

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF HARVARD, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2019

Report on Internal Control
Over Financial Reporting and
on Compliance and Other Matters
Year Ended June 30, 2019



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, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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, 2019, 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.

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 September 25, 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.

A handwritten signature in cursive script that reads "Roselli, Clark & Associates".

Roselli, Clark & Associates
Woburn, Massachusetts
September 25, 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, 2019. 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

- In fiscal year 2019, the Town commenced construction of a new elementary school. The Town expects to be reimbursed approximately 51% of eligible construction costs from the Massachusetts School Building Authority, or MSBA, up to a maximum of nearly \$18.8 million. The Town reported intergovernmental revenues from the MSBA of over \$2.8 million in fiscal year 2019, of which approximately \$1.3 million was reported as an intergovernmental receivable in these basic financial statements.
- In addition to the MSBA grant proceeds, the Town expects to finance the elementary school construction through the issuance of general obligation bonds. The Town did not issue any general obligation bonds in fiscal year 2019; the Town financed the construction in-progress through the issuance of nearly \$5.6 million in bond anticipation notes payable in fiscal year 2019.
- 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 nearly \$25.5 million (*total net position*). This represented an approximate \$472,000 increase from the prior year. The Town's net position in its governmental activities increased nearly \$594,000 while the net position in its business-type activities decreased over \$121,000.
- The Town continues to report a deficit in its unrestricted net position in its governmental activities. This deficit exceeded \$38.3 million at year end. This deficit is due primarily to the recording of liabilities associated with the net OPEB and pension liabilities, which totaled nearly \$50.1 million at June 30, 2019 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 \$9.1 million, which was a decrease of approximately \$1.9 million year-over-year.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately \$6.2 million, which represents approximately 20% percent of the total fiscal year 2019 general fund expenditures. The June 30, 2019 total general fund balance of nearly \$8.1 million was approximately 26% of the total fiscal year 2019 general fund expenditures.
- The Town's total long-term debt obligations decreased by approximately \$1.1 million in fiscal year 2019 to approximately \$10.3 million at June 30, 2019 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, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Assets:						
Current and other assets	\$ 20,279,357	\$ 14,693,852	\$ 1,187,635	\$ 1,408,480	\$ 21,466,992	\$ 16,102,332
Capital assets, net	63,618,483	58,265,712	2,136,517	2,197,290	65,755,000	60,463,002
Total Assets	83,897,840	72,959,564	3,324,152	3,605,770	87,221,992	76,565,334
Deferred Outflows of Resources	10,580,747	8,176,090	-	-	10,580,747	8,176,090
Liabilities:						
Long-term liabilities	57,694,570	52,056,114	1,771,192	1,888,022	59,465,762	53,944,136
Other liabilities	11,573,260	3,811,581	144,210	187,527	11,717,470	3,999,108
Total Liabilities	69,267,830	55,867,695	1,915,402	2,075,549	71,183,232	57,943,244
Deferred Inflows of Resources	1,146,230	1,797,295	-	-	1,146,230	1,797,295
Net Position:						
Net investment in capital assets	55,929,251	48,900,276	248,495	196,536	56,177,746	49,096,812
Restricted	6,482,763	4,742,530	802,120	907,915	7,284,883	5,650,445
Unrestricted	(38,347,487)	(30,172,142)	358,135	425,770	(37,989,352)	(29,746,372)
Total Net Position	\$ 24,064,527	\$ 23,470,664	\$ 1,408,750	\$ 1,530,221	\$ 25,473,277	\$ 25,000,885

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 nearly \$25.5 million (*total net position*). This represented an approximate \$0.5 million increase from the prior year. The Town's net position in its governmental activities increased nearly \$594,000, while the net position in its business-type activities decreased over \$121,000. In 2019, the Town recorded nearly \$3.5 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, 2019 and 2018. The deficit balance in unrestricted net position in the governmental activities, as previously discussed is primarily the result of the net OPEB and pension liabilities, which totaled approximately \$50.1 million and \$43.5 million at June 30, 2019 and 2018, respectively, in the aggregate.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 2,748,487	\$ 2,654,169	\$ 51,679	\$ 43,328	\$ 2,800,166	\$ 2,697,497
Operating grants and contributions	8,892,434	8,571,782	-	-	8,892,434	8,571,782
Capital grants and contributions	3,327,201	581,426	-	-	3,327,201	581,426
General revenues:						
Property taxes	21,524,868	21,082,055	-	-	21,524,868	21,082,055
Excise taxes	978,106	977,867	-	-	978,106	977,867
Intergovernmental	1,531,224	1,479,443	-	-	1,531,224	1,479,443
Other	604,998	66,916	3,962	-	608,960	66,916
Total Revenues	39,607,318	35,413,658	55,641	43,328	39,662,959	35,456,986
Expenses:						
General government	2,694,342	2,361,964	-	-	2,694,342	2,361,964
Public safety	2,684,980	2,701,733	-	-	2,684,980	2,701,733
Education	27,994,069	27,926,743	-	-	27,994,069	27,926,743
Public works	3,049,751	2,858,083	-	-	3,049,751	2,858,083
Health and human services	446,533	425,587	-	-	446,533	425,587
Culture and recreation	1,591,175	1,437,176	-	-	1,591,175	1,437,176
Interest expense	393,760	267,256	-	-	393,760	267,256
Sewer	-	-	335,957	268,292	335,957	268,292
Total Expenses	38,854,610	37,978,542	335,957	268,292	39,190,567	38,246,834
Change in Net Position Before Transfers	752,708	(2,564,884)	(280,316)	(224,964)	472,392	(2,789,848)
Transfers	(158,845)	(145,249)	158,845	145,249	-	-
Change in Net Position	593,863	(2,710,133)	(121,471)	(79,715)	472,392	(2,789,848)
Net Position:						
Beginning of year	23,470,664	26,180,797	1,530,221	1,609,936	25,000,885	27,790,733
End of year	\$ 24,064,527	\$ 23,470,664	\$ 1,408,750	\$ 1,530,221	\$ 25,473,277	\$ 25,000,885

Governmental Activities. The Town's net position in its governmental activities increased nearly \$594,000 in fiscal year 2019. This increase was due primarily to better-than-expected general fund revenues coupled with cost savings in the Town's employee benefits.

During fiscal years 2019 and 2018, Town property taxes made up approximately 54% and 60% of total revenues, respectively. Property tax revenues increased by nearly \$443,000, which was consistent with the statutory limitations imposed by the Commonwealth of Massachusetts relative to the assessment of property taxes. The decrease in proportion of total revenues year-over-year is due almost entirely to the approximate \$2.8 million in capital grants from the MSBA for school construction in fiscal year 2019. 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 72% and 74% of total annual expenditures in fiscal years 2019 and 2018, respectively. No other expense categories were greater than 10% in fiscal years 2019 or 2018. 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 \$9.1 million, which is a decrease of approximately \$2.0 million from the prior year. The Town reported positive changes in fund balances in its general fund and nonmajor governmental funds of approximately \$1.1 million and \$0.8 million, respectively. The capital projects fund reported a decrease in fund balance of nearly \$4.0 million primarily due to the school construction, for which the Town has not yet issued general obligation bonds to finance its portion of the construction costs. To date, the Town has financed this construction through capital grants from the MSBA and the issuance of short-term borrowings. The sharp increase in fund balance in the general fund was due to revenues exceeding budget and expectation together with cost management initiatives. The increase in the nonmajor governmental funds was due primarily to increased educational receipts from Devens regional as well as other intergovernmental grants.

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 \$6.2 million, while total fund balance was nearly \$8.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 20% of total fiscal year 2019 general fund expenditures, while total fund balance represents approximately 26% 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 \$673,000 as a result of contributions made by the Town (\$500,000) and positive investment returns. The OPEB trust fund has accumulated nearly \$3.4 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, 2019 amounts to approximately \$65.8 million, net of accumulated depreciation. This is an approximate \$5.3 million increase from the prior year's balance as current year additions (particularly school construction in-progress) exceeded current year depreciation expense. 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 \$10.3 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 \$61.3 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 2019 are approximately 95% 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 2020 is expected to remain relatively unchanged from 2019.
- The elementary school construction will require the issuance of general obligation bonds in fiscal year 2020 and/or 2021. Additionally, there are a number of other significant capital projects in early stages of discovery/engineering that will require additional, substantial long-term borrowings to finance.

These factors, among others, were considered in preparing the Town's budget for the 2020 fiscal year, which was adopted at Town Meeting in May 2019. The 2020 property tax rate, which reflects the adopted budget, is expected to be set in November 2019.

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, 2019**

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 12,336,099	\$ 384,977	\$ 12,721,076
Investments	4,634,782	-	4,634,782
Receivables, net of allowances:			
Property taxes	821,525	-	821,525
Excise taxes	82,306	-	82,306
Departmental, user charges and other	85,862	802,658	888,520
Intergovernmental	1,962,368	-	1,962,368
Prepaid items	356,415	-	356,415
Land	18,923,024	-	18,923,024
Construction in-progress	6,801,218	-	6,801,218
Depreciable capital assets, net	<u>37,894,241</u>	<u>2,136,517</u>	<u>40,030,758</u>
Total Assets	<u>83,897,840</u>	<u>3,324,152</u>	<u>87,221,992</u>
Deferred Outflows of Resources:			
Other postemployment benefits	9,117,819	-	9,117,819
Pensions	<u>1,462,928</u>	<u>-</u>	<u>1,462,928</u>
Total Deferred Outflows of Resources	<u>10,580,747</u>	<u>-</u>	<u>10,580,747</u>
Liabilities:			
Warrants and accounts payable	4,177,511	10,073	4,187,584
Retainage payable	72,220	-	72,220
Accrued interest	163,023	17,307	180,330
Other liabilities	3,662	-	3,662
Bond anticipation notes payable	6,075,553	-	6,075,553
Noncurrent liabilities:			
Due within one year	1,081,291	116,830	1,198,121
Due in more than one year	<u>57,694,570</u>	<u>1,771,192</u>	<u>59,465,762</u>
Total Liabilities	<u>69,267,830</u>	<u>1,915,402</u>	<u>71,183,232</u>
Deferred Inflows of Resources:			
Other postemployment benefits	613,768	-	613,768
Pensions	<u>532,462</u>	<u>-</u>	<u>532,462</u>
Total Deferred Inflows of Resources	<u>1,146,230</u>	<u>-</u>	<u>1,146,230</u>
Net Position:			
Net investment in capital assets	55,929,251	248,495	56,177,746
Restricted for:			
Nonexpendable permanent funds	363,629	-	363,629
Expendable permanent funds	505,222	-	505,222
Federal and state grants	755,093	-	755,093
Community preservation	297,693	-	297,693
Revolving funds	2,842,062	-	2,842,062
Other purposes	1,719,064	802,120	2,521,184
Unrestricted	<u>(38,347,487)</u>	<u>358,135</u>	<u>(37,989,352)</u>
Total Net Position	<u>\$ 24,064,527</u>	<u>\$ 1,408,750</u>	<u>\$ 25,473,277</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

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
Governmental Activities:							
General government	\$ 2,694,342	\$ 273,022	\$ 87,510	\$ 143,660	\$ (2,190,150)		\$ (2,190,150)
Public safety	2,684,980	385,699	77,088	-	(2,222,193)		(2,222,193)
Education	27,994,069	1,576,523	8,593,922	2,635,098	(15,188,526)		(15,188,526)
Public works	3,049,751	261,645	-	397,019	(2,391,087)		(2,391,087)
Health and human services	446,533	70,698	101,897	-	(273,938)		(273,938)
Culture and recreation	1,591,175	180,900	32,017	151,424	(1,226,834)		(1,226,834)
Interest expense	393,760	-	-	-	(393,760)		(393,760)
Total Governmental Activities	38,854,610	2,748,487	8,892,434	3,327,201	(23,886,488)		(23,886,488)
Business-Type Activities:							
Sewer	335,957	51,679	-	-		\$ (284,278)	(284,278)
Total Business-Type Activities	335,957	51,679	-	-		(284,278)	(284,278)
Total Primary Government	\$ 39,190,567	\$ 2,800,166	\$ 8,892,434	\$ 3,327,201		(284,278)	(24,170,766)
General Revenues:							
Property taxes					21,524,868	-	21,524,868
Motor vehicle and other excise taxes					978,106	-	978,106
Grants and contributions not restricted to to specific programs					1,531,224	-	1,531,224
Penalties and interest on taxes					154,631	-	154,631
Unrestricted investment income					382,222	3,962	386,184
Other income					68,145	-	68,145
Transfers, net					(158,845)	158,845	-
Total General Revenues and Transfers					24,480,351	162,807	24,643,158
Change in Net Position					593,863	(121,471)	472,392
Net Position:							
Beginning of year					23,470,664	1,530,221	25,000,885
End of year					\$ 24,064,527	\$ 1,408,750	\$ 25,473,277

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Assets:				
Cash and cash equivalents	\$ 4,835,707	\$ 3,437,931	\$ 4,062,461	\$ 12,336,099
Investments	3,828,919	-	805,863	4,634,782
Receivables, net of allowances:				
Property taxes	814,105	-	7,420	821,525
Excise taxes	82,306	-	-	82,306
Departmental, user charges and other	4,325	-	81,537	85,862
Intergovernmental	439,570	1,344,483	178,315	1,962,368
Prepaid items	356,415	-	-	356,415
Total Assets	<u>10,361,347</u>	<u>4,782,414</u>	<u>5,135,596</u>	<u>20,279,357</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 10,361,347</u>	<u>\$ 4,782,414</u>	<u>\$ 5,135,596</u>	<u>\$ 20,279,357</u>
Liabilities:				
Warrants and accounts payable	\$ 1,451,092	\$ 2,634,982	\$ 91,437	\$ 4,177,511
Retainage payable	-	72,220	-	72,220
Other liabilities	1,854	-	1,808	3,662
Bond anticipation notes payable	-	6,075,553	-	6,075,553
Total Liabilities	<u>1,452,946</u>	<u>8,782,755</u>	<u>93,245</u>	<u>10,328,946</u>
Deferred Inflows of Resources:				
Unavailable revenues - property taxes	724,217	-	7,420	731,637
Unavailable revenues - other	86,187	-	81,537	167,724
Total Deferred Inflows of Resources	<u>810,404</u>	<u>-</u>	<u>88,957</u>	<u>899,361</u>
Fund Balances:				
Nonspendable	356,415	-	363,629	720,044
Restricted	137,246	255,654	4,653,675	5,046,575
Committed	1,150,459	-	-	1,150,459
Assigned	241,665	-	-	241,665
Unassigned	6,212,212	(4,255,995)	(63,910)	1,892,307
Total Fund Balances	<u>8,097,997</u>	<u>(4,000,341)</u>	<u>4,953,394</u>	<u>9,051,050</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,361,347</u>	<u>\$ 4,782,414</u>	<u>\$ 5,135,596</u>	<u>\$ 20,279,357</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION AS OF
JUNE 30, 2019**

Total Governmental Fund Balances		\$ 9,051,050
Capital assets used in governmental activities in the statement of net position are not financial resources and, therefore, are not reported in the funds.		63,618,483
Certain receivables and revenues are deferred in the governmental funds as they are not current financial resources. These revenues are accrued under the economic resources basis of accounting.		899,361
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	9,117,819	
Deferred outflows of resources - pensions	1,462,928	
Deferred inflows of resources - other postemployment benefits	(613,768)	
Deferred inflows of resources - pensions	<u>(532,462)</u>	
Net effect of reporting deferred outflows and inflows of resources		9,434,517
Interest is accrued on outstanding long-term debt in the statement of net position but not in the funds until due.		(163,023)
Long-term liabilities not currently due and payable are reported in the statement of net position and not in the funds:		
Net other postemployment benefits liability	(36,456,197)	
Net pension liability	(13,621,603)	
Compensated absences	(313,605)	
Bonds and notes payable	<u>(8,384,456)</u>	
Net effect of reporting long-term liabilities		<u>(58,775,861)</u>
Net Position — Governmental Activities		<u>\$ 24,064,527</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

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

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Revenues :				
Property taxes, net of tax refunds	\$ 21,278,619	\$ -	\$ 231,939	\$ 21,510,558
Intergovernmental	6,697,315	2,635,098	4,335,962	13,668,375
Motor vehicle and other excise taxes	994,186	-	-	994,186
Licenses and permits	162,628	-	-	162,628
Penalties and interest on taxes	154,631	-	-	154,631
Fines and forfeitures	59,423	-	-	59,423
Departmental and other revenues	431,115	-	2,121,127	2,552,242
Contributions and donations	-	-	82,484	82,484
Investment income	329,295	-	52,927	382,222
Total Revenues	<u>30,107,212</u>	<u>2,635,098</u>	<u>6,824,439</u>	<u>39,566,749</u>
Expenditures:				
Current:				
General government	1,646,063	1,855	343,942	1,991,860
Public safety	1,824,971	-	193,938	2,018,909
Education	15,530,916	6,091,564	2,431,077	24,053,557
Public works	1,577,526	295,390	392,656	2,265,572
Health and human services	234,595	-	43,892	278,487
Culture and recreation	788,236	165,935	487,501	1,441,672
Pension and fringe benefits	7,888,695	-	-	7,888,695
State and county charges	329,836	-	-	329,836
Debt service:				
Principal	986,528	-	-	986,528
Interest	247,611	-	-	247,611
Total Expenditures	<u>31,054,977</u>	<u>6,554,744</u>	<u>3,893,006</u>	<u>41,502,727</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(947,765)</u>	<u>(3,919,646)</u>	<u>2,931,433</u>	<u>(1,935,978)</u>
Other Financing Sources (Uses):				
Premium from issuance of bond anticipation notes	-	-	68,145	68,145
Transfers in	2,284,115	-	-	2,284,115
Transfers out	(250,502)	(77,108)	(2,115,350)	(2,442,960)
Total Other Financing Sources (Uses)	<u>2,033,613</u>	<u>(77,108)</u>	<u>(2,047,205)</u>	<u>(90,700)</u>
Change in Fund Balances	1,085,848	(3,996,754)	884,228	(2,026,678)
Fund Balances:				
Beginning of the year	7,012,149	(3,587)	4,069,166	11,077,728
End of the year	<u>\$ 8,097,997</u>	<u>\$ (4,000,341)</u>	<u>\$ 4,953,394</u>	<u>\$ 9,051,050</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, 2019**

Net Change in Fund Balances — Total Governmental Funds \$ (2,026,678)

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 asset activity in the current fiscal year included:

Capital asset additions	7,912,122	
Depreciation expense	<u>(2,559,351)</u>	
Net effect of reporting capital activity		5,352,771

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (27,576)

The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also, the 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. Differences in the treatment of long-term debt transactions in the current fiscal year included:

Repayments of long-term debt	<u>986,528</u>	
Net effect of reporting long-term debt activity		986,528

Some revenues/expenses reported in the statement of activities do not provide/require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds:

Net other postemployment benefits liability	(2,758,947)	
Net pension liability	(736,907)	
Compensated absences	(49,179)	
Accrued interest	<u>(146,149)</u>	
Net effect of reporting long-term liabilities		<u>(3,691,182)</u>

Change in Net Position — Governmental Activities \$ 593,863

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>Sewer</u>
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 384,977
Receivables, net of allowances:	
User charges	538
Betterments	65,199
Total Current Assets	<u>450,714</u>
Noncurrent Assets:	
Betterments	736,921
Depreciable capital assets, net	<u>2,136,517</u>
Total Noncurrent Assets	<u>2,873,438</u>
Total Assets	<u>3,324,152</u>
 Total Deferred Outflows of Resources	 <u>-</u>
Liabilities:	
Current Liabilities:	
Warrants and accounts payable	10,073
Accrued interest	17,307
Current portion of long-term debt	<u>116,830</u>
Total Current Liabilities	<u>144,210</u>
Long-term debt	<u>1,771,192</u>
Total Liabilities	<u>1,915,402</u>
 Total Deferred Inflows of Resources	 <u>-</u>
Net Position:	
Net investment in capital assets	248,495
Restricted	802,120
Unrestricted	<u>358,135</u>
Total Net Position	<u>\$ 1,408,750</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Sewer</u>
Operating Revenues:	
Charges for services	\$ 51,679
Operating Expenses:	
Operating costs	236,186
Depreciation	<u>60,773</u>
Total Operating Expenses	<u>296,959</u>
Operating Loss	<u>(245,280)</u>
Nonoperating Revenues (Expenses):	
Investment income	3,962
Interest expenses	<u>(38,998)</u>
Total Nonoperating Revenues (Expenses)	<u>(35,036)</u>
Loss Before Capital Contributions and Transfers	<u>(280,316)</u>
Capital Contributions and Transfers:	
Transfers in	250,502
Transfers out	<u>(91,657)</u>
Total Capital Contributions and Transfers	<u>158,845</u>
Change in Net Position	(121,471)
Net Position:	
Beginning of the year	<u>1,530,221</u>
End of the year	<u>\$ 1,408,750</u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Sewer</u>
Cash Flows from Operating Activities:	
Receipts from user charges	\$ 159,177
Payments to vendors	<u>(280,940)</u>
Net Cash Used In Operating Activities	<u>(121,763)</u>
 Cash Flows from Noncapital Financial Activities:	
Transfers in	250,502
Transfers out	<u>(91,657)</u>
Net Cash Provided By Noncapital Financing Activities	<u>158,845</u>
 Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital grants	1,613
Principal repayments on long-term debt	(114,345)
Interest payments	<u>(40,046)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(152,778)</u>
 Cash Flow from Investing Activities:	
Investment income	<u>3,962</u>
Net Cash Provided By Investing Activities	<u>3,962</u>
Change in Cash and Cash Equivalents	(111,734)
Cash and Cash Equivalents:	
Beginning of the year	<u>496,711</u>
End of the year	<u><u>\$ 384,977</u></u>
 Reconciliation of Operating Loss to Net Cash Used In Operating Activities:	
Operating Loss	\$ (245,280)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Depreciation expense	60,773
Changes in assets, deferred outflows (inflows) of resources and liabilities:	
Receivables and other current assets	107,498
Warrants payable and other current liabilities	<u>(44,754)</u>
Net Cash Used In Operating Activities	<u><u>\$ (121,763)</u></u>

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	OPEB Trust	Private Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ -	\$ 99,613	\$ 432,897
Investments at fair value:			
Fixed income securities	-	100,164	-
State Retirees Benefits Trust Fund	<u>3,375,973</u>	<u>-</u>	<u>-</u>
Total Assets	<u>3,375,973</u>	<u>199,777</u>	<u>\$ 432,897</u>
Liabilities:			
Warrants and accounts payable	-	-	25,071
Agency liabilities	<u>-</u>	<u>-</u>	<u>407,826</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 432,897</u>
Net Position:			
Restricted for other postemployment benefits	3,375,973	-	
Held in trust for private purposes	<u>-</u>	<u>199,777</u>	
Total Net Position	<u>\$ 3,375,973</u>	<u>\$ 199,777</u>	

See accompanying notes to basic financial statements.

TOWN OF HARVARD, MASSACHUSETTS

FIDUCIARY FUNDS STATEMENT OF CHANGES IN FIDUCIARY NET POSITION JUNE 30, 2019

	OPEB Trust	Private Purpose Trust Funds
Additions:		
Employer contributions	\$ 1,518,525	\$ -
Other contributions	-	12,500
Total contributions	<u>1,518,525</u>	<u>12,500</u>
Investment income:		
Interest and dividends	86,205	1,760
Net appreciation in fair value of investments	103,815	30,099
Less investment management fees	<u>(17,278)</u>	<u>(486)</u>
Total net investment income	<u>172,742</u>	<u>31,373</u>
Total Additions	<u>1,691,267</u>	<u>43,873</u>
Deductions:		
Retiree health and welfare benefits	1,018,525	-
Educational scholarships	-	3,000
General public welfare	<u>-</u>	<u>300</u>
Total Deductions	<u>1,018,525</u>	<u>3,300</u>
Change in Net Position	672,742	40,573
Net Position:		
Beginning of the year	<u>2,703,231</u>	<u>159,204</u>
End of the year	<u>\$ 3,375,973</u>	<u>\$ 199,777</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, 2019

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 reported 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 \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated 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	\$ -	\$ -	\$ 363,629	\$ 363,629
Prepaid items	356,415	-	-	356,415
Restricted:				
Perpetual permanent funds	-	-	505,222	505,222
Community preservation funds	-	-	297,693	297,693
General government	-	247,322	66,105	313,427
Public safety	-	-	229,732	229,732
Education	-	-	2,615,112	2,615,112
Public works	-	8,332	197,920	206,252
Health and human services	-	-	647,898	647,898
Culture and recreation	-	-	93,993	93,993
Debt service	137,246	-	-	137,246
Committed:				
General government	394,853	-	-	394,853
Public safety	222,876	-	-	222,876
Education	330,750	-	-	330,750
Public works	162,100	-	-	162,100
Other purposes	39,880	-	-	39,880
Assigned:				
Debt service	204,390	-	-	204,390
Other purposes	37,275	-	-	37,275
Unassigned:				
Unrestricted	1,491,681	(4,255,995)	(63,910)	(2,828,224)
Capital stabilization	3,460,229	-	-	3,460,229
General stabilization	1,260,302	-	-	1,260,302
	<u>\$ 8,097,997</u>	<u>\$ (4,000,341)</u>	<u>\$ 4,953,394</u>	<u>\$ 9,051,050</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, 2019, the Town reported encumbrances totaling \$241,665 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, 2019.

E. Excess of Expenditures Over Appropriations and Deficits

Expenditures exceeded appropriations by \$9,415 for state and county charges in fiscal year 2019, which was covered by other unappropriated general fund expenses.

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

Hildreth Elementary School construction	\$ 3,863,736
Public works dump truck	145,600
Science lab	140,000
Library renovations	106,659
Library grant	40,576
Firefighter grant	<u>23,334</u>
	<u>\$ 4,319,905</u>

These have been reflected as unassigned fund balance of the nonmajor governmental funds and will be funded through future bond or grant 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, 2019:

Investments by Fair Value Level	June 30, 2019	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury notes	\$ 879,799	\$ 879,799	\$ -	\$ -
U.S. Governmental agency obligations	996,367	-	996,367	-
Corporate bonds	1,658,570	-	1,658,570	-
Total debt securities	3,534,736	879,799	2,654,937	-
Equity securities	1,018,166	1,018,166	-	-
Total investments by fair value level	4,552,902	\$ 1,897,965	\$ 2,654,937	\$ -
Investments measured at amortized cost				
MMDT	182,044			
Investments measured at NAV				
SRBT	3,375,973			
Total investments at fair value	\$ 8,110,919			

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 investment maturities at June 30, 2019:

Investments	Fair Value	Maturity in Years		
		Less than Year	1 to 5 Years	6 to 10 Years
Debt securities:				
U.S. Government obligations	\$ 1,876,166	\$ 397,165	\$ 1,479,001	\$ -
Corporate fixed income	1,658,570	101,285	1,557,285	-
Total investments with maturities	3,534,736	\$ 498,450	\$ 3,036,286	\$ -
Other investments:				
Equities	1,018,166			
MMDT	182,044			
SRBT	3,375,973			
Total Investments	\$ 8,110,919			

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, 2019. Credit ratings are not available for the Town’s investments in pooled funds, mutual funds, equity securities or the SRBT.

Moody's Rating	U.S. Government Obligations	Corporate Fixed Income	Total
Aaa	\$ 1,876,166	\$ -	\$ 1,876,166
Aa3	-	224,258	224,258
A2	-	312,757	312,757
A3	-	210,095	210,095
Baa1	-	556,919	556,919
Baa2	-	354,541	354,541
	<u>\$ 1,876,166</u>	<u>\$ 1,658,570</u>	<u>\$ 3,534,736</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, 2019, approximately \$2,282,000 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, 2019.

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:

Security Name	Amount	Concentration Percentage
SRBT	\$ 3,375,973	41.6%
U.S. Treasury bonds	<u>879,799</u>	10.8%
	<u>\$ 4,255,772</u>	52.5%

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, 2019 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	\$ 280,273	\$ -	\$ 280,273
Tax liens	541,252	-	541,252
Motor vehicle excise	82,306	-	82,306
Departmental	85,862	-	85,862
Intergovernmental	<u>1,962,368</u>	<u>-</u>	<u>1,962,368</u>
	<u>\$ 2,952,061</u>	<u>\$ -</u>	<u>\$ 2,952,061</u>

Receivables as of June 30, 2019 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	\$ 538	\$ -	\$ 538
Betterments	<u>802,120</u>	<u>-</u>	<u>802,120</u>
	<u>\$ 802,658</u>	<u>\$ -</u>	<u>\$ 802,658</u>

Sewer betterments are assessed amounts that are expected to be billed in future years for sewer projects that have been funded through bond and note 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, 2019 in the governmental funds:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivable type:			
Real estate and personal property taxes	\$ 187,536	\$ 2,849	\$ 190,385
Tax liens	536,681	4,571	541,252
Motor vehicle excise	82,306	-	82,306
Departmental	<u>3,881</u>	<u>81,537</u>	<u>85,418</u>
	<u>\$ 810,404</u>	<u>\$ 88,957</u>	<u>\$ 899,361</u>

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 18,923,024	\$ -	\$ -	\$ 18,923,024
Construction in-progress	709,654	6,091,564	-	6,801,218
Total capital assets not being depreciated	19,632,678	6,091,564	-	25,724,242
Capital assets being depreciated:				
Buildings and improvements	49,618,855	819,687	-	50,438,542
Infrastructure	25,389,070	460,582	-	25,849,652
Machinery, equipment and collectibles	7,510,823	469,928	(745,036)	7,235,715
Vehicles	710,301	70,361	-	780,662
Total capital assets being depreciated	83,229,049	1,820,558	(745,036)	84,304,571
Less accumulated depreciation for:				
Buildings and improvements	(21,507,558)	(1,394,954)	-	(22,902,512)
Infrastructure	(17,665,267)	(667,178)	-	(18,332,445)
Machinery, equipment and collectibles	(4,949,312)	(423,468)	745,036	(4,627,744)
Vehicles	(473,878)	(73,751)	-	(547,629)
Total accumulated depreciation	(44,596,015)	(2,559,351)	745,036	(46,410,330)
Total capital assets being depreciated, net	38,633,034	(738,793)	-	37,894,241
Governmental activities capital assets, net	\$ 58,265,712	\$ 5,352,771	\$ -	\$ 63,618,483
	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities:</i></u>				
Capital assets being depreciated:				
Infrastructure	\$ 2,428,900	\$ -	\$ -	\$ 2,428,900
Less accumulated depreciation for:				
Infrastructure	(231,610)	(60,773)	-	(292,383)
Total accumulated depreciation	(231,610)	(60,773)	-	(292,383)
Total capital assets being depreciated, net	2,197,290	(60,773)	-	2,136,517
Business-Type activities capital assets, net	\$ 2,197,290	\$ (60,773)	\$ -	\$ 2,136,517

Depreciation expense was charged to functions for the fiscal year ended June 30, 2019 as follows:

Governmental Activities:

General government	\$ 168,808
Public safety	252,894
Education	1,016,542
Public works	802,736
Health and human services	44,397
Culture and recreation	273,974
	<u>\$ 2,559,351</u>

Business-Type Activities:

Sewer	<u>\$ 60,773</u>
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D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2019 were as follows:

Transfers Out	Transfers In				Total	
	General Fund	Capital Project Funds	Nonmajor Funds	Sewer Fund		
General fund	\$ -	\$ -	\$ -	\$ 250,502	\$ 250,502	(1)
Capital project funds	77,108	-	-	-	77,108	(2)
Special revenue funds	2,115,350	-	-	-	2,115,350	(3)
Sewer fund	91,657	-	-	-	91,657	(4)
	<u>\$ 2,284,115</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250,502</u>	<u>\$ 2,534,617</u>	

- (1) The general fund paid \$250,502 in sewer debt service and other operational expenses in 2019.
- (2) The capital projects fund returned \$77,108 in unused projects originally funded by free cash.
- (3) Educational grants and special revenue funds monies (\$1,935,707) were transferred to the general fund to support educational activities specific to these revenue sources. An additional \$80,500 was transferred from the PEG access fund to supplement the 2019 budget. The Town transferred \$62,529 from its CPA and Title V special revenue funds for debt service. The remaining transfers were made primarily to close inactive special revenue funds.
- (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, 2019:

Type	Interest Rate	Maturity Date	Balance July 1, 2018	Additions	Retirements	Rollovers	Balance June 30, 2019
BAN	2.05%	matured	\$ 562,200	\$ -	\$ (186,647)	\$ (375,553)	\$ -
BAN	2.60%	8/23/19	-	200,000	-	375,553	575,553
BAN	3.00%	8/23/19	-	5,500,000	-	-	5,500,000
			<u>\$ 562,200</u>	<u>\$ 5,700,000</u>	<u>\$ (186,647)</u>	<u>\$ -</u>	<u>\$ 6,075,553</u>

The outstanding BANS were issued for the following purposes:

Hildreth Elementary School construction	\$ 5,589,953
Library	200,000
Public works dump truck	145,600
School science lab	140,000
	<u>\$ 6,075,553</u>

Temporary notes are general obligations of the Town and carry maturity dates generally one year or less. Temporary notes are interest bearing and will be generally 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, 2019:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds (a)	\$ 9,175,000	\$ -	\$ (975,000)	\$ 8,200,000	\$ 960,000
Notes from direct borrowings and placements (a)	195,984	-	(11,528)	184,456	11,529
Compensated absences	264,426	49,179	-	313,605	109,762
Net OPEB liability	31,330,291	14,187,714	(9,061,808)	36,456,197	-
Net pension liability	12,195,933	2,503,729	(1,078,059)	13,621,603	-
Total Governmental Activities	<u>\$ 53,161,634</u>	<u>\$ 16,740,622</u>	<u>\$ (11,126,395)</u>	<u>\$ 58,775,861</u>	<u>\$ 1,081,291</u>
<i>Business-Type Activities:</i>					
Notes from direct borrowings and placements	<u>\$ 2,002,367</u>	<u>\$ -</u>	<u>\$ (114,345)</u>	<u>\$ 1,888,022</u>	<u>\$ 116,830</u>

(a) Reclassifications were made to the beginning balances for the adoption of GASB Statement No. 88.

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.

Long-term debt outstanding at June 30, 2019 included the following:

Description	Interest Rate	Beginning Balance	Additions	Maturities and Retirements	Ending Balance
<u>Governmental Activities:</u>					
General obligation bonds	2.00% - 7.75%	\$ 5,645,000	\$ -	\$ (375,000)	\$ 5,270,000
Refunding bonds	2.00% - 2.75%	3,530,000	-	(600,000)	2,930,000
MCWT notes	0.00%	195,984	-	(11,528)	184,456
Total Governmental Activities		<u>\$ 9,370,984</u>	<u>\$ -</u>	<u>\$ (986,528)</u>	<u>\$ 8,384,456</u>
<u>Business-Type Activities:</u>					
MCWT notes	2.00%	<u>\$ 2,002,367</u>	<u>\$ -</u>	<u>\$ (114,345)</u>	<u>\$ 1,888,022</u>

Debt service requirements on long-term debt at June 30, 2019 are as follows:

Year Ended June 30,	Governmental Activities				Business-Type Activities	
	General Obligation Bonds		Notes from Direct Borrowings and Placements		Notes from Direct Borrowings and Placements	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 960,000	\$ 200,427	\$ 11,529	\$ -	\$ 116,830	\$ 37,760
2021	950,000	177,458	11,528	-	119,370	35,424
2022	825,000	156,802	11,529	-	121,964	33,038
2023	815,000	135,776	11,528	-	124,613	30,596
2024	800,000	115,626	11,529	-	127,322	28,104
2025-2029	2,120,000	347,602	57,642	-	679,342	101,204
2030-2034	1,215,000	161,948	57,643	-	598,581	30,250
2035-2037	515,000	24,674	11,528	-	-	-
	<u>\$ 8,200,000</u>	<u>\$ 1,320,313</u>	<u>\$ 184,456</u>	<u>\$ -</u>	<u>\$ 1,888,022</u>	<u>\$ 296,376</u>

Authorized and Unissued Debt – At June 30, 2019, the Town had authorized and unissued debt for the following:

Hildreth Elementary School construction	\$ 48,134,560
Library roof	480,000
Ayer Road design	300,000
DPW truck	195,000
	<u>\$ 49,109,560</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-nine employers as of December 31, 2018 was as follows:

Active members	7,815
Inactive members entitled to, but not receiving benefits	1,839
Inactive members (or beneficiaries) currently receiving benefits	<u>3,837</u>
	<u>13,491</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 \$836,356 to the Retirement System in fiscal year 2019, 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 2019.

Net Pension Liability – At June 30, 2019, the Town reported a liability of \$13,621,603 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2018 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, 2018. 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.

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% at December 31, 2018 and 2017.

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, 2018, 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 \$1,573,264 in pension expense in the statement of activities in fiscal year 2019.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,378	\$ 100,978
Changes of assumptions	846,393	-
Net difference between projected and actual earnings on pension plan investments	512,485	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	43,672	431,484
	<u>\$ 1,462,928</u>	<u>\$ 532,462</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:

Year ended June 30,

2020	\$ 360,176
2021	265,733
2022	178,508
2023	138,418
2024	<u>(12,369)</u>
	<u>\$ 930,466</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, 2018. The significant actuarial assumptions used in the actuarial valuation included:

Inflation:	3.0% per year
Amortization method:	Payment increases 4.0% per year
Remaining amortization period:	17 years, except for ERI for 2002 and 2003 (10 years) and 2010 (4 years)
Asset valuation method:	Market value
Salary increases:	Group 1: 4.25% - 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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global equity	39%	4.75%
Fixed income	23%	2.28%
Private equity	13%	8.15%
Real estate	10%	3.43%
Timber/natural resources	4%	4.00%
Hedge funds	11%	3.76%

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed 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	\$ 16,408,080	\$ 13,621,603	\$ 11,267,617

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, 2019, the Commonwealth contributed \$1,726,786 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 0.13%, 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, 2019 was \$31,141,499. The pension expense assumed by the Commonwealth on behalf of the Town for fiscal year 2019 was \$3,155,740. The Town recognized \$3,155,740 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, 2019:

Inactive employees or beneficiaries receiving benefits	118
Active employees	<u>221</u>
	<u>339</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retired employee contribution rates are as follows:

Teachers			Non-teachers		
HMO Plans	PPO Plans	Life Insurance	HMO Plans	PPO Plans	Life Insurance
10% to 25%	15% to 50%	25%	25%	50%	25%

Contribution rates vary for teachers based on individual retirement dates.

Net OPEB Liability – The Town’s net OPEB liability was determined using an actuarial valuation as of July 1, 2017 and a measurement date of June 30, 2019. The components of the net OPEB liability of the Town at June 30, 2019 were as follows:

Total OPEB liability	\$ 39,832,170
Plan fiduciary net position	<u>(3,375,973)</u>
Net OPEB liability	<u>\$ 36,456,197</u>
Plan fiduciary net position as a percentage of the total OPEB liability	8.48%

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

Actuarial cost method	Individual entry age normal
Asset valuation method	Market value of assets as of reporting date
Investment rate of return	7.50%, net of investment expenses
Single equivalent discount rate	3.87%, net of investment expenses, including inflation
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 2.8% in 2075
Pre-retirement mortality	For non-teachers, the RP-2000 Employees Mortality Table projected generationally with Scale BB and a base year 2009
	For teachers, the RP-2014 White Collar Mortality Table projected generationally with Scale MP-2016 and a base year 2014
Post-retirement mortality	For non-teachers, the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year 2009
	For teachers, the RP-2014 White Collar Mortality Table projected generationally with Scale MP-2016 and a base year 2014

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	39%	4.75%
Core fixed income	15%	1.05%
Value-added fixed income	8%	4.58%
Private equity	13%	8.15%
Real estate	10%	3.43%
Timber	4%	4.00%
Hedge funds	11%	3.76%

Discount Rate – The discount rate used to measure the total OPEB liability was 3.87%. The projection of cash flows used to determine the discount rate assumed that the Town would make contributions of approximately \$500,000 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 fifteen periods of projected future benefit payments and the 3.5% 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, 2019:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2018	\$ 34,033,522	\$ 2,703,231	\$ 31,330,291
Changes for the year:			
Service cost	1,252,603	-	1,252,603
Interest	1,568,436	-	1,568,436
Changes in benefit terms	-	-	-
Changes in assumptions	3,996,134	-	3,996,134
Experience differences	-	-	-
Employer contributions	-	1,518,525	(1,518,525)
Net investment income	-	172,742	(172,742)
Benefit payments	(1,018,525)	(1,018,525)	-
Net changes	5,798,648	672,742	5,125,906
Balances at June 30, 2019	<u>\$ 39,832,170</u>	<u>\$ 3,375,973</u>	<u>\$ 36,456,197</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 (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB liability	\$ 44,119,291	\$ 36,456,197	\$ 30,467,538

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	\$ 28,825,621	\$ 36,456,197	\$ 47,159,607

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the Town recognized OPEB expense of \$2,758,947. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2019 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 613,768
Changes of assumptions	9,104,391	-
Net difference between projected and actual earnings on pension plan investments	13,428	-
	<u>\$ 9,117,819</u>	<u>\$ 613,768</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,

2020	\$ 1,690,235
2021	1,690,235
2022	1,690,236
2023	1,702,042
2024	1,329,895
Thereafter	401,408
	<u>\$ 8,504,051</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, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 5.54%. 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 at June 30, 2019 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, 2019.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts ("ATB"). At June 30, 2019, a single ATB case was pending related to a residential real estate parcel with an assessed value of approximately \$487,000. The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to this taxpayer, 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 November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement was 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 became effective in fiscal year 2019 and did not have a material impact on the Town's 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 was to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarified which liabilities governments should include when disclosing information related to debt. The provisions of this Statement became effective in fiscal year 2019 and did not have a material impact on the Town's financial statements.

B. Future Year Implementations

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 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.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

V. Economic Dependence

During the year ended June 30, 2019, approximately 22% of revenues of the general fund were recognized from the Commonwealth of Massachusetts and the federal government.

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TOWN OF HARVARD, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
TOWN PENSION PLAN**

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

(dollar amounts are in thousands)

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	1.502%	1.496%	1.519%	1.518%	1.684%
Town's proportionate share of the net pension liability	\$ 13,622	\$ 12,196	\$ 12,722	\$ 10,756	\$ 10,019
Town's covered payroll	\$ 4,336	\$ 3,893	\$ 4,559	\$ 4,037	\$ 3,882
Town's proportionate share of the net pension liability as a percentage of its covered payroll	314.2%	313.3%	279.1%	266.4%	258.1%
Plan fiduciary net position as a percentage of the total net pension liability	43.1%	46.4%	42.0%	44.5%	47.9%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN

(dollar amounts are in thousands)

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 836	\$ 757	\$ 738	\$ 683	\$ 665
Contributions in relation to the actuarially determined contribution	836	757	738	683	665
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 4,336	\$ 3,893	\$ 4,559	\$ 4,037	\$ 3,882
Contributions as a percentage of covered payroll	19.3%	19.4%	16.2%	16.9%	17.1%

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

See accompanying independent auditors' report.

TOWN OF HARVARD, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
MASSACHUSETTS TEACHERS RETIREMENT SYSTEM PENSION PLAN**

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

	2018	2017	Year Ended June 30, 2016	2015	2014
Commonwealth's proportion of the collective net pension liability	100.0%	100.0%	100.0%	100.0%	100.0%
Town's proportionate share of the collective net pension liability	0.0%	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the collective net pension liability	\$ 23,711,289	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,314,783	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930	\$ 937,379

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

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

See accompanying independent auditors' report.

TOWN OF HARVARD, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	Year Ended June 30,		
	2019	2018	2017
Total OPEB Liability:			
Service cost	\$ 1,252,603	\$ 913,522	\$ 1,044,984
Interest	1,568,436	1,333,088	1,237,242
Changes in benefit terms	-	1,693,473	-
Differences between actual and expected experience	-	(876,624)	-
Changes in assumptions	3,996,134	8,151,687	(2,497,000)
Benefit payments	<u>(1,018,525)</u>	<u>(924,096)</u>	<u>(806,177)</u>
Net Change in Total OPEB Liability	<u>5,798,648</u>	<u>10,291,050</u>	<u>(1,020,951)</u>
Total OPEB Liability:			
Beginning of year	<u>34,033,522</u>	<u>23,742,472</u>	<u>24,763,423</u>
End of year (a)	<u>\$ 39,832,170</u>	<u>\$ 34,033,522</u>	<u>\$ 23,742,472</u>
Plan Fiduciary Net Position:			
Contributions	\$ 1,518,525	\$ 1,374,096	\$ 1,406,177
Net investment income	172,742	227,850	213,331
Benefit payments	<u>(1,018,525)</u>	<u>(924,096)</u>	<u>(806,177)</u>
Net Change in Plan Fiduciary Net Position	<u>672,742</u>	<u>677,850</u>	<u>813,331</u>
Plan Fiduciary Net Position:			
Beginning of year	<u>2,703,231</u>	<u>2,025,381</u>	<u>1,212,050</u>
End of year (b)	<u>\$ 3,375,973</u>	<u>\$ 2,703,231</u>	<u>\$ 2,025,381</u>
Net OPEB Liability — End of Year (a) - (b)	<u>\$ 36,456,197</u>	<u>\$ 31,330,291</u>	<u>\$ 21,717,091</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	8.48%	7.94%	8.53%
Covered payroll	\$ 14,512,416	\$ 13,246,017	\$ 14,204,408
Net OPEB Liability as a Percentage of Covered Payroll	251.21%	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 completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

TOWN OF HARVARD, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFITS PLAN

SCHEDULE OF CONTRIBUTIONS

	Year Ended June 30,		
	2019	2018	2017
Actuarially determined contribution	\$ 2,561,229	\$ 1,959,672	\$ 1,931,496
Contributions in relation to the actuarially determined contribution	(1,518,525)	(1,374,096)	(1,406,177)
Contribution deficiency (excess)	\$ 1,042,704	\$ 585,576	\$ 525,319
Covered payroll	\$ 14,512,416	\$ 13,246,017	\$ 14,204,408
Contribution as a percentage of covered payroll	10.46%	10.37%	9.90%

Notes to Schedule:

Valuation date	July 1, 2017
Asset valuation method	Market value of the assets as of the reporting date
Actuarial cost method	Individual entry age normal
Investment rate of return	7.5% net of investment expenses
Municipal bond rate	3.50% as of June 30, 2019
Single equivalent discount rate	3.87% per annum, net of investment expenses, including inflation
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 2.8% in 2075
Pre-retirement mortality	For non-teachers, the RP-2000 Employees Mortality Table projected generationally with Scale BB and a base year 2009 For teachers, the RP-2014 White Collar Mortality Table projected generationally with Scale MP-2016 and a base year 2014
Post-retirement mortality	For non-teachers, the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB and a base year 2009 For teachers, the RP-2014 White Collar Mortality Table projected generationally with Scale MP-2016 and a base year 2014

SCHEDULE OF INVESTMENT RETURNS

	Year Ended June 30,		
	2019	2018	2017
Annual money-weighted rate of return, net of investment expenses	5.54%	9.50%	12.13%

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

See accompanying independent auditors' report.

TOWN OF HARVARD, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual		Actual	Positive
	Original	Final	Budgetary		Budgetary	(Negative)
	Budget	Budget	Amounts	Encumbrances	Adjusted	Variance
Revenues :						
Property taxes, net of tax refunds	\$ 21,193,353	\$ 21,193,353	\$ 21,332,004		\$ 21,332,004	\$ 138,651
Intergovernmental	3,528,721	3,528,721	3,541,575		3,541,575	12,854
Motor vehicle and other excise taxes	920,000	920,000	994,186		994,186	74,186
Licenses and permits	111,000	111,000	162,628		162,628	51,628
Penalties and interest on taxes	120,000	120,000	154,631		154,631	34,631
Fines and forfeitures	40,000	40,000	59,423		59,423	19,423
Departmental and other revenues	462,749	462,749	410,063		410,063	(52,686)
Investment income	30,000	30,000	102,406		102,406	72,406
Total Revenues	<u>26,405,823</u>	<u>26,405,823</u>	<u>26,756,916</u>		<u>26,756,916</u>	<u>351,093</u>
Expenditures:						
General government	2,312,759	2,312,759	1,646,063	\$ 405,078	2,051,141	261,618
Public safety	2,185,908	2,185,908	1,824,971	222,876	2,047,847	138,061
Education	16,701,966	16,701,966	15,529,571	1,158,413	16,687,984	13,982
Public works	1,909,388	1,909,388	1,673,637	162,100	1,835,737	73,651
Health and human services	287,297	287,297	234,595	43,722	278,317	8,980
Culture and recreation	785,077	785,077	778,236	-	778,236	6,841
Pension and fringe benefits	5,225,367	5,225,367	4,713,266	393	4,713,659	511,708
State and county charges	320,421	320,421	329,836	-	329,836	(9,415)
Debt service	1,585,256	1,585,256	1,379,078	204,390	1,583,468	1,788
Total Expenditures	<u>31,313,439</u>	<u>31,313,439</u>	<u>28,109,253</u>	<u>2,196,972</u>	<u>30,306,225</u>	<u>1,007,214</u>
Other Financing Sources (Uses):						
Transfers in	3,370,241	3,384,648	3,506,007		3,506,007	121,359
Transfers out	(402,424)	(1,194,631)	(1,194,631)		(1,194,631)	-
Total Other Financing Sources (Uses)	<u>2,967,817</u>	<u>2,190,017</u>	<u>2,311,376</u>		<u>2,311,376</u>	<u>121,359</u>
(Deficiency) Excess of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance	<u>(1,939,799)</u>	<u>(2,717,599)</u>	<u>\$ 959,039</u>		<u>\$ (1,237,933)</u>	<u>\$ 1,479,666</u>
Other Budgetary Items:						
Prior year encumbrances	1,559,401	1,559,401				
Free cash	373,286	1,151,086				
Other items	7,112	7,112				
Total Other Budgetary Items	<u>1,939,799</u>	<u>2,717,599</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See notes to required supplementary information.

See accompanying independent auditors' report.

TOWN OF HARVARD, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2019

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 May. 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 revert 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 — budgetary basis			\$ 26,756,916
On behalf payments	\$ 3,155,740	\$ -	3,155,740
Revenue recognition	(53,385)	-	(53,385)
Agency transfers	-	30,504	30,504
Stabilization interest	-	217,437	217,437
Revenues — GAAP basis	<u>\$ 3,102,355</u>	<u>\$ 247,941</u>	<u>\$ 30,107,212</u>
Expenditures — budgetary basis			\$ 28,109,253
On behalf payments	\$ 3,155,740	\$ -	3,155,740
Expense recognition	21,034	-	21,034
Transfer treatment	-	(231,050)	(231,050)
Expenditures — GAAP basis	<u>\$ 3,176,774</u>	<u>\$ (231,050)</u>	<u>\$ 31,054,977</u>
Net transfers — budgetary basis			\$ 2,311,376
Stabilization transfers	\$ -	\$ (250,502)	(250,502)
Transfer treatment	-	(27,261)	(27,261)
Net transfers — GAAP basis	<u>\$ -</u>	<u>\$ (277,763)</u>	<u>\$ 2,033,613</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, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 25, 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.

A handwritten signature in cursive script that reads "Roselli, Clark & Associates".

Roselli, Clark & Associates
Woburn, Massachusetts
September 25, 2019