chapter 165 of the Massachusetts General Laws. The water service will remain shut off until such time that the total outstanding bill is paid, plus an additional turn-on fee of \$35.

All outstanding balances of accumulated water charges plus demands and interest with no payments for more than three billing periods constitute a lien on the property, and may be turned over to the tax collector for collection.

Water service connection fees are charged for each new service tapped into the main. The charge covers the costs of digging, tapping the main, laying the standard water lines, and installation of a standard water meter. If larger services or meters are required, additional charges will be rendered.

Receivables for water user charges, water liens, and other water fees at June 30, 2019 consist of the following:

| | <u>Gross</u> <u>Amount</u> | <u>Allowance</u> <u>for Doubtful</u> <u>Accounts</u> | <u>Net</u> <u>Amount</u> |
|--------------------|-------------------------------|--|-----------------------------|
| Water user charges | \$ 304,118 | \$ (30,412) | \$ 273,706 |
| Water liens | 12,210 | (3,663) | 8,547 |
| Other | <u>13,724</u> | <u>(5,262)</u> | <u>8,462</u> |
| Total | <u>\$ 330,052</u> | <u>\$ (39,337)</u> | <u>\$ 290,715</u> |

7. Interfund Transfers In and (Out)

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2019:

| Governmental Funds | <u>Transfers In</u> | <u>Transfers Out</u> | | |
|--------------------------------|---------------------|----------------------|-----|-----|
| General fund | \$ 866,493 | \$ 21,000 | (1) | (2) |
| Nonmajor Governmental Funds: | | | | |
| Ambulance receipts reserved | - | 584,230 | (1) | |
| Cable access | - | 175,000 | (1) | |
| Title V betterments | - | 27,538 | (1) | |
| LRTA state grant | - | 13,669 | (1) | |
| Cemetery sale of lots | - | 9,500 | (1) | |
| WTRR receipts reserved | - | 2,900 | (1) | |
| Recreation revolving | - | 20,000 | (1) | |
| Insurance settlement revolving | - | 33,656 | (1) | |
| Conservation land | <u>21,000</u> | <u>-</u> | (2) | |
| Total | <u>\$ 887,493</u> | <u>\$ 887,493</u> | | |

(1) Transfers from various special revenue funds to the general fund for capital improvements and operating budget support

(2) Transfer for conservation land fund

8. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|----------------|-------------------|
| Governmental Activities | | | | |
| Capital assets, depreciable: | | | | |
| Buildings and improvements | \$ 22,933,905 | \$ 1,764,604 | \$ - | \$ 24,698,509 |
| Capital improvements | 713,535 | 22,311 | - | 735,846 |
| Machinery, equipment, and furnishings | 5,850,806 | 103,348 | - | 5,954,154 |
| Vehicles | 1,399,151 | 816,607 | (103,658) | 2,112,100 |
| Library books | 520,003 | - | - | 520,003 |
| Infrastructure | 12,706,480 | 135,510 | - | 12,841,990 |
| Total capital assets, depreciable | 44,123,880 | 2,842,380 | (103,658) | 46,862,602 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (6,718,813) | (624,210) | - | (7,343,023) |
| Capital improvements | (407,078) | (26,508) | - | (433,586) |
| Machinery, equipment, and furnishings | (4,704,800) | (274,320) | - | (4,979,120) |
| Vehicles | (1,122,206) | (172,855) | 92,922 | (1,202,139) |
| Library books | (475,456) | (17,940) | - | (493,396) |
| Infrastructure | (5,042,765) | (271,428) | - | (5,314,193) |
| Total accumulated depreciation | (18,471,118) | (1,387,261) | 92,922 | (19,765,457) |
| Total capital assets, depreciable, net | 25,652,762 | 1,455,119 | (10,736) | 27,097,145 |
| Capital assets, non-depreciable: | | | | |
| Land | 3,543,441 | - | - | 3,543,441 |
| Art and historical treasures | 55,200 | - | - | 55,200 |
| Construction in progress | 1,197,217 | - | (1,197,217) | - |
| Total capital assets, non-depreciable | 4,795,858 | - | (1,197,217) | 3,598,641 |
| Governmental activities capital assets, net | \$ 30,448,620 | \$ 1,455,119 | \$ (1,207,953) | \$ 30,695,786 |
| Business-Type Activities | | | | |
| Capital assets, depreciable: | | | | |
| Buildings and improvements | \$ 1,693,463 | \$ - | \$ - | \$ 1,693,463 |
| Capital improvements | 693,836 | 40,100 | - | 733,936 |
| Machinery, equipment, and furnishings | 1,165,777 | - | - | 1,165,777 |
| Vehicles | 134,986 | - | - | 134,986 |
| Infrastructure | 2,403,005 | 235,566 | - | 2,638,571 |
| Total capital assets, depreciable | 6,091,067 | 275,666 | - | 6,366,733 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (552,059) | (39,512) | - | (591,571) |
| Capital improvements | (384,099) | (14,051) | - | (398,150) |
| Machinery, equipment, and furnishings | (454,374) | (132,059) | - | (586,433) |
| Vehicles | (122,015) | (7,254) | - | (129,269) |
| Infrastructure | (966,830) | (51,797) | - | (1,018,627) |
| Total accumulated depreciation | (2,479,377) | (244,673) | - | (2,724,050) |
| Total capital assets, depreciable, net | 3,611,690 | 30,993 | - | 3,642,683 |
| Capital assets, non-depreciable: | | | | |
| Land | 662,257 | - | - | 662,257 |
| Construction in progress | - | 23,940 | - | 23,940 |
| Total capital assets, non-depreciable | 662,257 | 23,940 | - | 686,197 |
| Business-type activities capital assets, net | \$ 4,273,947 | \$ 54,933 | \$ - | \$ 4,328,880 |

Depreciation expense was charged to functions of the Town as follows:

| | |
|-------------------------------|---------------------|
| Governmental Activities: | |
| General government | \$ 454,904 |
| Public safety | 462,500 |
| Public works | 451,154 |
| Culture and recreation | <u>18,703</u> |
| Total governmental activities | <u>\$ 1,387,261</u> |
| Business-Type Activities: | |
| Water | \$ 244,673 |

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, are more fully discussed in the corresponding pension note.

10. Warrants Payable

Warrants payable represents non-payroll expenditures related to fiscal year 2019 paid subsequent to June 30, 2019.

11. Accrued Payroll

Accrued payroll represents payroll expenditures related to fiscal year 2019 paid subsequent to June 30, 2019.

12. Notes Payable

The following summarizes activity in notes payable during fiscal year 2019:

| | Interest Rate | Date of Issue | Date of Maturity | Beginning Balance at 6/30/18 | New Issues | Maturities | Ending Balance at 6/30/19 |
|-------------------------|---------------|---------------|------------------|------------------------------|---------------------|---------------------|---------------------------|
| Water | | | | | | | |
| Water main improvements | 2.45% | 07/19/18 | 05/01/19 | \$ - | \$ 981,200 | \$ (981,200) | \$ - |
| Water main improvements | 2.19% | 05/01/19 | 05/01/20 | <u>-</u> | <u>981,200</u> | <u>-</u> | <u>981,200</u> |
| Total | | | | <u>\$ -</u> | <u>\$ 1,962,400</u> | <u>\$ (981,200)</u> | <u>\$ 981,200</u> |

13. Long-Term Debt

A. General Obligation Bonds and Direct Borrowings

The Town issues general obligation bonds and direct borrowings 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. Direct borrowings have been issued for the governmental activities and are further discussed on page 40. General obligation bonds and direct borrowings currently outstanding are as follows:

| | Serial Maturities Through | Interest Rate(s) | Amount Outstanding as of 6/30/19 |
|--|---------------------------------|---------------------|---|
| <u>Governmental Activities</u> | | | |
| Refunding of 2017 | 02/01/24 | 2.00 - 5.00% | \$ 675,000 |
| Fire sub-station | 02/01/38 | 2.00 - 5.00% | 1,666,000 |
| Fire truck | 02/01/38 | 2.00 - 5.00% | 465,000 |
| Capital improvements | 02/01/38 | 2.00 - 5.00% | 387,000 |
| Land acquisition | 02/01/38 | 2.00 - 5.00% | 152,000 |
| Massachusetts Clean Water Trust (direct borrowings) | 07/15/27 | 0.00% | 125,765 |
| Total governmental activities | | | <u>\$ 3,470,765</u> |
| | | | |
| | Serial Maturities Through | Interest Rate | Amount Outstanding as of 6/30/19 |
| <u>Business-Type Activities</u> | | | |
| Water pumping station | 07/15/25 | 2.00% | \$ 276,798 |
| Water improvements - East Side | 07/15/26 | 2.00% | 455,288 |
| Total business-type activities | | | <u>\$ 732,086</u> |

B. Future Debt Service

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

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|---------------------|-------------------|---------------------|
| 2020 | \$ 335,000 | \$ 110,900 | \$ 445,900 |
| 2021 | 335,000 | 100,850 | 435,850 |
| 2022 | 320,000 | 94,150 | 414,150 |
| 2023 | 255,000 | 87,750 | 342,750 |
| 2024 | 255,000 | 75,000 | 330,000 |
| 2025 | 165,000 | 62,250 | 227,250 |
| 2026 | 160,000 | 54,000 | 214,000 |
| 2027 | 160,000 | 46,000 | 206,000 |
| 2028 | 160,000 | 41,600 | 201,600 |
| 2029 | 120,000 | 37,200 | 157,200 |
| 2030 - 2034 | 600,000 | 132,000 | 732,000 |
| 2035 - 2038 | 480,000 | 39,000 | 519,000 |
| Total | <u>\$ 3,345,000</u> | <u>\$ 880,700</u> | <u>\$ 4,225,700</u> |

| <u>Business-Type</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|-------------------|------------------|-------------------|
| 2020 | \$ 90,217 | \$ 13,740 | \$ 103,957 |
| 2021 | 92,040 | 11,917 | 103,957 |
| 2022 | 93,900 | 10,057 | 103,957 |
| 2023 | 95,796 | 8,160 | 103,956 |
| 2024 | 97,732 | 6,225 | 103,957 |
| 2025 | 99,706 | 4,251 | 103,957 |
| 2026 | 101,720 | 2,237 | 103,957 |
| 2027 | 60,975 | 610 | 61,585 |
| Total | <u>\$ 732,086</u> | <u>\$ 57,197</u> | <u>\$ 789,283</u> |

The Town has issued direct borrowings from the Massachusetts Pollution Abatement Trust (MWPAT), a state revolving loan fund (SRF) of the Massachusetts Clean Water Trust (MCWT), a component unit of the Commonwealth of Massachusetts. MCWT issues special obligation bonds under its SRF programs to provide low cost financing to Cities, Towns, and other eligible borrowers, primarily for the construction and improvement of drinking water and wastewater infrastructure. There were no unused lines of credit or assets pledged as collateral for debt. The Town certified that rates and charges in the Water Enterprise fund has been set at a sufficient level to cover estimated operating expenses and debt service related to direct borrowings. In addition, the Town as an “obligated person” with respect to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange

Act of 1934, agrees with MCWT to provide an annual report, not later than 270 days after the close of each fiscal year, that incorporates the most recently available audited financial statements to meet continuing disclosure requirements.

The annual payments to retire all state revolving loan direct borrowings outstanding, payable by fiscal year, as of June 30, 2019 are as follows:

| | <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------|---------------------|------------------|-----------------|-------------------|
| 2020 | \$ | 27,538 | \$ - | \$ 27,538 |
| 2021 | | 16,755 | - | 16,755 |
| 2022 | | 16,924 | - | 16,924 |
| 2023 | | 16,924 | - | 16,924 |
| 2024 | | 9,525 | - | 9,525 |
| 2025 | | 9,525 | - | 9,525 |
| 2026 | | 9,525 | - | 9,525 |
| 2027 | | 9,525 | - | 9,525 |
| 2028 | | 9,524 | - | 9,524 |
| Total | \$ | <u>125,765</u> | \$ <u>-</u> | \$ <u>125,765</u> |

C. Changes in General Long-Term Liabilities

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

| | <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 | \$ 3,670,000 | \$ - | \$ (325,000) | \$ 3,345,000 | \$ (335,000) | \$ 3,010,000 |
| Unamortized bond premiums | 239,390 | - | (11,970) | 227,420 | (11,970) | 215,450 |
| State revolving loans (direct borrowings) | 153,303 | - | (27,538) | 125,765 | (27,538) | 98,227 |
| Total bonds payable | 4,062,693 | - | (364,508) | 3,698,185 | (374,508) | 3,323,677 |
| Landfill postclosure | 346,000 | - | (20,000) | 326,000 | (20,200) | 305,800 |
| Compensated absences | 46,640 | 784,368 | (122,585) | 708,423 | (70,842) | 637,581 |
| Capital leases | 65,734 | 184,254 | (139,206) | 110,782 | (54,017) | 56,765 |
| Net pension liability | 7,563,431 | 1,148,327 | - | 8,711,758 | - | 8,711,758 |
| Total OPEB liability | 7,115 | - | (7,115) | - | - | - |
| Total governmental activities | \$ <u>12,091,613</u> | \$ <u>2,116,949</u> | \$ <u>(653,414)</u> | \$ <u>13,555,148</u> | \$ <u>(519,567)</u> | \$ <u>13,035,581</u> |
| Business-Type Activities | | | | | | |
| Bonds payable | \$ 820,517 | \$ - | \$ (88,431) | \$ 732,086 | \$ (90,217) | \$ 641,869 |
| Compensated absences | 1,473 | 16,031 | (1,473) | 16,031 | (1,603) | 14,428 |
| Net pension liability | 526,665 | 17,588 | - | 544,253 | - | 544,253 |
| Total business-type activities | \$ <u>1,348,655</u> | \$ <u>33,619</u> | \$ <u>(89,904)</u> | \$ <u>1,292,370</u> | \$ <u>(91,820)</u> | \$ <u>1,200,550</u> |

D. Bond Authorizations

The Town has one long-term debt authorization that has not been issued or rescinded as of June 30, 2019. This authorization, occurring on May 7, 2019, allows the Town to issue general obligation bonds of \$200,000 to replace the bridge on Greenville Road.

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

General obligation bonds and state revolving loans 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 water enterprise fund. All other long-term debt is repaid from the funds that the cost relates to, primarily the general fund and water enterprise fund.

14. 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 \$326,000 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 fiscal year 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in fiscal year 2021. Future minimum lease payments on these capital leases under obligation consisted of the following as of June 30, 2019:

| Fiscal <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|-------------------|-----------------|-------------------|
| 2020 | \$ 54,017 | \$ 5,639 | \$ 59,656 |
| 2021 | <u>56,765</u> | <u>2,889</u> | <u>59,654</u> |
| Total | <u>\$ 110,782</u> | <u>\$ 8,528</u> | <u>\$ 119,310</u> |

16. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of net position by the Town that is applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The Town reports two items as deferred inflows of resources, one which is attributable to changes in the net pension liability and the other which arises from the *current financial resources measurement focus* and the *modified accrual basis of accounting* in governmental funds. Deferred inflows of resources related to pensions, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, will be recognized as a reduction to pension expense in future periods and are more fully described in the corresponding pension note.

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.

The following is a summary of unavailable revenue balances as of June 30, 2019:

| | <u>Governmental Funds</u> | | |
|-----------------------|-------------------------------|---------------------------------|---------------------------------|
| | <u>General</u> <u>Fund</u> | <u>Ambulance</u> <u>Fund</u> | <u>Nonmajor</u> <u>Funds</u> |
| Unavailable revenues: | | | |
| Property taxes | \$ 1,039,151 | \$ - | \$ - |
| Excises | 243,614 | - | - |
| Title V | - | - | 74,614 |
| Ambulance charges | - | 368,294 | - |
| Total | <u>\$ 1,282,765</u> | <u>\$ 368,294</u> | <u>\$ 74,614</u> |

17. 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, Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), 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 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 funds set aside in the general fund for future debt service, various special revenue funds, capital project 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. A similar action is needed to modify or rescind a commitment. This fund balance classification includes funds set aside in the Town's capital stabilization fund, non-lapsing special article appropriations approved at Town Meeting, and surplus set aside to be used in the subsequent year's budget approved at Town Meeting.

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, the Town's general stabilization account, and deficit balances in nonmajor governmental funds. The Town's general stabilization account is authorized in accordance with Massachusetts General Law Chapter 40, Section 5B. The creation of, appropriation into, and appropriation out of the general stabilization account requires two-thirds approval at Town Meeting.

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

| | General Fund | Ambulance Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------------|-----------------|-------------------|-----------------------------------|--------------------------------|
| Nonspendable | | | | |
| Permanent funds | \$ - | \$ - | \$ 328,651 | \$ 328,651 |
| Total Nonspendable | - | - | 328,651 | 328,651 |
| Restricted | | | | |
| For debt service | 738 | - | - | 738 |
| Capital projects | - | - | 174,517 | 174,517 |
| Ambulance | - | 721,301 | - | 721,301 |
| Cablevision access receipts reserved | - | - | 470,703 | 470,703 |
| Septic Title V revolving fund | - | - | 214,353 | 214,353 |
| Bond premiums | - | - | 140,500 | 140,500 |
| Recreation revolving fund | - | - | 62,850 | 62,850 |
| CDBG program income | - | - | 59,095 | 59,095 |
| EPS police grant | - | - | 48,880 | 48,880 |
| Community compact grant | - | - | 46,904 | 46,904 |
| Solid waste revolving fund | - | - | 42,077 | 42,077 |
| Cemetery sale of lots fund | - | - | 37,168 | 37,168 |
| Cemetery revolving fund | - | - | 36,295 | 36,295 |
| Other special revenue funds | - | - | 388,185 | 388,185 |
| Permanent funds | - | - | 150,373 | 150,373 |
| Total Restricted | 738 | 721,301 | 1,871,900 | 2,593,939 |
| Committed | | | | |
| Capital stabilization accounts | 338,604 | - | - | 338,604 |
| For continuing appropriations: | | | | |
| General government | 203,957 | - | - | 203,957 |
| Public safety | 248,491 | - | - | 248,491 |
| Public works | 40,548 | - | 63,792 | 104,340 |
| Health and human services | 9,500 | - | - | 9,500 |
| Employee benefits | 4,494 | - | - | 4,494 |
| For next year's expenditures: | | | | |
| For roadway improvements | 250,000 | - | - | 250,000 |
| Dudley road affordable housing | 35,000 | - | - | 35,000 |
| 300th Anniversary celebration | 5,000 | - | - | 5,000 |
| Emergency management equipment | 3,600 | - | - | 3,600 |
| Stabilization funding | 105,000 | - | - | 105,000 |
| Total Committed | 1,244,194 | - | 63,792 | 1,307,986 |
| Assigned | | | | |
| Encumbered for: | | | | |
| General government | 50,273 | - | - | 50,273 |
| Public safety | 6,367 | - | - | 6,367 |
| Public works | 955 | - | - | 955 |
| Health and human services | 439 | - | - | 439 |
| Culture and recreation | 1,496 | - | - | 1,496 |
| Total Assigned | 59,530 | - | - | 59,530 |
| Unassigned | | | | |
| General operating fund | 688,047 | - | - | 688,047 |
| General stabilization fund | 1,361,448 | - | - | 1,361,448 |
| Deficit balances | - | - | (16,718) | (16,718) |
| Total Unassigned | 2,049,495 | - | (16,718) | 2,032,777 |
| Total Fund Balances | \$ 3,353,957 | \$ 721,301 | \$ 2,247,625 | \$ 6,322,883 |

18. Middlesex County Retirement System

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

A. Plan Description

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

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% |
| 1979 - present | Additional 2.00% of salary in excess of \$30,000 |
| Group 1 members hired on or after April 2, 2012 | 6.00% with 30 or more years of credible service |

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 4 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 members 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 \$812,598, 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 \$9,256,011 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 January 1, 2018. 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 0.593537%.

For the year ended June 30, 2019, the Town recognized pension expense of \$1,264,584. 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 | \$ 18,937 | \$ (32,263) |
| Changes of assumptions | 575,243 | - |
| Net difference between projected and actual investment earnings on pension plan investments | 412,574 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>782,056</u> | <u>(588,962)</u> |
| Total | <u>\$ 1,788,810</u> | <u>\$ (621,225)</u> |

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

| <u>Fiscal Year ended June 30:</u> | | |
|-----------------------------------|----|-------------------------|
| 2020 | \$ | 510,796 |
| 2021 | | 359,412 |
| 2022 | | 55,677 |
| 2023 | | <u>241,700</u> |
| Total | \$ | <u><u>1,167,585</u></u> |

D. Actuarial Assumptions

The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|--|
| Valuation date | January 1, 2018 |
| Actuarial cost method | Entry age normal |
| Remaining amortization period | As of July 1, 2018, one year remaining for 2002 ERI liability, two years remaining for 2003 ERI liability, four years remaining for 2010 ERI liability, and seventeen years for remaining unfunded liability |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Inflation rate | 3.25% |
| Projected salary increases | Varies by length of service with ultimate rates of 4.00% for Group 1, 4.25% for Group 2, and 4.50% for Group 4 |
| Post-retirement cost-of-living adjustment | 3.00% on the first \$14,000 |

Mortality rates were based on:

- Pre-Retirement: RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017
- Healthy Retiree: RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017
- Disabled Retiree: RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017

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 expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--|--------------------------|---|
| Domestic equity | 17.00% | 7.62% |
| International developed markets equity | 14.90% | 7.80% |
| Hedge funds / portfolio completion | 14.20% | 6.83% |
| Core fixed income | 13.00% | 4.00% |
| Private equity | 12.10% | 11.15% |
| Real estate | 9.40% | 6.59% |
| Value-added fixed income | 8.10% | 7.58% |
| International emerging markets equity | 6.00% | 9.31% |
| Timberland | 4.10% | 7.00% |
| Overlay | 0.90% | 0.00% |
| Liquidating portfolios | 0.30% | 0.00% |
| Total | <u>100.00%</u> | |

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that 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 7.50%, 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:

| | 1% Decrease <u>(6.50%)</u> | Current Discount Rate <u>(7.50%)</u> | 1% Increase <u>(8.50%)</u> |
|----|----------------------------------|---|----------------------------------|
| \$ | 11,227,956 | \$ 9,258,011 | \$ 7,593,372 |

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 mentioned previously.

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 \$59,530 in encumbrances that will be honored in the next fiscal year.

20. 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.

21. Subsequent Events

COVID-19

The COVID-19 outbreak in the United States and across the globe has resulted in economic uncertainties. The disruption is expected to be temporary, but there is considerable uncertainty around the duration and scope. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, special acts or legislation by the state or federal government, and the impact on our taxpayers, customers, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

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

JUNE 30, 2019
 (Unaudited)

Middlesex County Retirement System

| <u>Fiscal Year</u> | <u>Measurement Date</u> | Proportion of the Net Pension Liability | Proportionate Share of the Net Pension Liability | Covered Payroll | Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position Percentage of the Total Pension Liability |
|--------------------|-------------------------|---|--|-----------------|---|---|
| June 30, 2019 | December 31, 2018 | 0.593537% | \$ 9,256,011 | \$ 3,184,331 | 290.67% | 46.40% |
| June 30, 2018 | December 31, 2017 | 0.570052% | 8,090,096 | 3,057,294 | 264.62% | 49.27% |
| June 30, 2017 | December 31, 2016 | 0.647040% | 9,167,760 | 2,866,064 | 319.87% | 45.49% |
| June 30, 2016 | December 31, 2015 | 0.579497% | 7,475,618 | 2,998,738 | 249.29% | 46.13% |
| June 30, 2015 | December 31, 2014 | 0.561285% | 6,742,808 | 2,883,402 | 233.85% | 47.65% |

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

See Independent Auditors' Report.

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

JUNE 30, 2019
 (Unaudited)

Middlesex County Retirement System

| <u>Fiscal Year</u> | <u>Measurement Date</u> | <u>Contractually Required Contribution</u> | <u>Contributions in Relation to the Contractually Required Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered Payroll</u> | <u>Contributions as a Percentage of Covered Payroll</u> |
|--------------------|-------------------------|--|---|---|------------------------|---|
| June 30, 2019 | December 31, 2018 | \$ 812,598 | \$ 812,598 | \$ - | \$ 3,184,331 | 25.52% |
| June 30, 2018 | December 31, 2017 | 764,434 | 764,434 | - | 3,057,294 | 25.00% |
| June 30, 2017 | December 31, 2016 | 690,007 | 690,007 | - | 2,866,064 | 24.08% |
| June 30, 2016 | December 31, 2015 | 650,040 | 650,040 | - | 2,998,738 | 21.68% |
| June 30, 2015 | December 31, 2014 | 673,724 | 673,724 | - | 2,883,402 | 23.37% |

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

See Independent Auditors' Report.