

TOWN OF SUTTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

TOWN OF SUTTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Select Board
Town of Sutton, 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 Sutton, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2020, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town's internal control over financial reporting and compliance.

Melanson Heath

February 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include Sewer and Transfer Station activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of

spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$34,225,671 (i.e., net position), a change of \$(1,333,512) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,637,036, a change of \$(4,119,001) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,813,007, a change of \$1,247,652 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION (in thousands)</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 14,672	\$ 19,157	\$ 1,593	\$ 1,513	\$ 16,265	\$ 20,670
Capital assets	<u>94,437</u>	<u>90,025</u>	<u>7,685</u>	<u>8,019</u>	<u>102,122</u>	<u>98,044</u>
Total assets	109,109	109,182	9,278	9,532	118,387	118,714
Deferred outflows of resources	11,270	9,768	71	64	11,341	9,832
Long-term liabilities outstanding	86,872	82,476	2,840	3,283	89,712	85,759
Other liabilities	<u>3,655</u>	<u>4,237</u>	<u>607</u>	<u>573</u>	<u>4,262</u>	<u>4,810</u>
Total liabilities	90,527	86,713	3,447	3,856	93,974	90,569
Deferred inflows of resources	1,524	2,409	5	9	1,529	2,418
Net investment in capital assets	64,808	59,260	4,662	4,552	69,470	63,812
Restricted	3,381	3,406	-	-	3,381	3,406
Unrestricted	<u>(39,861)</u>	<u>(32,838)</u>	<u>1,235</u>	<u>1,179</u>	<u>(38,626)</u>	<u>(31,659)</u>
Total net position	<u>\$ 28,328</u>	<u>\$ 29,828</u>	<u>\$ 5,897</u>	<u>\$ 5,731</u>	<u>\$ 34,225</u>	<u>\$ 35,559</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$34,225,671, a change of \$(1,333,512) in comparison to the prior year.

The largest portion of net position \$69,470,024 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt

must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$3,381,594, 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 \$(38,625,947) primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION (in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,496	\$ 2,232	\$ 1,061	\$ 1,119	\$ 3,557	\$ 3,351
Operating grants and contributions	10,837	10,570	83	89	10,920	10,659
Capital grants and contributions	392	303	-	-	392	303
General revenues:						
Property taxes	24,337	23,016	-	-	24,337	23,016
Excises	1,847	1,850	-	-	1,847	1,850
Penalties, interest, and other taxes	99	146	-	-	99	146
Grants and contributions not restricted to specific programs	932	905	3	3	935	908
Investment income	308	102	1	3	309	105
Miscellaneous	100	493	-	-	100	493
Total revenues	<u>41,348</u>	<u>39,617</u>	<u>1,148</u>	<u>1,214</u>	<u>42,496</u>	<u>40,831</u>
Expenses:						
General government	2,691	2,112	-	-	2,691	2,112
Public safety	3,858	3,648	-	-	3,858	3,648
Education	32,445	31,060	-	-	32,445	31,060
Public works	1,069	1,565	-	-	1,069	1,565
Human services	549	491	-	-	549	491
Culture and recreation	306	448	-	-	306	448
Insurance	396	389	-	-	396	389
Interest on long-term debt	1,028	956	-	-	1,028	956
Sewer	-	-	1,323	986	1,323	986
Nonmajor transfer station	-	-	165	182	165	182
Total expenses	<u>42,342</u>	<u>40,669</u>	<u>1,488</u>	<u>1,168</u>	<u>43,830</u>	<u>41,837</u>
Change in net position before transfers	(994)	(1,052)	(340)	46	(1,334)	(1,006)
Transfers in (out)	<u>(506)</u>	<u>(507)</u>	<u>506</u>	<u>507</u>	<u>-</u>	<u>-</u>
Change in net position	(1,500)	(1,559)	166	553	(1,334)	(1,006)
Net position - beginning of year	<u>29,828</u>	<u>31,387</u>	<u>5,731</u>	<u>5,178</u>	<u>35,559</u>	<u>36,565</u>
Net position - end of year	<u>\$ 28,328</u>	<u>\$ 29,828</u>	<u>\$ 5,897</u>	<u>\$ 5,731</u>	<u>\$ 34,225</u>	<u>\$ 35,559</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,499,123). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,203,619
Non-bonded capital asset acquisitions	3,255,452
Depreciation expense in excess of principal debt service	(1,350,095)
Change in other post employment benefits liability and related deferred outflows/inflows	(3,394,420)
Change in net pension liability and related deferred outflows/inflows	(931,060)
Other GAAP accruals	<u>(282,619)</u>
Total	\$ <u><u>(1,499,123)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$165,611. Key elements of this change are as follows:

Sewer operations, before transfers	\$ (327,651)
Sewer debt service paid with a general fund subsidy	505,678
Nonmajor transfer station operations	<u>(12,416)</u>
Total	\$ <u><u>165,611</u></u>

D. FINANCIAL ANALYSIS OF FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,637,036, a change of \$(4,119,001) in comparison to the prior year. Key elements of this change are as follows:

General fund operations	\$ 1,203,619
Police station expenditures funded with prior year bond proceeds	(5,346,265)
Non-major operations	<u>23,645</u>
Total	<u>\$ (4,119,001)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,813,007, while total fund balance was \$7,827,742. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 5,813,007	\$ 4,565,355	\$ 1,247,652	16.99%
Total fund balance ²	\$ 7,827,742	\$ 6,624,123	\$ 1,203,619	22.87%

¹Includes General Stabilization of \$2,435,948.

²Includes General, Capital and SPED Stabilization and Compensated Absence Reserve fund balances.

The total fund balance of the general fund changed by \$1,203,619 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (817,000)
Use of other funding sources	(119,141)
Revenue surplus	967,841
Appropriation turnbacks by departments	688,912
Excess tax collection over budget	319,790
Prior year encumbrances spent in the current year in excess of current year encumbrances to be spent in the subsequent year	(821,958)
Change in stabilization	784,688
Change in compensated absence reserve	<u>200,487</u>
Total	<u>\$ 1,203,619</u>

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>
General stabilization (unassigned)	\$ 2,435,948	\$ 2,141,125	\$ 294,823
Capital stabilization (committed)	759,990	423,172	336,818
Special education stabilization (committed)	355,618	202,571	153,047
Compensated absence reserve (committed)	<u>200,487</u>	<u>-</u>	<u>200,487</u>
Total	\$ <u>3,752,043</u>	\$ <u>2,766,868</u>	\$ <u>985,175</u>

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 \$1,234,875, a change of \$55,324 in comparison to the prior year.

The increase in the unrestricted net position results primarily from the transfer in from the general fund for debt service.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,070,304. Major reasons for these amendments include:

- \$ 203,890 Increase in education appropriations
- \$ 122,783 Increase in public works appropriations
- \$ 316,615 Increase in employee benefit appropriations
- \$ 400,000 To fund stabilization transfers

Of this increase, \$817,000 was funded through the use of free cash, \$203,304 through an increase in real estate and property taxes, and \$50,000 through the use of overlay surplus. Additionally, there were other budgetary reclassifications during the fiscal year which has no impact on the Town's total budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$102,121,986 (net of accumulated depreciation), a change of \$4,077,711 from the prior year. This investment in capital assets includes land, buildings and improvements, infrastructure, vehicles, and machinery and equipment.

Major capital asset events during the current fiscal year included construction in progress on the police station and Goddard Lodge, Chapter 90 road resurfacing, communications upgrades, and acquisition of property.

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

Credit Rating. The Town is currently assigned an “AA+” rating from Standard and Poor’s for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$31,465,512 all of which was backed by the full faith and credit of the government.

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

G. ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES (WHOLE DOLLAR AMOUNTS)

- According to the Commonwealth of Massachusetts Division of Employment and Training, the unemployment rate for the Town of Sutton was 2.2% as of December 2019, which compares favorably with the state rate of 2.4% and the national rate of 3.5% for the same time period.
- According to the U.S. Department of Commerce, the median family income for the Town for 2017 was \$101,315; the per capita income for the same time was \$43,451. This compares favorably with both state and national incomes.
- According to the Town’s Board of Assessors, the average 2020 single-family home in Sutton is valued at \$313,688; the average two-family home is valued at \$207,388; the average three-family home is valued at \$303,828; the average condominium is valued at \$307,778; the average commercial property is valued at \$542,482; and the average industrial property is valued at \$442,328. All properties compare favorably with state and national property values.
- The Town approved a fiscal year 2020 general fund budget of \$34,524,550, an increase of \$1,219,719 or 3.66% over the final fiscal year 2019 general fund budget.
- The total property tax levy for fiscal year 2020 is \$24,964,191, an increase of \$803,753 or 3.33%. Local receipts are anticipated to be 1.8% more than fiscal year 2019 and state aid is anticipated to be 1.3% more than fiscal year 2019.

REQUESTS FOR INFORMATION

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

Town Administrator
Town of Sutton
4 Uxbridge Road
Sutton, Massachusetts 01590

TOWN OF SUTTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
Assets			
Current:			
Cash and short-term investments	\$ 10,241,259	\$ 1,326,155	\$ 11,567,414
Investments	3,140,607	-	3,140,607
Receivables, net of allowance for uncollectibles:			
Property taxes	224,209	-	224,209
Excises	170,906	-	170,906
User fees	-	263,326	263,326
Intergovernmental	478,601	-	478,601
Other assets	2,835	4,000	6,835
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	413,426	-	413,426
Capital assets:			
Land and construction in progress	6,296,281	-	6,296,281
Other capital assets, net of accumulated depreciation	88,140,587	7,685,118	95,825,705
Deferred Outflows of Resources			
Related to pensions	1,801,755	8,509	1,810,264
Related to OPEB	9,468,390	62,151	9,530,541
Total Assets and Deferred Outflows of Resources	120,378,856	9,349,259	129,728,115
Liabilities			
Current:			
Warrants payable	485,028	-	485,028
Accrued liabilities	890,628	104,003	994,631
Other current liabilities	24,352	7,068	31,420
Current portion of long-term liabilities:			
Bonds payable	2,142,761	495,520	2,638,281
Other	111,734	582	112,316
Noncurrent:			
Bonds payable, net of current portion	26,300,000	2,527,231	28,827,231
Net pension liability	17,292,710	81,660	17,374,370
Net OPEB liability	42,698,437	220,382	42,918,819
Other	580,965	11,047	592,012
Total liabilities	90,526,615	3,447,493	93,974,108
Deferred Inflows of Resources			
Related to pensions	518,248	2,448	520,696
Related to OPEB	324,137	2,075	326,212
Other	681,428	-	681,428
Total Liabilities and Deferred Inflows of Resources	92,050,428	3,452,016	95,502,444
Net Position			
Net investment in capital assets	64,807,656	4,662,368	69,470,024
Restricted for:			
Grants and other statutory restrictions	3,076,610	-	3,076,610
Permanent funds:			
Nonexpendable	96,755	-	96,755
Expendable	208,229	-	208,229
Unrestricted	(39,860,822)	1,234,875	(38,625,947)
Total Net Position	\$ 28,328,428	\$ 5,897,243	\$ 34,225,671

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

TOWN OF SUTTON, 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	\$ 2,690,582	\$ 509,556	\$ 430,985	\$ -	\$ (1,750,041)	\$ -	\$ (1,750,041)
Public safety	3,858,494	528,294	23,452	36,396	(3,270,352)	-	(3,270,352)
Education	32,445,303	1,217,819	10,138,905	-	(21,088,579)	-	(21,088,579)
Public works	1,069,058	33,660	38,954	355,489	(640,955)	-	(640,955)
Health and human services	548,790	135,004	36,608	-	(377,178)	-	(377,178)
Culture and recreation	306,078	71,750	167,638	-	(66,690)	-	(66,690)
Insurance	395,560	-	-	-	(395,560)	-	(395,560)
Interest	1,028,426	-	-	-	(1,028,426)	-	(1,028,426)
Total Governmental Activities	42,342,291	2,496,083	10,836,542	391,885	(28,617,781)	-	(28,617,781)
Business-type Activities							
Sewer services	1,323,148	910,773	83,497	-	-	(328,878)	(328,878)
Nonmajor Transfer Station services	165,684	150,118	-	-	-	(15,566)	(15,566)
Total Business-Type Activities	1,488,832	1,060,891	83,497	-	-	(344,444)	(344,444)
Total	\$ 43,831,123	\$ 3,556,974	\$ 10,920,039	\$ 391,885	(28,617,781)	(344,444)	(28,962,225)
General Revenues and Transfers							
Property taxes					24,336,607	-	24,336,607
Excises					1,847,318	-	1,847,318
Penalties, interest and other taxes					98,724	-	98,724
Grants and contributions not restricted to specific programs					932,613	3,150	935,763
Investment income					308,489	1,227	309,716
Miscellaneous					100,585	-	100,585
Transfers, net					(505,678)	505,678	-
Total general revenues and transfers					27,118,658	510,055	27,628,713
Change in Net Position					(1,499,123)	165,611	(1,333,512)
Net Position							
Beginning of year					29,827,551	5,731,632	35,559,183
End of year					\$ 28,328,428	\$ 5,897,243	\$ 34,225,671

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	Police Station <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets				
Cash and short-term investments	\$ 6,805,159	\$ 905,097	\$ 2,531,003	\$ 10,241,259
Investments	2,235,948	-	904,659	3,140,607
Receivables:				
Property taxes	706,500	-	-	706,500
Excises	246,643	-	-	246,643
Intergovernmental			478,601	478,601
Other assets	<u>2,835</u>	<u>-</u>	<u>-</u>	<u>2,835</u>
Total Assets	<u>\$ 9,997,085</u>	<u>\$ 905,097</u>	<u>\$ 3,914,263</u>	<u>\$ 14,816,445</u>
Liabilities				
Warrants payable	\$ 485,028	\$ -	\$ -	\$ 485,028
Accrued liabilities	786,657	-	-	786,657
Other liabilities	<u>14,286</u>	<u>-</u>	<u>10,066</u>	<u>24,352</u>
Total Liabilities	1,285,971	-	10,066	1,296,037
Deferred Inflows of Resources				
Unavailable revenues	883,372	-	-	883,372
Fund Balances				
Nonspendable	-	-	96,755	96,755
Restricted	25,099	905,097	3,975,299	4,905,495
Committed	1,748,116	-	-	1,748,116
Assigned	241,520	-	-	241,520
Unassigned	<u>5,813,007</u>	<u>-</u>	<u>(167,857)</u>	<u>5,645,150</u>
Total Fund Balances	<u>7,827,742</u>	<u>905,097</u>	<u>3,904,197</u>	<u>12,637,036</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,997,085</u>	<u>\$ 905,097</u>	<u>\$ 3,914,263</u>	<u>\$ 14,816,445</u>

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

TOWN OF SUTTON, 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	\$ 12,637,036
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	94,436,868
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	738,770
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension liability and related deferred outflows/inflows, net OPEB liability and related deferred outflows/inflows are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(79,380,275)
<ul style="list-style-type: none">• Other	<u>(103,971)</u>
Net position of governmental activities	\$ <u>28,328,428</u>

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

TOWN OF SUTTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Police Station Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 24,346,623	\$ -	\$ -	\$ 24,346,623
Excises	1,825,179	-	-	1,825,179
Penalties, interest, and other taxes	98,724	-	-	98,724
Charges for services	787,745	-	1,526,878	2,314,623
Intergovernmental	8,318,017	36,396	2,210,001	10,564,414
Licenses and permits	99,904	-	-	99,904
Fines and forfeitures	81,556	-	-	81,556
Investment income	269,016	-	39,473	308,489
Miscellaneous	100,485	-	100	100,585
Contributions	-	-	112,427	112,427
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	35,927,249	36,396	3,888,879	39,852,524
Expenditures				
Current:				
General government	1,787,253	-	399,936	2,187,189
Public safety	3,076,379	5,382,661	24,217	8,483,257
Education	19,456,013	-	2,545,203	22,001,216
Public works	1,022,604	-	509,418	1,532,022
Health and human services	328,635	-	94,642	423,277
Culture and recreation	281,420	-	289,026	570,446
Employee benefits	4,449,498	-	-	4,449,498
Insurance	395,560	-	-	395,560
Debt service	3,423,382	-	-	3,423,382
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	34,220,744	5,382,661	3,862,442	43,465,847
Excess (deficiency) of revenues over expenditures	1,706,505	(5,346,265)	26,437	(3,613,323)
Other Financing Sources (Uses)				
Transfers in	2,772	-	-	2,772
Transfers out	(505,658)	-	(2,792)	(508,450)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(502,886)	-	(2,792)	(505,678)
Change in fund balance	1,203,619	(5,346,265)	23,645	(4,119,001)
Fund Balance, at Beginning of Year	6,624,123	6,251,362	3,880,552	16,756,037
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, at End of Year	\$ 7,827,742	\$ 905,097	\$ 3,904,197	\$ 12,637,036
	<hr/>	<hr/>	<hr/>	<hr/>

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

TOWN OF SUTTON, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2019

Net changes in fund balances - total governmental funds \$ (4,119,001)

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	8,084,658
Depreciation	(3,672,856)

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

Repayments of debt, net of refunding	2,322,761
Other	56,786

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

20,628

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

Net pension liability and related deferred outflows and inflows of resources	(931,060)
Net/total OPEB liability and related deferred outflows and inflows of resources	(3,394,420)
Other	126,477

- Other differences. 6,904

Change in net position of governmental activities \$ (1,499,123)

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

TOWN OF SUTTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 23,808,979	\$ 24,012,283	\$ 24,012,283	\$ -
Excises	1,595,321	1,595,321	1,825,179	229,858
Charges for services	424,291	424,291	787,745	363,454
Intergovernmental	6,451,071	6,451,071	6,524,472	73,401
Licenses and permits, fees and fines	125,000	125,000	181,460	56,460
Investment income	82,000	82,000	262,633	180,633
Miscellaneous	51,000	51,000	115,035	64,035
Total Revenues	32,537,662	32,740,966	33,708,807	967,841
Expenditures				
General government	1,696,006	1,731,433	1,495,249	236,184
Public safety	2,671,123	2,681,067	2,642,607	38,460
Education	17,420,124	17,624,104	17,560,810	63,294
Public works	1,013,568	1,136,351	1,101,133	35,218
Health and human services	331,842	353,842	328,635	25,207
Culture and recreation	247,960	248,055	239,740	8,315
Employee benefits	4,413,489	4,730,104	4,449,495	280,609
Insurance	437,814	397,274	395,563	1,711
Debt service	3,929,059	3,929,059	3,929,059	-
Intergovernmental	80,281	80,281	80,367	(86)
Total Expenditures	32,241,266	32,911,570	32,222,658	688,912
Excess (deficiency) of revenues over transfers in over expenditures and transfers out	296,396	(170,604)	1,486,149	1,656,753
Other Financing Sources/Uses				
Transfers in	407,704	407,704	407,704	-
Transfers out	(773,241)	(1,173,241)	(1,173,241)	-
Use of free cash:				
Operating budget	-	345,000	345,000	-
Capital budget	-	40,000	40,000	-
Transfer to stabilization fund(s)	-	200,000	200,000	-
OPEB trust fund contribution	-	232,000	232,000	-
Other sources	69,141	119,141	119,141	-
Total Other Financing Sources/Uses	(296,396)	170,604	170,604	-
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,656,753	\$ 1,656,753

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
Assets			
Current:			
Cash and short-term investments	\$ 1,256,773	\$ 69,382	\$ 1,326,155
User fees, net of allowance for uncollectibles	263,326	-	263,326
Other assets	<u>-</u>	<u>4,000</u>	<u>4,000</u>
Total current assets	1,520,099	73,382	1,593,481
Noncurrent:			
Capital assets, net of accumulated depreciation	<u>7,662,873</u>	<u>22,245</u>	<u>7,685,118</u>
Total noncurrent assets	7,662,873	22,245	7,685,118
Deferred Outflows of Resources			
Related to pensions	3,983	4,526	8,509
Related to OPEB	<u>39,100</u>	<u>23,051</u>	<u>62,151</u>
Total Assets and Deferred Outflows of Resources	9,226,055	123,204	9,349,259
Liabilities			
Current:			
Accrued liabilities	104,003	-	104,003
Other current liabilities	7,068	-	7,068
Current portion of long-term liabilities:			
Bonds payable	495,520	-	495,520
Compensated absences	<u>582</u>	<u>-</u>	<u>582</u>
Total current liabilities	607,173	-	607,173
Noncurrent:			
Bonds payable, net of current portion	2,527,231	-	2,527,231
Net pension liability	38,224	43,436	81,660
Net OPEB liability	112,037	108,345	220,382
Compensated absences, net of current portion	<u>11,047</u>	<u>-</u>	<u>11,047</u>
Total noncurrent liabilities	2,688,539	151,781	2,840,320
Deferred Inflows of Resources			
Related to pensions	1,146	1,302	2,448
Related to OPEB	<u>1,284</u>	<u>791</u>	<u>2,075</u>
Total Liabilities and Deferred Inflows of Resources	3,298,142	153,874	3,452,016
Net Position			
Net investment in capital assets	4,640,123	22,245	4,662,368
Unrestricted	<u>1,287,790</u>	<u>(52,915)</u>	<u>1,234,875</u>
Total Net Position	\$ <u>5,927,913</u>	\$ <u>(30,670)</u>	\$ <u>5,897,243</u>

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
Operating Revenues			
Charges for services	\$ 910,773	\$ 150,118	\$ 1,060,891
Total Operating Revenues	910,773	150,118	1,060,891
Operating Expenses			
Salaries and benefits	344,974	94,305	439,279
Other operating expenses	511,016	68,503	579,519
Depreciation	331,215	2,876	334,091
Total Operating Expenses	1,187,205	165,684	1,352,889
Operating (Loss)	(276,432)	(15,566)	(291,998)
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	83,497	3,150	86,647
Other nonoperating income	1,227	-	1,227
Interest expense	(135,943)	-	(135,943)
Total Nonoperating Revenues (Expenses)	(51,219)	3,150	(48,069)
(Loss) Before Transfers	(327,651)	(12,416)	(340,067)
Transfers in	505,678	-	505,678
Change in Net Position	178,027	(12,416)	165,611
Net Position at Beginning of Year	5,749,886	(18,254)	5,731,632
Net Position at End of Year	\$ 5,927,913	\$ (30,670)	\$ 5,897,243

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

TOWN OF SUTTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Nonmajor Transfer Station Fund	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 888,360	\$ 150,118	\$ 1,038,478
Payments to vendor for goods and services	(511,016)	(72,863)	(583,879)
Payments to employees for services	(319,584)	(78,638)	(398,222)
Net Cash Provided By (Used For) Operating Activities	57,760	(1,383)	56,377
Cash Flows From Noncapital Financing Activities			
Intergovernmental receipt	83,497	3,150	86,647
Transfer in	505,678	-	505,678
Other nonoperating revenues	1,227	-	1,227
Net Cash Provided by Noncapital Financing Activities	590,402	3,150	593,552
Cash Flows From Capital and Related Financing Activities			
Principal payments on bonds	(444,379)	-	(444,379)
Interest expense	(147,796)	-	(147,796)
Net Cash Used For Capital and Related Financing Activities	(592,175)	-	(592,175)
Net Change in Cash and Short-Term Investments	55,987	1,767	57,754
Cash and Short-Term Investments, Beginning of Year	1,200,786	67,615	1,268,401
Cash and Short-Term Investments, End of Year	\$ 1,256,773	\$ 69,382	\$ 1,326,155
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities			
Operating (loss)	\$ (276,432)	\$ (15,566)	\$ (291,998)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	331,215	2,876	334,091
Changes in assets, deferred outflows, liabilities, and deferred inflows:			
User fees	(22,413)	-	(22,413)
Deferred outflows - related to pensions	(168)	(191)	(359)
Deferred outflows - related to OPEB	(6,189)	(99)	(6,288)
Net pension liability	3,951	4,490	8,441
Net OPEB liability	29,513	13,702	43,215
Deferred inflows - related to pensions	(1,724)	(1,960)	(3,684)
Deferred inflows - related to OPEB	(190)	(275)	(465)
Other liabilities	197	(4,360)	(4,163)
Net Cash Provided By Operating Activities	\$ 57,760	\$ (1,383)	\$ 56,377

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency Funds <u>Funds</u>
Assets		
Cash and short-term investments	\$ -	\$ 293,749
Investments:		
Equity mutual funds	1,096,753	-
Fixed income mutual funds	<u>395,673</u>	<u>-</u>
Total Investments	1,492,426	-
Accounts receivable	<u>-</u>	<u>23,000</u>
Total Assets	1,492,426	316,749
Liabilities		
Deposits held in custody	-	197,706
Other liabilities	<u>-</u>	<u>119,043</u>
Total Liabilities	<u>-</u>	<u>\$ 316,749</u>
Net Position		
Restricted for OPEB purposes	<u>1,492,426</u>	
Total net position	<u>\$ 1,492,426</u>	

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

TOWN OF SUTTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Other Post- Employment Benefits Trust Fund</u>
Additions	
Employer Contributions	\$ 1,176,796
Investment income	<u>81,047</u>
Total additions	1,257,843
Deductions	
Benefit payments	789,796
Net position restricted for other post-employment benefits	
Beginning of year	<u>1,024,379</u>
End of year	<u><u>\$ 1,492,426</u></u>

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

TOWN OF SUTTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. 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. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *police station fund* accounts for funds used in the construction and capital improvements of the Town's police station.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this

method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 sewer fund as a major proprietary funds.

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

The Town reports the following fiduciary funds:

- The *other post-employment insurance liability trust fund* is used to account for funds to offset the anticipated cost of premium payments for or direct payments to be made to retired employees of the Town, and to any eligible surviving spouse of or dependents of deceased employees of the Town.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. *Agency funds* report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2½% (excluding new growth), unless an override is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$592.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of proprietary fund type inventories are recorded as expenses when consumed. No significant inventory balances were on hand in proprietary funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital

assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

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

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

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

Net Position - Net position represents the difference between assets and liabilities/deferred inflows. Net investment in capital assets, consist 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.

L. Use of Estimates

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

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

At the annual town meeting, the 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>
Revenues/expenditures/transfers (GAAP Basis)	\$ 35,927,249	\$ 34,220,744	\$ (502,886)
Remove effect of combining stabilization and general fund	(104,620)	-	(680,068)
Remove effect of combining compensated absence reserve and general fund	(487)	-	(200,000)
Adjust tax revenue to accrual basis	(319,790)	-	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,253,979)	-
Add end-of-year appropriation carryforwards from expenditures	-	432,021	-
To record use of free cash	-	-	817,000
To record use of debt reserves	-	-	69,141
To record use of overlay surplus	-	-	50,000
To reverse the effect of non- budgeted State contributions	(1,793,545)	(1,793,545)	-
Overhead cost reclassification	-	111,739	111,739
Enterprise debt service reclassification	-	505,678	505,678
Budgetary Basis	\$ <u>33,708,807</u>	\$ <u>32,222,658</u>	\$ <u>170,604</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, 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." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding 10% of the capital and surplus of such bank or trust company." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2019, none of the Town's bank balance of \$11,731,056 was exposed to custodial credit risk as uninsured and/or uncollateralized.

4. **Investments**

Town (Excluding the OPEB Trust Fund)

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

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposit	\$ 743,522
Corporate bonds	1,126,550
Equity mutual funds	395,890
Federal agency securities	781,647
U.S. Treasury notes	<u>92,998</u>
Total investments	<u>\$ 3,140,607</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 (NRSRO). The Town's investment policies related to credit risk require the use of diversification and prudent selection of investment instruments, and choice of depository to mitigate credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>				
		<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa</u>	<u>Unrated</u>
Certificates of deposit	\$ 743,522	\$ -	\$ -	\$ -	\$ -	\$ 743,522
Corporate bonds	1,126,550	82,140	120,748	145,097	778,565	-
Total	\$ 1,870,072	\$ 82,140	\$ 120,748	\$ 145,097	\$ 778,565	\$ 743,522

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's custodial credit risk policy is to limit investments to only those financial institutions assigned the highest rating by one or more of the recognized bank rating services. The Town manages this custodial credit risk with SIPC and excess SIPC.

As of June 30, 2019, \$1,177,537 of the Town's total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by</u>
		<u>Counterparty's</u> <u>Trust or Agent</u>
Equity mutual funds	\$ 395,890	\$ 395,890
Federal agency securities	781,647	781,647
Total	\$ 1,177,537	\$ 1,177,537

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town's policies related to concentration of credit risk exposure limit bank deposits of any kind to no more than 20% of the municipalities cash, except for exigent circumstances.

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's policy related to interest rate risk is to minimize the liquidation of investments that could result in forfeiture of accrued interest earnings or even in some cases, loss of principal, by structuring the portfolio so securities mature to meet all operating requirements that may be reasonably anticipated.

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>
Certificates of deposits	\$ 743,522	\$ 354,350	\$ 389,172
Corporate bonds	1,126,550	479,096	647,454
Federal agency securities	781,647	-	781,647
U.S. Treasury notes	92,998	92,998	-
Total	<u>\$ 2,744,717</u>	<u>\$ 926,444</u>	<u>\$ 1,818,273</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy for foreign currency risk is to prohibit investments in foreign currency.

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's OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

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

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Investment Type</u>	<u>Amount</u>			
Investments by fair value level:				
Corporate bonds	\$ 1,126,550	\$ -	\$ 1,126,550	\$ -
Equity mutual funds	395,890	395,890	-	-
Federal agency securities	781,647	-	781,647	-
U.S. Treasury notes	<u>92,998</u>	-	92,998	-
Total	<u>\$ 2,397,085</u>			

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

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

5. Investments - OPEB Trust Fund

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

<u>Investment Type</u>	<u>Amount</u>
Equity mutual funds	\$ 1,096,753
Fixed income mutual funds	<u>395,673</u>
Total investments	<u>\$ 1,492,426</u>

A. Credit Risk

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

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The OPEB Trust Fund's investment policies related to credit risk require the use of diversification and prudent selection of investment instruments, and choice depository to mitigate credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>		
		<u>AAA</u>	<u>Baa</u>	<u>B2</u>
Fixed income mutual funds	\$ <u>395,673</u>	\$ <u>274,729</u>	\$ <u>82,713</u>	\$ <u>38,231</u>
Total	\$ <u>395,673</u>	\$ <u>274,729</u>	\$ <u>82,713</u>	\$ <u>38,231</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The OPEB Trust Fund's custodial credit risk policy is to limit investments to only those financial institutions assigned the highest rating by one or more of the recognized bank rating services. The Town manages custodial credit risk exposure with SIPC and excess SIPC insurance.

As of June 30, 2019, \$1,096,753 of the OPEB Trust Fund's total investments were subject to custodial credit risk exposure because the related securities

are uninsured, unregistered, and/or held by the OPEB Trust Fund's brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	Held by Counterparty's Trust or Agent
Equity mutual funds	\$ <u>1,096,753</u>	\$ <u>1,096,753</u>
Total	\$ <u><u>1,096,753</u></u>	\$ <u><u>1,096,753</u></u>

C. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund's policies related to concentration of credit risk exposure limit investments in bank stocks and insurance company stocks to no more than 15% of the Trust fund, and no more than 1.5% of such funds shall be invested in the stock of any one bank or insurance company.

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

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

D. 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 OPEB Trust Fund's policy related to interest rate risk requires the use of diversification and prudent selection of investment instruments, and choice depository to mitigate credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	Investment Maturities (in Years) <u>Less Than 1</u>
Fixed income mutual funds	\$ <u>395,673</u>	\$ <u>395,673</u>
Total	\$ <u><u>395,673</u></u>	\$ <u><u>395,673</u></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 OPEB Trust Fund does not have formal investment policies related to foreign currency risk.

F. Fair Value

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

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

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

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

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

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservabl inputs (Level 3)
<u>Investment Type</u>	<u>Amount</u>			
Investments by fair value level:				
Equity mutual funds	\$ 1,096,753	\$ 1,096,753	\$ -	\$ -
Fixed income mutual funds	<u>395,673</u>	-	395,673	-
Total	<u>\$ 1,492,426</u>			

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

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

6. 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.

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

Property taxes and excise receivables at June 30, 2019 consist of the following, net of an estimated allowance for doubtful account in the government-wide financial statements:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes	\$ 247,785	\$ 28,163	\$ 219,622	\$ -
Personal property taxes	45,289	40,702	4,587	-
Tax liens	413,426	-	-	413,426
Total property taxes	<u>\$ 706,500</u>	<u>\$ 68,865</u>	<u>\$ 224,209</u>	<u>\$ 413,426</u>
Motor vehicle excise	\$ 243,649	\$ 75,737	\$ 167,912	
Boat excise	1,026	-	1,026	
Farm animal excise	1,968	-	1,968	
Total excises	<u>\$ 246,643</u>	<u>\$ 75,737</u>	<u>\$ 170,906</u>	

7. User Fees Receivable

The Town provides sewer services but does not supply public water. Sewer bills are mailed twice annually covering January through June, and July through December. Usage is based on gallon consumption, with a minimum bill of \$295 for the first 30,000 gallons and a fee of \$6.25 for every additional 1,000 gallons used.

8. Interfund Transfers

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

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,772	\$ 505,658
Nonmajor Funds:		
Special Revenue Funds:		
Town Revolving Funds	<u>-</u>	<u>2,792</u>
Subtotal Nonmajor Funds	-	2,792
<u>Business-Type Funds</u>		
Sewer Fund	<u>505,678</u>	<u>-</u>
Subtotal Business-Type Funds	<u>505,678</u>	<u>-</u>
Grand Total	<u>\$ 508,450</u>	<u>\$ 508,450</u>

All of the \$505,658 transfer from the General Fund represents the annual transfer of the monies to the Sewer Fund for sewer debt service that is appropriated in the General Fund. The Town's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

9. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 93,281	\$ 9,209	\$ -	\$ 102,490
Machinery, equipment, and furnishings	3,381	1,226	-	4,607
Motor vehicles	4,490	-	-	4,490
Infrastructure	16,206	1,298	-	17,504
Total capital assets, being depreciated	117,358	11,733	-	129,091
Less accumulated depreciation for:				
Buildings and improvements	(25,080)	(2,526)	-	(27,606)
Machinery, equipment, and furnishings	(2,221)	(235)	-	(2,456)
Motor vehicles	(2,650)	(299)	-	(2,949)
Infrastructure	(7,326)	(613)	-	(7,939)
Total accumulated depreciation	(37,277)	(3,673)	-	(40,950)
Total capital assets, being depreciated, net	80,081	8,060	-	88,141
Capital assets, not being depreciated:				
Land	6,273	-	-	6,273
Construction in progress	3,671	6,309	(9,957)	23
Total capital assets, not being depreciated	9,944	6,309	(9,957)	6,296
Governmental activities capital assets, net	<u>\$ 90,025</u>	<u>\$ 14,369</u>	<u>\$ (9,957)</u>	<u>\$ 94,437</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, being depreciated:				
Sewer treatment plant	\$ 10,011	\$ -	\$ -	\$ 10,011
Millbury pumping station	1,665	-	-	1,665
Sewer pipes	307	-	-	307
Machinery, equipment, and furnishings	809	-	-	809
Total capital assets, being depreciated	12,792	-	-	12,792
Less accumulated depreciation for:				
Sewer treatment plant	(3,240)	(250)	-	(3,490)
Millbury pumping station	(627)	(56)	-	(683)
Sewer pipes	(307)	-	-	(307)
Machinery, equipment, and furnishings	(599)	(28)	-	(627)
Total accumulated depreciation	(4,773)	(334)	-	(5,107)
Total capital assets, being depreciated, net	8,019	(334)	-	7,685
Business-type activities capital assets, net	<u>\$ 8,019</u>	<u>\$ (334)</u>	<u>\$ -</u>	<u>\$ 7,685</u>

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

Governmental Activities	
General government	\$ 72
Public safety	469
Education	2,434
Public works	685
Health and human services	<u>13</u>
Total governmental activities	<u>\$ 3,673</u>
Business-Type Activities	
Sewer	\$ 331
Nonmajor Transfer Station	<u>3</u>
Total business-type activities	<u>\$ 334</u>

10. Deferred Outflows of Resources

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

11. Warrants Payable

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

12. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in 2021. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2019:

	Fiscal Year	Governmental Activities
	2020	\$ 80,508
	2021	<u>80,508</u>
Total minimum lease payments		161,016
Less amounts representing interest		<u>(9,405)</u>
Present Value of Minimum Lease Payments		<u>\$ 151,611</u>

13. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/19
<u>Governmental Activities:</u>			
Title V Septic Program	08/01/19	0.00%	\$ 2,761
Shaw Land	06/30/27	1.86%	1,700,000
MS/HS Construction	06/30/31	2.24%	14,975,000
MS/HS Construction	06/30/33	2.29%	3,500,000
Police Station	06/30/38	2.71%	<u>8,265,000</u>
Total Governmental Activities			<u>\$ 28,442,761</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/19
<u>Business-Type Activities:</u>			
Manchaug Treatment Plant	02/01/25	2.00%	<u>\$ 3,022,751</u>
Total Business-Type Activities			<u>\$ 3,022,751</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,142,761	\$ 1,001,502	\$ 3,144,263
2021	2,150,000	902,003	3,052,003
2022	2,145,000	800,752	2,945,752
2023	2,165,000	700,378	2,865,378
2024	2,175,000	599,002	2,774,002
2025 - 2029	10,395,000	1,798,429	12,193,429
2030 - 2034	5,530,000	619,825	6,149,825
2035 - 2038	1,740,000	130,500	1,870,500
Total	<u>\$ 28,442,761</u>	<u>\$ 6,552,391</u>	<u>\$ 34,995,152</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 495,520	\$ 44,955	\$ 540,475
2021	506,655	28,093	534,748
2022	508,720	15,774	524,494
2023	504,177	7,948	512,125
2024	503,523	-	503,523
2025	504,156	-	504,156
Total	<u>\$ 3,022,751</u>	<u>\$ 96,770</u>	<u>\$ 3,119,521</u>

C. Changes in General Long-Term Liabilities

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

	Beginning			Ending	Less	Equals
	Balance	Additions	Reductions	Balance	Current	Long-Term
					Portion	Portion
Governmental Activities						
Bonds payable	\$ 30,766	\$ -	\$ (2,323)	\$ 28,443	\$ (2,143)	\$ 26,300
Net pension liability	15,505	1,788	-	17,293	-	17,293
Net OPEB liability	37,829	4,869	-	42,698	-	42,698
Other:						
Landfill liability	128	-	(16)	112	(16)	96
Compensated absences	459	23	(53)	429	(21)	408
Capital Leases	232	-	(81)	151	(74)	77
Subtotal - other	819	23	(150)	692	(111)	581
Totals	<u>\$ 84,919</u>	<u>\$ 6,680</u>	<u>\$ (2,473)</u>	<u>\$ 89,126</u>	<u>\$ (2,254)</u>	<u>\$ 86,872</u>
Business-Type Activities						
Bonds payable	\$ 3,467	\$ -	\$ (444)	\$ 3,023	\$ (496)	\$ 2,527
Net pension liability	73	9	-	82	-	82
Net OPEB liability	177	43	-	220	-	220
Other:						
Compensated absences	11	2	(1)	12	(1)	11
Subtotal - other	11	2	(1)	12	(1)	11
Totals	<u>\$ 3,728</u>	<u>\$ 54</u>	<u>\$ (445)</u>	<u>\$ 3,337</u>	<u>\$ (497)</u>	<u>\$ 2,840</u>

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

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

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 \$112,000 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 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *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.

16. Governmental Funds - Balances

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

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

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

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

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

specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

Unassigned funds are available to be spent in future periods and deficit funds.

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

	General Fund	Major Police Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 96,755	\$ 96,755
Total Nonexpendable	-	-	96,755	96,755
Restricted				
MS/HS Construction	-	-	281,355	281,355
Police Station Construction	-	905,097	-	905,097
Town revolving funds:				
Manchaug dam gift	-	-	386,510	386,510
Compensated absences	-	-	-	-
Cable access fees	-	-	380,313	380,313
COA food pantry donations	-	-	104,245	104,245
Other	-	-	365,380	365,380
School revolving funds:				
School choice	-	-	920,568	920,568
After school program	-	-	193,623	193,623
School lunch	-	-	147,478	147,478
SPED transportation	-	-	91,007	91,007
Student activity fees	-	-	83,760	83,760
SPED circuit breaker	-	-	81,323	81,323
Other	-	-	306,414	306,414
Town and school grants	-	-	207,754	207,754
Expendable permanent funds	-	-	208,229	208,229
Other Trust Funds	-	-	217,340	217,340
Debt service	25,099	-	-	25,099
Total Restricted	25,099	905,097	3,975,299	4,905,495
Committed				
Other reserves for cont. appropriation	432,021	-	-	432,021
Capital stabilization	759,990	-	-	759,990
Special education stabilization	355,618	-	-	355,618
Compensated absence reserve	200,487	-	-	200,487
Total Committed	1,748,116	-	-	1,748,116
Assigned				
For next year's expenditures	241,520	-	-	241,520
Total Assigned	241,520	-	-	241,520
Unassigned				
General fund	3,377,059	-	(167,857)	3,209,202
General stabilization fund	2,435,948	-	-	2,435,948
Total Unassigned	5,813,007	-	(167,857)	5,645,150
Total Fund Balance	\$ 7,827,742	\$ 905,097	\$ 3,904,197	\$ 12,637,036

17. Retirement System

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

A. Plan Description

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

Participants Contributions

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

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

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

Participant Retirement Benefits

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

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

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

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

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

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

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the 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.

Participants 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 \$1,066,773, 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 \$17,374,370 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018, rolled forward to the measurement date of December 31, 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 1.92%.

For the year ended June 30, 2019, the Town recognized pension expense of \$2,002,231. The Town reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ 77,013	\$ (128,799)
Changes of assumptions	1,079,575	-
Net difference between projected and actual investment earnings	653,676	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(391,897)
Total	<u>\$ 1,810,264</u>	<u>\$ (520,696)</u>

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

Year ended June 30:

2020	\$ 412,038
2021	252,437
2022	360,035
2023	281,287
2024	<u>(16,229)</u>
Total	<u>\$ 1,289,568</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:

Cost of living adjustment	3% of the first \$16,000
Salary increases	Group 1: 6% - 4.25%, based on service Group 2: 7% - 4.75%, based on service
Inflation	3.0% per year
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study.

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

F. Discount Rate

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

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

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

<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
\$20,928,512	\$17,374,370	\$14,371,847

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.

18. **Massachusetts Teachers' Retirement System (MTRS)**

A. *Plan Description*

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

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

B. *Benefits Provided*

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

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

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

E. Target Allocations

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term

expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.00%	5.00%
Portfolio completion strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private equity	12.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.60%
Timber/natural resources	4.00%	3.40%
Total	<u>100.00%</u>	

F. Discount Rate

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

G. Sensitivity Analysis

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

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

H. Special Funding Situation

The Commonwealth is a nonemployer contributing entity and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be

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

I. Town Proportions

In fiscal year 2018 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was approximately \$32,345,458 based on a proportionate share of 0.136414%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$1,793,545 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$3,277,744 as both a revenue and expense in the governmental activities.

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2012, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

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

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

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through

Fallon and FCC Healthcare. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Funding Policy

The Town’s funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on annual budget limitations/authorizations.

Plan Membership

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

Inactive employees or beneficiaries	
currently receiving benefit payments	111
Active employees	<u>312</u>
Total	<u><u>423</u></u>

B. Investments

The OPEB trust fund assets consist of equity and fixed income mutual funds.

Rate of return. For the year ended December 31, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 6.25%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2017, rolled forward to June 30, 2019. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60%
Salary increases	3.00%, average, including inflation
Investment rate of return	7.50%, net of OPEB plan investment expense
Municipal bond rate	3.50%
Discount rate	3.54%
Healthcare cost trend rates	7.00% for 2019, fluctuating 0.50% to an ultimate rate of 3.80% as of 2075 and later
Participation rate	Medical: 80% of eligible retired employees. Dental: not offered to retired employees. Life: 55% of eligible retired employees. Medicare: all retired employees are assumed to enroll in Medicare at age 65.

Mortality rates were based on the following:

Pre-retirement Mortality – General and Public Safety employees	RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using Scale BB.
Post-retirement Mortality – General and Public Safety employees	RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using Scale BB.
Pre-retirement Mortality – Teachers	RP-2014 White Collar Mortality Table, base year 2014, projected with generational mortality improvement using Scale MP-2016.
Post-retirement Mortality – Teachers	RP-2014 White Collar Mortality Table, base year 2014, projected with generational mortality improvement using Scale MP-2016.

D. Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	31.00%	5.92%
Domestic bond	22.00%	3.69%
International equity	21.00%	2.73%
Alternative	20.00%	5.39%
International bond	6.00%	3.80%
Cash and equivalents	0.00%	0.00%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the net OPEB liability was 3.54%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used based on a combination of the investment rate of return of 7.50% and municipal bond rate of 3.50% (based on index provided by the Bond Buyer 20-Bond GO Index published on June 27, 2019) on 20-year municipal bond rate as of June 30, 2019).

F. Net OPEB Liability

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

Total OPEB liability	\$ 44,411,245
Plan fiduciary net position	<u>1,492,426</u>
Net OPEB liability	<u>\$ 42,918,819</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.36%

G. Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances, beginning of year	\$ 39,030,455	\$ 1,024,379	\$ 38,006,076
Changes for the year:			
Service cost	1,795,563	-	1,795,563
Interest	1,568,727	-	1,568,727
Contributions - employer	-	1,176,796	(1,176,796)
Net investment income	-	81,047	(81,047)
Changes in assumptions or other inputs	2,806,296	-	2,806,296
Benefit payments	(789,796)	(789,796)	-
Net Changes	5,380,790	468,047	4,912,743
Balances, end of year	\$ 44,411,245	\$ 1,492,426	\$ 42,918,819

Changes of assumptions and other inputs reflect a change in the discount rate from 3.88% in 2018 to 3.54% in 2019.

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

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

1% Decrease	Current Discount Rate	1% Increase
\$ 52,851,832	\$ 42,918,819	\$ 35,334,080

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

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

	Current Healthcare Cost Trend	
1% <u>Decrease</u>	<u>Rates</u>	1% <u>Increase</u>
\$ 33,331,437	\$ 42,918,819	\$ 57,023,178

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

For the year ended June 30, 2019, the Town recognized an OPEB expense of \$4,607,678. At June 30, 2019, the Town reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 7,024,582	\$ -
Change in assumptions	2,481,493	(326,212)
Net difference between projected and actual OPEB investment earnings	<u>24,466</u>	<u>-</u>
Total	<u>\$ 9,530,541</u>	<u>\$ (326,212)</u>

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

<u>Year Ended June 30:</u>	
2020	\$ 1,340,668
2021	1,340,668
2022	1,340,666
2023	1,336,840
2024	1,333,594
Thereafter	<u>2,511,893</u>
Total	<u>\$ 9,204,329</u>

20. Commitments and Contingencies

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

Abatements - There are cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts if any, to be immaterial.

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 \$4,954 in encumbrances that will be honored in the next fiscal year.

21. New Pronouncements

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

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

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

JUNE 30, 2019
(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	December 31, 2018	1.92%	\$17,374,370	\$ 5,925,505	293.21%	43.05%
June 30, 2018	December 31, 2017	1.91%	\$15,578,505	\$ 6,087,190	255.92%	46.40%
June 30, 2017	December 31, 2016	1.89%	\$15,808,187	\$ 6,249,073	252.97%	42.00%
June 30, 2016	December 31, 2015	1.88%	\$13,378,396	\$ 6,062,691	220.67%	44.52%
June 30, 2015	December 31, 2014	2.16%	\$12,865,839	\$ 5,829,511	220.70%	47.90%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	June 30, 2018	0.136414%	\$ -	\$ 32,345,458	\$ 32,345,458	\$ 9,580,172	0.00%	54.84%
June 30, 2018	June 30, 2017	0.141964%	\$ -	\$ 32,489,014	\$ 32,489,014	\$ 9,640,020	0.00%	54.25%
June 30, 2017	June 30, 2016	0.143686%	\$ -	\$ 32,125,185	\$ 32,125,185	\$ 9,451,169	0.00%	52.73%
June 30, 2016	June 30, 2015	0.148094%	\$ -	\$ 30,343,834	\$ 30,343,834	\$ 9,387,513	0.00%	55.38%
June 30, 2015	June 30, 2014	0.150380%	\$ -	\$ 23,905,002	\$ 23,905,002	\$ 9,340,394	0.00%	61.64%

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

See Independent Auditors' Report.

TOWN OF SUTTON, MASSACHUSETTS
REQUIRE SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2019
(Unaudited)

Worcester Regional 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	\$1,066,773	\$ 1,066,773	\$ -	\$5,925,505	18.00%
June 30, 2018	December 31, 2017	\$ 966,685	\$ 966,685	\$ -	\$6,087,190	15.88%
June 30, 2017	December 31, 2016	\$ 916,769	\$ 916,769	\$ -	\$ 6,249,073	14.67%
June 30, 2016	December 31, 2015	\$ 847,894	\$ 847,894	\$ -	\$ 6,062,691	13.99%
June 30, 2015	December 31, 2014	\$ 854,433	\$ 854,433	\$ -	\$ 5,829,511	14.66%

Massachusetts Teachers' Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</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	June 30, 2018	\$1,793,545	\$ 1,793,545	\$ -	\$ 9,580,172	0.00%
June 30, 2018	June 30, 2017	\$1,753,986	\$ 1,753,986	\$ -	\$ 9,640,020	0.00%
June 30, 2017	June 30, 2016	\$1,615,867	\$ 1,615,867	\$ -	\$ 9,451,169	0.00%
June 30, 2016	June 30, 2015	\$1,513,412	\$ 1,513,412	\$ -	\$ 9,387,513	0.00%
June 30, 2015	June 30, 2014	\$1,409,635	\$ 1,409,635	\$ -	\$ 9,340,394	0.00%

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

See Independent Auditors' Report.

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

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 1,795,563	\$ 1,240,103	\$ 1,192,407
Interest on unfunded liability - time value of \$	1,568,727	912,968	867,890
Changes of benefit terms	-	574,690	-
Differences between expected and actual experience	2,806,296	9,140,420	-
Changes of assumptions	-	(424,468)	-
Benefit payments, including refunds of member contributions	<u>(789,796)</u>	<u>(682,954)</u>	<u>(326,299)</u>
Net change in total OPEB liability	5,380,790	10,760,759	1,733,998
Total OPEB liability - beginning	<u>39,030,455</u>	<u>28,269,696</u>	<u>26,535,698</u>
Total OPEB liability - ending (a)	44,411,245	39,030,455	\$ 28,269,696
Plan Fiduciary Net Position			
Contributions - employer	1,176,796	837,954	\$ 431,299
Contributions - member	-	-	-
Net investment income	81,047	48,262	59,099
Benefit payments, including refunds of member contributions	(789,796)	(682,954)	(326,299)
Administrative expense	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	468,047	203,262	164,099
Plan fiduciary net position - beginning	<u>1,024,379</u>	<u>821,117</u>	<u>657,018</u>
Plan fiduciary net position - ending (b)	<u>1,492,426</u>	<u>1,024,379</u>	\$ 821,117
Net OPEB liability (asset) - ending (a-b)	<u>\$ 42,918,819</u>	<u>\$ 38,006,076</u>	<u>\$ 27,448,579</u>

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

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

See Independent Auditors' Report.

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

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability			
Total OPEB liability	\$ 44,411,245	\$ 39,030,455	\$ 28,269,696
Plan fiduciary net position	<u>1,492,426</u>	<u>1,024,379</u>	<u>821,117</u>
Net OPEB liability (asset)	<u>\$ 42,918,819</u>	<u>\$ 38,006,076</u>	<u>\$ 27,448,579</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.36%	2.62%	2.90%

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Contributions			
Actuarially determined contribution*	\$ 3,350,026	\$ 2,239,805	\$ 1,682,197
Contributions in relation to the actuarially determined contribution	<u>1,176,796</u>	<u>837,954</u>	<u>431,299</u>
Contribution deficiency (excess)	<u>\$ 2,173,230</u>	<u>\$ 1,401,851</u>	<u>\$ 1,250,898</u>

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns			
Annual money weighted rate of return, net of investment expense	6.25%	5.15%	8.00%

*Includes only the implicit subsidy, which is required to be funded by statute, and not an amount required to fully fund the plan over time.

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

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

See Independent Auditors' Report.

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Select Board
Town of Sutton, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sutton, 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, and have issued our report thereon dated February 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

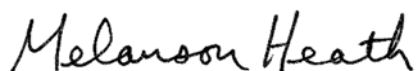
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Melanson Heath".

February 11, 2020