

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF HARVARD, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2018

Report on Internal Control
Over Financial Reporting and
on Compliance and Other Matters
Year Ended June 30, 2018



TOWN OF HARVARD, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Harvard, Massachusetts

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 Harvard, Massachusetts, (the "Town") as of and for the year ended June 30, 2018, 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

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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2018, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement

We audited the Town's basic financial statements for the year ended June 30, 2017, for which we issued an unmodified opinion dated February 8, 2018. As discussed in Note V to the financial statements, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. In connection with the adoption of this accounting standard, the previously reported net position in the governmental activities in the statement of net position was restated.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not 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 sufficient evidence 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 January 31, 2019 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, contract, grant agreements and other matters. The purpose of that report is 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 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 the Town's internal control over financial reporting and compliance.

Roselli, Clark & Associates

Roselli, Clark & Associates
Woburn, Massachusetts
January 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Harvard, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The Town adopted a new accounting pronouncement related to other postemployment benefits, or OPEB, in fiscal year 2018. As a result, the beginning net position in the Town's governmental activities decreased approximately \$3.2 million.
- In July 2018, the Town was notified by the Massachusetts School Building Authority, or MSBA, that it approved a school building project funding schedule for the construction of a new Hildreth Elementary School. The MSBA will reimburse nearly 51% of eligible school construction costs to the Town for this project up to a maximum of \$18,762,918. The Town commenced engineering on this school construction project in fiscal year 2018.
- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$25.0 million (*total net position*). This represented an approximate \$2.8 million decrease from the prior year. The Town's net position in its governmental activities decreased over \$2.7 million while the net position in its business-type activities decreased nearly \$80,000.
- The Town continues to report a deficit in its unrestricted net position in its governmental activities. This deficit approached \$30.2 million at year end. This deficit is due primarily to the recording of liabilities associated with the net OPEB and pension liabilities, which totaled over \$43.5 million at June 30, 2018 in the aggregate. These liabilities are applied to the Town's unrestricted net position and represent actuarial estimates of future postemployment benefits payable by the Town for postemployment health and welfare benefits and pensions.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$11.1 million, which was an increase of approximately \$0.9 million year-over-year. Of the ending fund balance, nearly \$5.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures or classified as unassigned fund balance due to its negative balance.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately \$6.1 million, which represents approximately 22% percent of the total fiscal year 2018 general fund expenditures. The June 30, 2018 total general fund balance of over \$7.0 million was approximately 25% of the total fiscal year 2018 general fund expenditures.
- The Town's total long-term debt obligations decreased by approximately \$1.1 million in fiscal year 2018 to nearly \$11.4 million at June 30, 2018 as the Town did not complete any long-term borrowings. The Town maintains a AAA credit rating on its general obligation bonds as assigned by Standard and Poor's Rating Services ("S&P").

Overview of the Financial Statements

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

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, similar to private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*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 of the Town include general government, public safety, highways and streets, sanitation, education, community development, culture, recreation, health and human services, fringe benefits and debt service. The business-type activities of the Town include its sewer operations.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided in the basic financial statements to help the reader understand the differences.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund and its enterprise fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in the accompanying financial statements.

Proprietary Funds. The Town maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer enterprise.

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 statement because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-Wide Financial Analysis

The condensed comparative statements of net position for the two most recent years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2018	2017 (a)	2018	2017 (a)	2018	2017 (a)
ASSETS						
Current and other assets	\$ 14,693,852	\$ 13,287,795	\$ 1,408,480	\$ 1,539,895	\$ 16,102,332	\$ 14,827,690
Capital assets, net	<u>58,265,712</u>	<u>58,727,027</u>	<u>2,197,290</u>	<u>2,258,012</u>	<u>60,463,002</u>	<u>60,985,039</u>
Total Assets	<u>72,959,564</u>	<u>72,014,822</u>	<u>3,605,770</u>	<u>3,797,907</u>	<u>76,565,334</u>	<u>75,812,729</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>8,176,090</u>	 <u>2,050,032</u>	 <u>-</u>	 <u>-</u>	 <u>8,176,090</u>	 <u>2,050,032</u>
LIABILITIES						
Long-term liabilities	52,056,114	43,969,794	1,888,022	2,002,367	53,944,136	45,972,161
Other liabilities	<u>3,811,581</u>	<u>3,263,985</u>	<u>187,527</u>	<u>185,604</u>	<u>3,999,108</u>	<u>3,449,589</u>
Total Liabilities	<u>55,867,695</u>	<u>47,233,779</u>	<u>2,075,549</u>	<u>2,187,971</u>	<u>57,943,244</u>	<u>49,421,750</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>1,797,295</u>	 <u>650,278</u>	 <u>-</u>	 <u>-</u>	 <u>1,797,295</u>	 <u>650,278</u>
 NET POSITION						
Net investment in capital assets	48,900,276	48,720,426	196,536	145,345	49,096,812	48,865,771
Restricted	4,742,530	4,619,221	907,915	1,023,644	5,650,445	5,642,865
Unrestricted	<u>(30,172,142)</u>	<u>(27,158,850)</u>	<u>425,770</u>	<u>440,947</u>	<u>(29,746,372)</u>	<u>(26,717,903)</u>
Net Position	<u>\$ 23,470,664</u>	<u>\$ 26,180,797</u>	<u>\$ 1,530,221</u>	<u>\$ 1,609,936</u>	<u>\$ 25,000,885</u>	<u>\$ 27,790,733</u>

(a) As restated for the adoption of GASB Statement No. 75. Refer to Note V to the financial statements.

The Town's assets and deferred outflow of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$25.0 million (*total net position*). This represented an approximate \$2.8 million decrease from the prior year. The Town's net position in its governmental activities decreased over \$2.7 million while the net position in its business-type activities decreased nearly \$80,000. In 2018, the Town recorded over \$4.1 million in non-cash personnel benefit costs relative to OPEB and pensions.

The largest portion of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is classified as *unrestricted net position* and is a deficit balance at both June 30, 2018 and 2017. The deficit balance in unrestricted net position in the governmental activities, as previously discussed is primarily the result of the net OPEB pension liabilities, which totaled approximately \$43.5 million at June 30, 2018 in the aggregate.

The condensed comparative statements of activities for the two most recent years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Year Ended June 30,		Year Ended June 30,		Year Ended June 30,	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 2,654,169	\$ 2,755,509	\$ 43,328	\$ 44,478	\$ 2,697,497	\$ 2,799,987
Operating grants and contributions	8,571,782	8,186,310	-	-	8,571,782	8,186,310
Capital grants and contributions	581,426	500,637	-	203,181	581,426	703,818
General revenues:						
Property taxes	21,082,055	20,043,990	-	-	21,082,055	20,043,990
Motor vehicle and other excise	977,867	933,393	-	-	977,867	933,393
Intergovernmental	1,479,443	1,423,910	-	-	1,479,443	1,423,910
Other	66,916	266,458	-	914	66,916	267,372
Total Revenues	<u>35,413,658</u>	<u>34,110,207</u>	<u>43,328</u>	<u>248,573</u>	<u>35,456,986</u>	<u>34,358,780</u>
Expenses:						
General government	2,361,964	1,935,364	-	-	2,361,964	1,935,364
Public safety	2,701,733	2,990,239	-	-	2,701,733	2,990,239
Education	27,926,743	25,126,705	-	-	27,926,743	25,126,705
Public works	2,858,083	2,846,840	-	-	2,858,083	2,846,840
Health and human services	425,587	352,299	-	-	425,587	352,299
Culture and recreation	1,437,176	1,387,855	-	-	1,437,176	1,387,855
Debt service	267,256	261,847	-	-	267,256	261,847
Sewer	-	-	268,292	354,545	268,292	354,545
Total Expenses	<u>37,978,542</u>	<u>34,901,149</u>	<u>268,292</u>	<u>354,545</u>	<u>38,246,834</u>	<u>35,255,694</u>
Change in net position before transfers	(2,564,884)	(790,942)	(224,964)	(105,972)	(2,789,848)	(896,914)
Transfers, net	<u>(145,249)</u>	<u>(231,526)</u>	<u>145,249</u>	<u>231,526</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(2,710,133)</u>	<u>(1,022,468)</u>	<u>(79,715)</u>	<u>125,554</u>	<u>(2,789,848)</u>	<u>(896,914)</u>
Net position — beginning of year	26,180,797	30,422,506	1,609,936	1,484,382	27,790,733	31,906,888
Restatement (a)	<u>-</u>	<u>(3,219,241)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,219,241)</u>
Net position — end of year	<u>\$ 23,470,664</u>	<u>\$ 26,180,797</u>	<u>\$ 1,530,221</u>	<u>\$ 1,609,936</u>	<u>\$ 25,000,885</u>	<u>\$ 27,790,733</u>

(a) Restated for the adoption of GASB Statement No. 75. Refer to Note V to the financial statements.

Governmental Activities. The Town's net position in its governmental activities decreased over \$2.7 million in fiscal year 2018. In 2018, the Town recorded over \$4.1 million in non-cash personnel benefit costs relative to OPEB and pensions, which was the primary contributor to this decrease.

During fiscal years 2018 and 2017, Town property taxes made up approximately 59% and 58% of total revenues, respectively, and the increase in amount year-over-year is consistent with the statutory limitations imposed by the Commonwealth of Massachusetts relative to the assessment of property taxes. Operating grants and contributions represented approximately 24% of total revenues in both fiscal years 2018 and 2017. The remaining revenue categories were consistent year-over-year.

The Town's largest expense category is education, which the Town continues to devote substantial resources towards. Education expenses totaled approximately 73% and 71% of total annual expenditures in fiscal years 2018 and 2017, respectively. No other expense categories were greater than 10% in fiscal years 2018 or 2017. The remaining expense categories were consistent with the prior year.

Business-Type Activities The Town established its sewer enterprise fund in fiscal year 2013. Revenues associated with the Town's sewer operations have been limited and primarily consist of betterment assessments, which are payable over many years by sewer users. Expenses were also limited in the sewer enterprise.

Financial Analysis of the Government's Funds

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

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

At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of nearly \$11.1 million, which is an increase of approximately \$0.9 million from the prior year. The Town reported positive changes in fund balances in its general fund and nonmajor governmental funds of approximately \$1.3 million and \$0.3 million, respectively. The capital projects fund reported a decrease in fund balance of over \$0.7 million primarily due to the commencement of a school building project. The sharp increase in fund balance in the general fund was due to revenues exceeding budget and expectation together with cost management initiatives.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the general fund was approximately \$6.1 million, while total fund balance was over \$7.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 22% of total fiscal year 2018 general fund expenditures, while total fund balance represents approximately 25% of that same amount.

Proprietary Fund. The Town's proprietary fund is made up of the sewer enterprise fund, which provides the same type of information found in the government-wide financial statements under Business-type activities, but in more detail.

Fiduciary Funds. The Town's fiduciary fund is comprised of agency funds in which the Town collects balances and disburses funds on behalf of private parties and private purpose trusts funds, including the Town's OPEB trust fund. The OPEB trust fund increased by nearly \$678,000 as a result of contributions made by the Town in excess of the annual required contribution and investment gains due to favorable investment conditions. The OPEB trust fund has accumulated over \$2.7 million in plan assets.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to approximately \$60.5 million, net of accumulated depreciation. This is an approximate \$0.5 million decrease from the prior year's balance as depreciation expense in 2018 exceeded capital additions. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery, equipment, and software.

Additional information on the Town capital assets can be found in the notes to the basic financial statements.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$11.4 million. Long-term debt decreased over \$1.1 million year-over-year as the Town did not complete any long-term borrowings.

The Town's bond rating was reaffirmed AAA by S&P in May 2016, which is its highest credit rating assessed for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is approximately \$60.8 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate tax base is made up predominantly of residential taxes, which in 2017 are approximately 96% of the entire property tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy.
- The median household income and home values in the Town are significantly higher than the statewide averages. Furthermore, the Town enjoys lower unemployment rates than the statewide averages.
- Net state aid in 2019 is expected to increase over \$670,000 from fiscal year 2018. This increase is due to the transition of retired teachers from the Commonwealth's health plans to the Town's health plans. The Town expects to save a substantial amount due to this change.

These factors, among others, were considered in preparing the Town's budget for the 2019 fiscal year, which was adopted at Town Meeting in May 2018. The 2019 property tax rate, which reflects the adopted budget, was set on December 11, 2018.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Administrator, 13 Ayer Road, Harvard, MA 01451.

TOWN OF HARVARD, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Governmental Activities
ASSETS			
Cash and cash equivalents	\$ 9,478,005	\$ 496,711	\$ 9,974,716
Investments	3,468,810	-	3,468,810
Receivables, net of allowance for uncollectible accounts:			
Real estate and personal property taxes	860,600	-	860,600
Other receivables	209,610	910,156	1,119,766
Intergovernmental	421,927	1,613	423,540
Prepaid items	254,900	-	254,900
Land	18,923,024	-	18,923,024
Construction in-progress	709,654	-	709,654
Depreciable capital assets, net of accumulated depreciation	<u>38,633,034</u>	<u>2,197,290</u>	<u>40,830,324</u>
Total Assets	<u>72,959,564</u>	<u>3,605,770</u>	<u>76,565,334</u>
DEFERRED OUTFLOWS OF RESOURCES			
Other postemployment benefits	6,929,515	-	6,929,515
Pensions	<u>1,246,575</u>	<u>-</u>	<u>1,246,575</u>
Total Deferred Outflows of Resources	<u>8,176,090</u>	<u>-</u>	<u>8,176,090</u>
LIABILITIES			
Current liabilities:			
Warrants and accounts payable	2,106,975	666	2,107,641
Retainage payable	-	54,161	54,161
Interest expense payable	16,874	18,355	35,229
Other liabilities	20,012	-	20,012
Bond anticipation notes payable	562,200	-	562,200
Noncurrent liabilities:			-
Due in one year or less	1,105,520	114,345	1,219,865
Due in more than one year	<u>52,056,114</u>	<u>1,888,022</u>	<u>53,944,136</u>
Total Liabilities	<u>55,867,695</u>	<u>2,075,549</u>	<u>57,943,244</u>
DEFERRED INFLOWS OF RESOURCES			
Other postemployment benefits	792,423	-	792,423
Pensions	<u>1,004,872</u>	<u>-</u>	<u>1,004,872</u>
Total Deferred Inflows of Resources	<u>1,797,295</u>	<u>-</u>	<u>1,797,295</u>
NET POSITION			
Net investment in capital assets	48,900,276	196,536	49,096,812
Restricted for:			
Nonexpendable perpetual funds	361,579	-	361,579
Expendable perpetual funds	508,570	-	508,570
Community preservation	217,706	-	217,706
State and federal grants	785,570	-	785,570
Revolving funds	2,049,937	-	2,049,937
Other purposes	819,168	907,915	1,727,083
Unrestricted	<u>(30,172,142)</u>	<u>425,770</u>	<u>(29,746,372)</u>
Total Net Position	<u>\$ 23,470,664</u>	<u>\$ 1,530,221</u>	<u>\$ 25,000,885</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>							
General government	\$ 2,361,964	\$ 198,801	\$ 128,394	\$ -	\$ (2,034,769)		\$ (2,034,769)
Public safety	2,701,733	355,429	20,010	-	(2,326,294)		(2,326,294)
Education	27,926,743	1,573,265	8,340,971	418,172	(17,594,335)		(17,594,335)
Public works	2,858,083	334,305	-	163,254	(2,360,524)		(2,360,524)
Health and human services	425,587	73,113	59,742	-	(292,732)		(292,732)
Culture and recreation	1,437,176	119,256	22,665	-	(1,295,255)		(1,295,255)
Interest expense	267,256	-	-	-	(267,256)		(267,256)
Total Governmental Activities	37,978,542	2,654,169	8,571,782	581,426	(26,171,165)		(26,171,165)
<u>Business-Type Activities:</u>							
Sewer	268,292	43,328	-	-	-	\$ (224,964)	(224,964)
Total Business-Type Activities	268,292	43,328	-	-	-	(224,964)	(224,964)
Total Primary Government	\$ 38,246,834	\$ 2,697,497	\$ 8,571,782	\$ 581,426	(26,171,165)	(224,964)	(26,396,129)
General Revenues:							
					21,082,055	-	21,082,055
					977,867	-	977,867
					103,949	-	103,949
					1,479,443	-	1,479,443
					(37,033)	-	(37,033)
					(145,249)	145,249	-
					23,461,032	145,249	23,606,281
					(2,710,133)	(79,715)	(2,789,848)
<u>Net Position:</u>							
					26,180,797	1,609,936	27,790,733
					\$ 23,470,664	\$ 1,530,221	\$ 25,000,885

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	<u>General</u>	<u>Capital Project Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 5,374,717	\$ 735,549	\$ 3,367,739	\$ 9,478,005
Investments	2,930,922	-	537,888	3,468,810
Receivables, net of allowance for uncollectibles:				
Property taxes	852,640	-	7,960	860,600
Excise taxes and other	102,267	-	107,343	209,610
Intergovernmental	5,548	231,525	184,854	421,927
Prepaid items	254,900	-	-	254,900
Total Assets	<u>9,520,994</u>	<u>967,074</u>	<u>4,205,784</u>	<u>14,693,852</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 9,520,994</u>	<u>\$ 967,074</u>	<u>\$ 4,205,784</u>	<u>\$ 14,693,852</u>
Liabilities:				
Warrants and accounts payable	\$ 1,679,004	\$ 408,461	\$ 19,510	\$ 2,106,975
Other liabilities	18,207	-	1,805	20,012
Bond anticipation notes payable	<u>-</u>	<u>562,200</u>	<u>-</u>	<u>562,200</u>
Total Liabilities	<u>1,697,211</u>	<u>970,661</u>	<u>21,315</u>	<u>2,689,187</u>
Deferred Inflows of Resources:				
Unavailable revenue - property taxes	709,367	-	7,960	717,327
Unavailable revenue - motor vehicle excise	97,103	-	-	97,103
Unavailable revenue - departmental	5,164	-	107,343	112,507
Total Deferred Inflows of Resources	<u>811,634</u>	<u>-</u>	<u>115,303</u>	<u>926,937</u>
Fund Balances:				
Nonspendable	254,900	-	361,579	616,479
Restricted	156,229	817,911	3,707,587	4,681,727
Committed	432,546	-	-	432,546
Assigned	88,177	-	-	88,177
Unassigned	6,080,297	(821,498)	-	5,258,799
Total Fund Balances	<u>7,012,149</u>	<u>(3,587)</u>	<u>4,069,166</u>	<u>11,077,728</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,520,994</u>	<u>\$ 967,074</u>	<u>\$ 4,205,784</u>	<u>\$ 14,693,852</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Governmental Fund Balances		\$ 11,077,728
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		58,265,712
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.		926,937
Deferred outflows and inflows of resources to be recognized in future expense are not available resources and, therefore, are not reported in the funds:		
Deferred outflows of resources - other postemployment benefits	\$ 6,929,515	
Deferred outflows of resources - pensions	1,246,575	
Deferred inflows of resources - other postemployment benefits	(792,423)	
Deferred inflows of resources - pensions	<u>(1,004,872)</u>	
Net effect of reporting deferred outflows and inflows of resources		6,378,795
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(16,874)
Long-term liabilities are not due and payable in the current period and are therefore, not reported in the government funds:		
Net OPEB liability	(31,330,291)	
Net pension liability	(12,195,933)	
Compensated absences	(264,426)	
Bonds and notes payable	<u>(9,370,984)</u>	
Net effect of reporting long-term liabilities		<u>(53,161,634)</u>
Net Position of Governmental Activities		<u>\$ 23,470,664</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	General	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Real estate and personal property taxes, net	\$ 20,895,812	\$ -	\$ 226,729	\$ 21,122,541
Intergovernmental	6,771,294	418,172	3,370,340	10,559,806
Motor vehicle and other excises	963,714	-	-	963,714
Licenses and permits	158,949	-	-	158,949
Departmental and other revenue	443,923	-	2,020,673	2,464,596
Penalties and interest on taxes	103,949	-	-	103,949
Fines and forfeitures	56,710	-	-	56,710
Investment income	(16,402)	-	(20,631)	(37,033)
Contributions and donations	-	-	72,845	72,845
Total Revenues	<u>29,377,949</u>	<u>418,172</u>	<u>5,669,956</u>	<u>35,466,077</u>
Expenditures:				
Current:				
General government	1,590,689	46,287	134,668	1,771,644
Public safety	1,855,245	60	122,922	1,978,227
Education	13,164,699	884,654	4,406,947	18,456,300
Public works	1,491,491	182,000	207,554	1,881,045
Health and human services	228,843	23,470	39,707	292,020
Culture and recreation	718,506	-	128,373	846,879
Pension and fringe benefits	7,013,858	-	-	7,013,858
State and county tax assessments	903,516	-	-	903,516
Debt service:				
Principal maturities	1,000,529	-	-	1,000,529
Interest	269,389	-	-	269,389
Total Expenditures	<u>28,236,765</u>	<u>1,136,471</u>	<u>5,040,171</u>	<u>34,413,407</u>
Excess of Revenues Over Expenditures	<u>1,141,184</u>	<u>(718,299)</u>	<u>629,785</u>	<u>1,052,670</u>
Other Financing (Uses) Sources:				
Transfers in	526,982	71,400	136,980	735,362
Transfers out	(391,018)	(54,268)	(435,325)	(880,611)
Total Other Financing (Uses) Sources, net	<u>135,964</u>	<u>17,132</u>	<u>(298,345)</u>	<u>(145,249)</u>
Change in Fund Balances	<u>1,277,148</u>	<u>(701,167)</u>	<u>331,440</u>	<u>907,421</u>
Fund Balances - Beginning of year	<u>5,735,001</u>	<u>697,580</u>	<u>3,737,726</u>	<u>10,170,307</u>
Fund Balances - End of year	<u>\$ 7,012,149</u>	<u>\$ (3,587)</u>	<u>\$ 4,069,166</u>	<u>\$ 11,077,728</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Fund Balances \$ 907,421

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. Capital activity in fiscal year 2018 was as follows:

Capital outlays	2,021,990	
Depreciation expense	<u>(2,483,305)</u>	
Net effect of reporting capital activity		(461,315)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Long-term debt activity in fiscal year was limited to scheduled repayments.

1,000,529

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:

Compensated absences	1,366	
Accrued interest	2,133	
Net OPEB liability	(3,476,108)	
Net pension liability	<u>(631,740)</u>	
Net effect of reporting long-term liabilities activity		(4,104,349)

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

(52,419)

Change in Net Position of Governmental Activities \$ (2,710,133)

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Business-Type Activities Enterprise Fund</u>
	<u>Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 496,711
User charges receivable	2,241
Betterments receivable	64,737
Due from the Commonwealth	<u>1,613</u>
Total current assets	<u>565,302</u>
Noncurrent assets:	
Betterments receivable	843,178
Capital assets, net of accumulated depreciation	<u>2,197,290</u>
Total Assets	<u>3,605,770</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	666
Accrued interest expense	18,355
Retainage payable	54,161
Current portion of long-term debt	<u>114,345</u>
Total current liabilities	<u>187,527</u>
Long-term debt	<u>1,888,022</u>
Total Liabilities	<u>2,075,549</u>
NET POSITION	
Net investment in capital assets	196,536
Restricted	907,915
Unrestricted	<u>425,770</u>
Total Net Position	<u>\$ 1,530,221</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018**

	<u>Business-Type Activities Enterprise Fund</u>
	<u>Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 43,328
OPERATING EXPENSES	
Operating costs	164,143
Depreciation expense	<u>60,722</u>
Total Operating Expenses	<u>224,865</u>
Operating Loss	<u>(181,537)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(43,427)
Transfers in, net	<u>145,249</u>
Total Nonoperating (Expenses) Revenues, Net	<u>101,822</u>
Change in Net Position	(79,715)
Net Position - Beginning of year	<u>1,609,936</u>
Net Position - End of year	<u><u>\$ 1,530,221</u></u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities Enterprise Fund
	<u>Sewer</u>
Cash Flows from Operating Activities:	
Receipts from users	\$ 46,212
Payments to vendors and employees	<u>(163,612)</u>
Net Cash Used For Operating Activities	<u>(117,400)</u>
Cash Flows from Noncapital Financing Activities:	
Transfers out, net	<u>145,249</u>
Net Cash Provided by Noncapital Related Financing Activities	<u>145,249</u>
Cash Flows from Capital and Related Financing Activities:	
Sewer betterments	115,729
Interest payments on long-term debt	(44,467)
Principal payments on long-term debt	<u>(111,913)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(40,651)</u>
Net change in cash and cash equivalents	(12,802)
Cash and cash equivalents - Beginning of year	<u>509,513</u>
Cash and cash equivalents - End of year	<u><u>\$ 496,711</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating loss	\$ (181,537)
Depreciation expense	60,722
Changes in assets and liabilities:	
User charges receivable	2,884
Accounts payable and other liabilities	<u>531</u>
Net Cash Used For Operating Activities	<u><u>\$ (117,400)</u></u>
See accompanying notes to basic financial statements.	

TOWN OF HARVARD, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018**

	OPEB Trust Fund	Private- Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 88,606	\$ 421,991
Investments	<u>2,703,231</u>	<u>70,598</u>	<u>-</u>
Total Assets	<u>2,703,231</u>	<u>159,204</u>	<u>421,991</u>
LIABILITIES			
Warrants and accounts payable	-	-	35,721
Held on behalf of students	-	-	88,535
Held on behalf of housing trust	-	-	191,505
Performance deposits	-	-	80,123
Other agency liabilities	<u>-</u>	<u>-</u>	<u>26,107</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 421,991</u>
NET POSITION			
Restricted for other postemployment benefits	2,703,231	-	
Restricted for private purposes	<u>-</u>	<u>159,204</u>	
Net Position	<u>\$ 2,703,231</u>	<u>\$ 159,204</u>	

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018**

	OPEB Trust Fund	Private- Purpose Trust Funds
<hr/>		
ADDITIONS		
Contributions		
Employer contributions	\$ 1,374,096	\$ -
Other contributions	-	16,770
Total contributions	<u>1,374,096</u>	<u>16,770</u>
Investment income:		
Interest and dividends	70,837	1,156
Net realized gain on sale of investmens	137,725	-
Net unrealized loss in fair value of investments	33,528	-
Less investment management fees	<u>(14,240)</u>	<u>-</u>
Net investment income	<u>227,850</u>	<u>1,156</u>
Total Additions	<u>1,601,946</u>	<u>17,926</u>
DEDUCTIONS		
Retiree health and welfare benefits	924,096	-
Scholarships	-	3,750
General Town welfare	<u>-</u>	<u>18,692</u>
Total Deductions	<u>924,096</u>	<u>22,442</u>
Change in Net Position	677,850	(4,516)
Net Position - Beginning of Year	<u>2,025,381</u>	<u>163,720</u>
Net Position - End of Year	<u><u>\$ 2,703,231</u></u>	<u><u>\$ 159,204</u></u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located in Worcester County and was incorporated in 1732. The Town is located approximately thirty-two miles west of Boston and twenty-two miles northeast of Worcester. The governing structure utilizes an open town meeting format with an elected five-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve three-year terms. The Town provides governmental services for the territory within its boundaries, including public safety, education, public works, trash removal, street maintenance, parks and recreational facilities and social services. The Town’s sewer services are treated as a business enterprise in the basic financial statements.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria the Town does not have any component units reported on in these financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The Town reports the following major governmental funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

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

The *nonmajor governmental funds* consist of special revenue and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

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

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 the 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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the *sewer fund* as a major proprietary fund.

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

The government reports the following fiduciary funds:

Private-Purpose Trust Funds – are used to account for funds held in trust for scholarship and assistance purposes.

OPEB Trust Fund – is used to account for funds accumulated by the Town to assist it in its future other postemployment benefit (“OPEB”) obligations.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details, student activity funds and deposits/escrow funds. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

D. Assets, Liabilities, and Net Position or Equity

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

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

Real estate taxes and sewer fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material.

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

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water mains and similar items), are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Infrastructure	25 to 50 years
Structures and improvements	50 years
Equipment, furniture, fixtures and vehicles	3 to 25 years

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

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is retained in the sewer fund but may be voluntarily assigned to the general fund.

Compensated Absences – The Town permits full-time employees to accumulate earned but unused vacation and sick time benefits. Amounts related to these benefits are accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports items related to its net OPEB and pension liabilities as deferred outflows of resources in its governmental activities, which it expects to amortize into expense within the next six years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports items related to its net pension and OPEB liabilities as deferred inflows of resources in its governmental activities, which it expects to amortize against expense within the next six years. In its governmental fund financial statements, the Town reports *unavailable revenues* as deferred inflows of resources within the governmental funds balance sheet. Unavailable revenues are derived from three sources – property taxes, motor vehicle excise taxes and departmental revenues. The Town expects to recognize these items into revenue in the periods that these amounts become available.

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

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

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

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

Community preservation funds represent financial resources accumulated for community and historical preservation projects.

State and federal grants funds represent funds received from other governments and whose use is restricted based on the other government's award specifications.

Revolving funds represent funds generated from activities, programs or services outside the general fund and must be expended on the activities, programs or services that generated the revenue.

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

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

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

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

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

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

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund.

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

	General	Capital Project Funds	Nonmajor Governmental Funds	Total
Nonspendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 361,579	\$ 361,579
Restricted:				
Perpetual permanent funds	-	-	508,570	508,570
Community preservation funds	-	-	217,706	217,706
General government	-	249,177	112,931	362,108
Public safety	-	349,859	145,870	495,729
Education	-	849	1,957,842	1,958,691
Public works	-	204,402	202,998	407,400
Health and human services	-	-	494,938	494,938
Culture and recreation	-	13,624	66,732	80,356
Debt service	156,229	-	-	156,229
Committed:				
General government	59,383	-	-	59,383
Public safety	152,205	-	-	152,205
Education	130,000	-	-	130,000
Public works	90,958	-	-	90,958
Assigned:				
Education	58,269	-	-	58,269
Other purposes	29,908	-	-	29,908
Unassigned:				
Unrestricted	1,773,385	(821,498)	-	951,887
Capital stabilization	1,210,392	-	-	1,210,392
General stabilization	3,351,420	-	-	3,351,420
	<u>\$ 7,012,149</u>	<u>\$ (3,587)</u>	<u>\$ 4,069,166</u>	<u>\$ 11,077,728</u>

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use, it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Funds – The Town maintains a general stabilization fund and capital stabilization fund. The general stabilization fund may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The capital stabilization fund may be used for any municipal purpose in which the Town would borrow money upon a two-thirds vote of Town Meeting.

Encumbrances – The Town’s encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal, approved purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. At June 30, 2018, the Town reported encumbrances totaling \$88,177 from normal purchasing activity in the general fund. Encumbrances were reported as assigned in the governmental funds. No other fund reported encumbrances at June 30, 2018.

E. Excess of Expenditures Over Appropriations and Deficits

The Town incurred legal individual fund deficits in the following capital projects funds:

Hildreth Elementary School construction	\$ 335,870
Hildreth House renovation	128,628
Public works dump truck	182,000
School science lab	<u>175,000</u>
	<u>\$ 821,498</u>

These have been reflected as unassigned fund balance of the nonmajor governmental funds and will be funded through future bond proceeds.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

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

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

The remaining investments not categorized under the fair value hierarchy as shown as being valued at either amortized cost or at net asset value (“NAV”). These are investments in non-governmental entities for which readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2018:

Investments by Fair Value Level	June 30, 2018	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury notes	\$ 714,840	\$ 714,840	\$ -	\$ -
U.S. Governmental agency obligations	969,419	-	969,419	-
Corporate bonds	799,995	-	799,995	-
Total debt securities	2,484,254	714,840	1,769,414	-
Equity securities	878,549	878,549	-	-
Total investments by fair value level	3,362,803	\$ 1,593,389	\$ 1,769,414	\$ -
Investments measured at amortized cost				
MMDT	177,605			
Investments measured at NAV				
SRBT	2,703,231			
Total investments at fair value	\$ 6,243,639			

Short-term investments in the Massachusetts Municipal Depository Trust, or MMDT, are measured at amortized cost.

The State Retirees Benefit Trust Fund (“SRBT”) is administered by the Commonwealth of Massachusetts’ Pension Reserve Investment Management Board, or PRIM. The SRBT holds a diverse set of investments that include private equity, distressed debt, derivatives, venture and real estate investments. The determination of the fair value of these investments is very subjective and the period-end values are reported to the Town as NAV. Investments in the SRBT are generally more liquid than investments in private equity and real estate holdings, but generally cannot be resold to third parties. The Town may liquidate its investments in the SRBT funds at any time with less than thirty days’ notice. Distributions from the SRBT funds are received regularly and deposited into an accompanying short-term cash investment account.

Investment Maturities – The Town had the following investments at June 30, 2018:

		Maturity in Years		
	Fair Value	Less than Year	1 to 5 Years	6 to 10 Years
Investments				
Debt securities:				
U.S. Government obligations	\$ 1,684,259	\$ 714,840	\$ 969,419	\$ -
Corporate fixed income	799,995	98,438	701,557	-
Total investments with maturities	2,484,254	<u>\$ 813,278</u>	<u>\$ 1,670,976</u>	<u>\$ -</u>
Other investments:				
Equities	878,549			
MMDT	177,605			
SRBT	<u>2,703,231</u>			
Total Investments	\$ 6,243,639			

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer’s investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

The following table summarizes the credit ratings issued by Moody’s Investor Services, or Moody’s, for the Town’s debt securities at June 30, 2017. Credit ratings are not available for the Town’s investments in pooled funds, mutual funds, equity securities or the SRBT.

<u>Moody's Rating</u>	<u>U.S. Government Obligations</u>	<u>Corporate Fixed Income</u>	<u>Total</u>
Aaa	\$ 1,684,259	\$ -	\$ 1,684,259
A1	-	151,509	151,509
A2	-	97,697	97,697
Baa1	-	284,636	284,636
Baa2	-	266,153	266,153
	<u>\$ 1,684,259</u>	<u>\$ 799,995</u>	<u>\$ 2,484,254</u>

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town has an investment policy covering deposits and custodial credit risk relative to cash holdings. At June 30, 2018, approximately \$2,645,000 of the Town's bank deposits were not covered by federal depository insurance, other depositors' insurance programs or privately-secured collateralization agreements.

Custodial Credit Risk: Investments – This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not maintain investments subject to this type of credit risk at June 30, 2018.

Concentration of Credit Risk – The Town maintains two individual investments whose individual balances exceed 5% of the Town's reported investment value, as illustrated in the following table:

<u>Security Name</u>	<u>Amount</u>	<u>Concentration Percentage</u>
SRBT	\$ 2,703,231	43.3%
U.S. Treasury bonds	714,840	11.4%
	<u>\$ 3,418,071</u>	54.7%

Interest Rate Risk – In the case of investments, this is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the more sensitive it is to changes in market interest rates. The Town has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Town further mitigates this risk by keeping investment maturities within ten years.

B. Receivables

Receivables as of June 30, 2018 for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Real estate and personal property taxes	\$ 331,863	\$ -	\$ 331,863
Tax liens	528,737	-	528,737
Motor vehicle excise	97,103	-	97,103
Departmental	112,507	-	112,507
Intergovernmental	<u>421,927</u>	<u>-</u>	<u>421,927</u>
	<u>\$ 1,492,137</u>	<u>\$ -</u>	<u>\$ 1,492,137</u>

Receivables as of June 30, 2018 for Town's sewer enterprise fund are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
User charges	\$ 2,241	\$ -	\$ 2,241
Betterments	907,915	-	907,915
Intergovernmental	<u>1,613</u>	<u>-</u>	<u>1,613</u>
	<u>\$ 911,769</u>	<u>\$ -</u>	<u>\$ 911,769</u>

Sewer betterments are primarily amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

Governmental funds report unavailable revenue as a deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current accounting period. The following table identifies the components of unavailable revenues at June 30, 2018 in the governmental funds:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivable type:			
Real estate and personal property taxes	\$ 180,630	\$ 7,960	\$ 188,590
Tax liens	528,737	-	528,737
Motor vehicle excise	97,103	-	97,103
Departmental	<u>5,164</u>	<u>107,343</u>	<u>112,507</u>
	<u>\$ 811,634</u>	<u>\$ 115,303</u>	<u>\$ 926,937</u>

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance (a)	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 18,923,024	\$ -	\$ -	\$ 18,923,024
Construction in-progress	-	709,654	-	709,654
Total capital assets not being depreciated	18,923,024	709,654	-	19,632,678
Capital assets being depreciated:				
Buildings and improvements	48,955,319	663,536	-	49,618,855
Infrastructure	25,812,508	218,579	(642,017)	25,389,070
Machinery, equipment and collectibles	7,115,826	394,997	-	7,510,823
Vehicles	675,077	35,224	-	710,301
Total capital assets being depreciated	82,558,730	1,312,336	(642,017)	83,229,049
Less accumulated depreciation for:				
Buildings and improvements	(20,149,684)	(1,357,874)	-	(21,507,558)
Infrastructure	(17,716,256)	(591,028)	642,017	(17,665,267)
Machinery, equipment and collectibles	(4,505,032)	(444,280)	-	(4,949,312)
Vehicles	(383,755)	(90,123)	-	(473,878)
Total accumulated depreciation	(42,754,727)	(2,483,305)	642,017	(44,596,015)
Total capital assets being depreciated, net	39,804,003	(1,170,969)	-	38,633,034
Governmental activities capital assets, net	\$ 58,727,027	\$ (461,315)	\$ -	\$ 58,265,712

(a) Prior year balances have been reclassified to conform to current year presentation.

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities:</u></i>				
Capital assets being depreciated:				
Infrastructure	\$ 2,428,900	\$ -	\$ -	\$ 2,428,900
Less accumulated depreciation for:				
Infrastructure	(170,888)	(60,722)	-	(231,610)
Total accumulated depreciation	(170,888)	(60,722)	-	(231,610)
Total capital assets being depreciated, net	2,258,012	(60,722)	-	2,197,290
Business-Type activities capital assets, net	\$ 2,258,012	\$ (60,722)	\$ -	\$ 2,197,290

Depreciation expense was charged to functions for the fiscal year ended June 30, 2018 as follows:

Governmental Activities:

General government	\$ 167,808
Public safety	224,427
Education	1,040,336
Public works	730,254
Health and human services	43,810
Culture and recreation	276,670
	<u>\$ 2,483,305</u>

Business-Type Activities:

Sewer	<u>\$ 60,722</u>
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D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2018 were as follows:

Transfers Out	Transfers In				Total	
	General Fund	Capital Project Funds	Nonmajor Funds	Sewer Fund		
General fund	\$ -	\$ 71,400	\$ 82,712	\$ 236,906	\$ 391,018	(1)
Capital project funds	-	-	54,268	-	54,268	(2)
Special revenue funds	435,325	-	-	-	435,325	(3)
Sewer fund	91,657	-	-	-	91,657	(4)
	<u>\$ 526,982</u>	<u>\$ 71,400</u>	<u>\$ 136,980</u>	<u>\$ 236,906</u>	<u>\$ 972,268</u>	

- (1) The general fund transferred \$71,400 to capital projects to paydown a BAN; \$60,961 was transferred to nonmajor funds when the general fund closed unused articles; \$20,000 was transferred to the conservation trust (part of nonmajor funds); and \$1,751 in bond premiums were transferred to a newly formed receipts reserved fund. The general fund also paid \$236,906 in sewer debt service and operational expenses in 2018.
- (2) The capital projects fund transferred \$54,268 in bond premiums to a newly formed receipts reserved fund.
- (3) In 2018, \$367,758 was appropriated from receipts reserved to the general fund; \$62,367 was transferred from the CPA fund and Title V funds to the general fund for debt service; and \$5,000 was transferred from a library trust to the general fund to supplement the library budget.
- (4) Transferred to the general fund for debt service.

E. Temporary Debt

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

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue of tax anticipation notes.

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

The following reflects the activity in temporary borrowings during the year ended June 30, 2018:

Type	Interest Rate	Maturity Date	Balance July 1, 2017	Additions	Retirements	Rollovers	Balance June 30, 2018
BAN	1.25%	matured	\$ 633,833	\$ -	\$ (71,633)	\$ (562,200)	\$ -
BAN	2.05%	12/14/18	-	-	-	562,200	562,200
			<u>\$ 633,833</u>	<u>\$ -</u>	<u>\$ (71,633)</u>	<u>\$ -</u>	<u>\$ 562,200</u>

The outstanding BANS were issued for the following purposes:

Hildreth Elementary School construction	\$ 276,600
Public works dump truck	145,600
School science lab	<u>140,000</u>
	<u>\$ 562,200</u>

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

F. Long-term Obligations

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2018:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 10,371,513	\$ -	\$ (1,000,529)	\$ 9,370,984	\$ 986,528
Compensated absences	265,792	-	(1,366)	264,426	118,992
Net OPEB liability (a)	21,717,091	11,779,719	(2,166,519)	31,330,291	-
Net pension liability	<u>12,722,244</u>	<u>3,289,419</u>	<u>(3,815,730)</u>	<u>12,195,933</u>	<u>-</u>
	<u>\$ 45,076,640</u>	<u>\$ 15,069,138</u>	<u>\$ (6,984,144)</u>	<u>\$ 53,161,634</u>	<u>\$ 1,105,520</u>
<i>Business-Type Activities:</i>					
Notes payable	<u>\$ 2,114,280</u>	<u>\$ -</u>	<u>\$ (111,913)</u>	<u>\$ 2,002,367</u>	<u>\$ 114,345</u>

(a) The beginning balance was restated for the adoption of GASB Statement No. 75. Refer to Note V.

Bond and Note Indebtedness – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. In addition, the Town incurs various other long-term obligations relative to associated personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.”

General obligation bonds and notes payable outstanding at June 30, 2018 are as follows:

Description	Interest Rate	Beginning Balance	Additions	Maturities and Retirements	Ending Balance
<u>Governmental Activities:</u>					
General obligation bonds	2.00% - 7.75%	\$ 6,024,000	\$ -	\$ (379,000)	\$ 5,645,000
Refunding bonds	2.00% - 2.75%	4,140,000	-	(610,000)	3,530,000
MCWT notes	0.00%	207,513	-	(11,529)	195,984
		<u>\$ 10,371,513</u>	<u>\$ -</u>	<u>\$ (1,000,529)</u>	<u>\$ 9,370,984</u>
<u>Business-Type Activities:</u>					
MCWT notes	2.00%	<u>\$ 2,114,280</u>	<u>\$ -</u>	<u>\$ (111,913)</u>	<u>\$ 2,002,367</u>

Future Debt Payoff – Payments on general long-term debt obligation bonds due in future years consist of the following:

Year Ending June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 986,528	\$ 223,621	\$ 1,210,149	\$ 114,345	\$ 40,046	\$ 154,391
2020	971,529	200,427	1,171,956	116,830	37,760	154,590
2021	961,528	177,458	1,138,986	119,370	35,424	154,794
2022	836,529	156,802	993,331	121,964	33,038	155,002
2023	826,528	135,776	962,304	124,613	30,596	155,209
2024 - 2028	2,682,643	412,103	3,094,746	664,892	114,500	779,392
2029 - 2033	1,337,642	192,660	1,530,302	740,353	45,058	785,411
2034 - 2037	<u>768,057</u>	<u>45,086</u>	<u>813,143</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,370,984</u>	<u>\$ 1,543,933</u>	<u>\$ 10,914,917</u>	<u>\$ 2,002,367</u>	<u>\$ 336,422</u>	<u>\$ 2,338,789</u>

Authorized and Unissued Debt – At June 30, 2018, the Town had authorized and unissued debt for the following:

Hildreth Elementary School construction	\$ 53,597,807
Old library front access	<u>383,000</u>
	<u>\$ 53,980,807</u>

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2015 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-seven employers as of December 31, 2017 was as follows:

Active members	7,601
Inactive members entitled to, but not receiving benefits	1,653
Inactive members (or beneficiaries) currently receiving benefits	<u>3,723</u>
	<u>12,977</u>

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

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

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in 2018.

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

The Town contributed \$756,788 to the Retirement System in fiscal year 2018, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 19% in fiscal year 2018.

Net Pension Liability – At June 30, 2018, the Town reported a liability of \$12,195,933 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2017. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. There were no material changes to the actuarial assumptions made in this update (see below).

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 1.50% and 1.52% at December 31, 2017 and 2016, respectively.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2017, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$1,388,529 in pension expense in the statement of activities in fiscal year 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 81,132	\$ -
Changes of assumptions	1,162,236	-
Net difference between projected and actual earnings on pension plan investments	-	380,273
Changes in proportion and differences between Town contributions and proportionate share of contributions	<u>3,207</u>	<u>624,599</u>
	<u>\$ 1,246,575</u>	<u>\$ 1,004,872</u>

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

<u>Year ended June 30,</u>	
2019	\$ 87,974
2020	87,600
2021	50,293
2022	<u>15,836</u>
	<u>\$ 241,703</u>

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Inflation:	3.0% per year
Amortization method:	Payment increases 4.0% per year, except for early retirement incentive (“ERI”) programs for 2002 and 2003 (4.5%) and 2010 (level dollar)
Remaining amortization period:	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Asset valuation method:	5-year smoothing; market value
Salary increases:	Group 1: 4.20-6.00%, based on service Group 4: 4.75-7.00%, based on service
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation
Mortality rates:	Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled life mortality:	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 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 returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System’s target allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equity	40%	4.91%
Fixed income	22%	2.04%
Private equity	11%	6.50%
Real estate	10%	3.70%
Timber/natural resources	4%	3.25%
Hedge funds	13%	3.40%

Discount Rate – The discount rate used to measure the total pension liability was 7.75%, which is a reduction from the previous 8.0% discount rate. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of MGL. Based on those assumptions, the Retirement System’s fiduciary net position

was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town’s proportionate share of the net pension liability	\$ 14,864,210	\$ 12,195,933	\$ 9,942,031

B. Massachusetts Teachers’ Retirement System

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

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

For the year ended June 30, 2018, the Commonwealth contributed \$1,717,790 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.14%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The net pension liability assumed by the Commonwealth on behalf of the Town at June 30, 2018 was \$31,818,543. The pension expense assumed by the Commonwealth on behalf of the Town for fiscal year 2018 was \$3,320,994. The Town recognized \$3,320,994 in intergovernmental revenue and pension expense relative to this arrangement.

MTRS issues certain financial information to the public on its website – www.mass.gov/mtrs. A more detailed discussion of its funding policies, actuarial assumptions and other inputs used to measure total pension liability may be found there.

C. Other Postemployment Benefits

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

Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. All benefits are provided through the Town’s premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements. OPEB Plan disclosures can be found in this footnote disclosure.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2018:

Inactive employees or beneficiaries receiving benefits	125
Active employees	<u>207</u>
	<u>332</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retired Town employees, excluding teachers, contribute 25% of total medical premiums. Retired teachers contribute either 10% or 15% of total medical premiums depending on their date of hire. Retired Town employees contribute 25% of life insurance premiums and retired teachers contribute 20% of life insurance premiums (\$5,000 total death benefit). The Town pays all remaining amounts as well as the cost of administering the OPEB Plan.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017.

The components of the net OPEB Liability of the Town at June 30, 2018 were as follows:

Total OPEB liability	\$ 34,033,522
Plan fiduciary net position	<u>(2,703,231)</u>
Net OPEB liability	<u>\$ 31,330,291</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.94%

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

Actuarial Valuation Date	July 1, 2017
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Market value of assets as of reporting date
Inflation	2.60% per annum
Investment Rate of Return	7.50%, net of investment expenses
Single Equivalent Discount Rate	4.51%, net of investment expenses, including inflation
Mortality - General and Public Safety Employees	For pre-retirement, RP-2000 Employees Mortality Table, based year 2009, projected with improvement using scale BB.
	For post-retirement, RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational improvement using scale BB.
Mortality - Teachers	For pre-retirement, RP-2014 White Collar Mortality Table, based year 2014, projected with improvement using scale MP-2016.
	For post-retirement, RP-2014 White Collar Mortality Table, base year 2014, projected with generational improvement using scale MP-2016.

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

Asset Class	Target Allocation	Long-term Expected Real Rates of Return
Global equity	40%	4.94%
Core fixed income	12%	0.71%
Value-added fixed income	10%	3.60%
Private equity	11%	6.50%
Real estate	10%	3.70%
Timber	4%	3.25%
Hedge funds	13%	3.54%

Discount Rate – The discount rate used to measure the total OPEB liability was 4.51%. The projection of cash flows used to determine the discount rate assumed that the Town would make contributions of approximately \$450,000 to the OPEB Plan annually. Based on this assumption, the OPEB Plan’s fiduciary net position was projected to be insufficient to make all projected benefit payments of current OPEB Plan members. Therefore, the long-term expected rate of return on OPEB Plan investments (7.5%) was applied to the first twenty periods of projected future benefit payments and the 3.87% municipal bond rate was applied to all periods thereafter to determine the total OPEB liability.

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2017	\$ 23,742,472	\$ 2,025,381	\$ 21,717,091
Changes for the year:			
Service cost	913,522	-	913,522
Interest	1,333,088	-	1,333,088
Changes in benefit terms	1,693,473	-	1,693,473
Changes in assumptions	8,151,687	-	8,151,687
Experience differences	(876,624)	-	(876,624)
Employer contributions	-	1,374,096	(1,374,096)
Net investment income	-	227,850	(227,850)
Benefit payments	(924,096)	(924,096)	-
Net changes	10,291,050	677,850	9,613,200
Balances at June 30, 2018	<u>\$ 34,033,522</u>	<u>\$ 2,703,231</u>	<u>\$ 31,330,291</u>

Sensitivity Analyses – The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

	1% Decrease (6.51%)	Current Discount Rate (4.51%)	1% Increase (5.51%)
Net OPEB liability	\$ 37,556,919	\$ 31,330,291	\$ 26,427,001

The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	1% Decrease (7.0% Year 1 Decreasing to 2.8%)	Healthcare Cost Trend Rates (8.0% Year 1 Decreasing to 3.8%)	1% Increase (9.0% Year 1 Decreasing to 4.8%)
Net OPEB liability	\$ 25,378,065	\$ 31,330,291	\$ 39,561,356

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Town recognized OPEB expense of \$4,850,204. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 745,196
Changes of assumptions	6,929,515	-
Net difference between projected and actual earnings on pension plan investments	-	47,227
	<u>\$ 6,929,515</u>	<u>\$ 792,423</u>

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

Year ended June 30,

2019	\$ 1,078,902
2020	1,078,902
2021	1,078,902
2022	1,078,903
2023	1,090,709
Thereafter	<u>730,774</u>
	<u>\$ 6,137,092</u>

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

Investment Policy – The OPEB Plan has a formal investment policy that it adopted from the SRBT. The OPEB Plan invests its funds in permissible investments as stipulated by the Commonwealth.

Investment Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 9.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Risk Financing

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation. The Town essentially transfers its risk through payment of its annual assessment, which is adjusted according to the Town's experience history. All insurance except health is carried through conventional, commercial carriers. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

E. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2018, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2018.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts ("ATB"). In total, the assessed values for ATB cases approximates \$455,000 at June 30, 2018 and consists entirely of challenged residential real estate values. The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these tax payers, if any. Furthermore, the Town cannot determine the likelihood of the taxpayers' success at the ATB. Therefore, no loss provision has been made in the Town's basic financial statements.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement became effective in fiscal year 2018. The adoption of GASB No. 75 resulted in a reduction in beginning net position in the Town's governmental activities of approximately \$3.2 million. Refer to Note V.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement was to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town's financial statements.

B. Future Year Implementations

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this

Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

V. Restatement

The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. Previously, OPEB was accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The result of the adoption of GASB Statement No. 75 was to eliminate the net OPEB obligation recorded in the Town financial statements of \$18,497,850 and record the net OPEB liability of \$21,717,091 at June 30, 2017.

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TOWN OF HARVARD, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2018

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

(dollar amounts are in thousands)

	Year Ended December 31,			
	2017	2016	2015	2014
Town's proportion of the net pension liability (asset)	1.496%	1.519%	1.518%	1.684%
Town's proportionate share of the net pension liability (asset)	\$ 12,196	\$ 12,722	\$ 10,756	\$ 10,019
Town's covered payroll	\$ 3,893	\$ 4,559	\$ 4,037	\$ 3,882
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	313.3%	279.1%	266.4%	258.1%
Plan fiduciary net position as a percentage of the total pension liability	46.4%	42.0%	44.5%	47.9%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

(dollar amounts are in thousands)

	Year Ended June 30,			
	2018	2017	2016	2015
Actuarially determined contribution	\$ 757	\$ 738	\$ 683	\$ 665
Contributions in relation to the actuarially determined contribution	<u>757</u>	<u>738</u>	<u>683</u>	<u>665</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 3,893	\$ 4,559	\$ 4,037	\$ 3,882
Contributions as a percentage of covered-employee payroll	19.4%	16.2%	16.9%	17.1%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

TOWN OF HARVARD, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - MTRS
YEAR ENDED JUNE 30, 2018

**SCHEDULE OF THE COMMONWEALTH'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**
(dollar amounts are in thousands)

	2017	Year Ended December 31,		2014
		2016	2015	
Commonwealth's proportionate share of the collective net pension liability (asset)	100.0%	100.0%	100.0%	100.0%
Town's proportionate share of the collective net pension liability (asset)	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

TOWN OF HARVARD, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2018

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	2018	2017
Total OPEB liability:		
Service cost	\$ 913,522	\$ 1,044,984
Interest	1,333,088	1,237,242
Changes in benefit terms	1,693,473	-
Differences between expected and actual experience	(876,624)	-
Changes in assumptions	8,151,687	(2,497,000)
Benefit payments	(924,096)	(806,177)
Net change in total OPEB liability	10,291,050	(1,020,951)
Total OPEB liability - beginning of year	23,742,472	24,763,423
Total OPEB liability - end of year (a)	<u>\$ 34,033,522</u>	<u>\$ 23,742,472</u>
Plan fiduciary net position:		
Contributions	\$ 1,374,096	\$ 1,406,177
Net investment income	227,850	213,331
Benefit payments	(924,096)	(806,177)
Net change in Plan fiduciary net position	677,850	813,331
Plan fiduciary net position - beginning of year	2,025,381	1,212,050
Plan fiduciary net position - end of year (b)	<u>\$ 2,703,231</u>	<u>\$ 2,025,381</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 31,330,291</u>	<u>\$ 21,717,091</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.94%	8.53%
Covered payroll	\$ 13,246,017	\$ 14,204,408
Net OPEB liability as a percentage of covered payroll	236.53%	152.89%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

TOWN OF HARVARD, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2018**

SCHEDULE OF CONTRIBUTIONS

	<u>2018</u>	<u>2017</u>
Actuarially-determined contribution	\$ 1,959,672	\$ 1,931,496
Contributions in relation to the actuarially-determined contribution	<u>1,374,096</u>	<u>1,406,177</u>
Contribution deficiency (excess)	<u>\$ 585,576</u>	<u>\$ 525,319</u>
Covered payroll	\$ 13,246,017	\$ 14,204,408
Contribution as a percentage of covered payroll	10.37%	9.90%
Discount rate	5.51%	5.50%

Notes to Schedule

Valuation date	July 1, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value of assets as of reporting date
Inflation	2.6% per annum
Healthcare cost trend rates	8.0% for 2017, decreasing 0.5% per year to 5.5% then grading down to an ultimate trend rate of 3.8%

SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	9.50%	12.13%

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

See accompanying independent auditor's report.

TOWN OF HARVARD, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual		Actual	Variance
	Original Budget	Final Budget	Budgetary Amounts	Encumbrances	Budgetary Adjusted	Positive (Negative)
Revenues:						
Real estate and personal property taxes, net	\$ 20,707,502	\$ 20,707,502	\$ 20,810,459		\$ 20,810,459	\$ 102,957
Intergovernmental	3,442,069	3,442,069	3,450,300		3,450,300	8,231
Motor vehicle and other excises	865,000	865,000	963,714		963,714	98,714
License and permits	140,000	140,000	158,749		158,749	18,749
Departmental and other revenue	378,225	378,225	443,923		443,923	65,698
Penalties and interest on taxes	110,000	110,000	103,949		103,949	(6,051)
Fines and forfeitures	40,000	40,000	56,710		56,710	16,710
Investment income	20,000	20,000	42,378		42,378	22,378
Total revenues	25,702,796	25,702,796	26,030,182		26,030,182	327,386
Expenditures:						
General government	1,945,545	1,946,338	1,602,912	\$ 66,073	1,668,985	277,353
Public safety	2,134,524	2,134,524	1,855,245	153,511	2,008,756	125,768
Education	14,143,785	14,243,785	13,118,132	1,011,273	14,129,405	114,380
Public works	1,734,876	1,734,876	1,574,200	90,958	1,665,158	69,718
Health and human services	235,396	235,396	228,843	1,122	229,965	5,431
Culture and recreation	734,428	734,428	718,506	50	718,556	15,872
Fringe Benefits	4,236,439	4,236,439	3,712,553	236,414	3,948,967	287,472
State and county tax assessments	903,516	903,516	903,516	-	903,516	-
Debt service	1,584,333	1,584,333	1,495,515	-	1,495,515	88,818
Total expenditures	27,652,842	27,753,635	25,209,422	1,559,401	26,768,823	984,812
Other financing sources (uses)						
Transfers in	872,319	973,112	984,641	-	984,641	11,529
Transfers out	(60,000)	(1,392,858)	(1,471,870)	-	(1,471,870)	(79,012)
Total Other Financing Sources (Uses)	812,319	(419,746)	(487,229)	-	(487,229)	(67,483)
(Deficiency) excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,137,727)	(2,470,585)	\$ 333,531	\$ (1,559,401)	\$ (1,225,870)	\$ 1,244,715
Other budget items:						
Prior year encumbrances	1,136,303	1,136,303				
Transfers from available surplus (free cash)	-	1,332,858				
Other miscellaneous budgetary amounts	1,424	1,424				
Total other budget items	1,137,727	2,470,585				
Net budget	\$ -	\$ -				

The notes to the financial statements are an integral part of this statement.

TOWN OF HARVARD, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the general fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town's annual meeting in June. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town's general fund is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide a meaningful comparison with the budget.

A complete reconciliation is provided below:

	Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 26,030,182
On behalf payments	\$ 3,320,994	\$ -	3,320,994
Revenue recognition - 60 day accruals	85,553	-	85,553
Stabilization interest - GASB 54 impact	-	(58,780)	(58,780)
Revenues on a GAAP basis	<u>\$ 3,406,547</u>	<u>\$ (58,780)</u>	<u>\$ 29,377,949</u>
Expenditures on a budgetary basis			\$ 25,209,422
On behalf payments	\$ 3,320,994	\$ -	3,320,994
Expense recognition - encumbrances	46,567	-	46,567
Expense recognition - fringe benefits	(19,689)	-	(19,689)
Transfer treatment	-	(320,529)	(320,529)
Expenditures on a GAAP basis	<u>\$ 3,347,872</u>	<u>\$ (320,529)</u>	<u>\$ 28,236,765</u>
Net transfers on a budgetary basis			\$ (487,229)
Stabilization transfers - GASB 54 impact	\$ -	\$ 943,722	943,722
Transfer treatment	-	(320,529)	(320,529)
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ 623,193</u>	<u>\$ 135,964</u>



**INDEPENDENT AUDITORS' 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**

The Honorable Members of the Board of Selectmen
Town of Harvard, Massachusetts

We have audited, 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, the financial statements of the Town of Harvard, Massachusetts (the "Town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 31, 2019.

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.

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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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.

Roselli, Clark & Associates

Roselli, Clark & Associates
Woburn, Massachusetts
January 31, 2019