

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF MIDDLETON, MASSACHUSETTS

Report on Examination of the Basic Financial Statements and
Additional Information

Year Ended June 30, 2019



TOWN OF MIDDLETON, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2019

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 – 3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4 – 10
<u>BASIC FINANCIAL STATEMENTS:</u>	
<u>Government-Wide Financial Statements:</u>	
Statement of Net Position	11
Statement of Activities	12
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to Basic Financial Statements	22 – 52
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of Town's Proportionate Share of the Net Pension Liability	53
Schedule of Town's Contributions to Pension Plan	53
Schedule of the Commonwealth's Collective Share of the Massachusetts Teachers' Retirement System Net Pension Liability	54
Schedule of Changes in Net OPEB Liability and Related Ratios	55
Schedule of Contributions to OPEB Plan	56
Schedule of Investment returns – OPEB Plan	56
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	57
Notes to Required Supplementary Information	58
<u>OTHER REPORTS:</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 <i>Government Auditing Standards</i>	59 – 60



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, 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, except for the Middleton Electric Light Department "the Light Department" "the Electric Light Department" or "MELD", which is as of December 31, 2018 and is a Town Department reported as an enterprise fund and part of the Town's business-type funds. We did not audit the financial statements of the Light Department. The Light Department represents 100% of the assets, net position, and operating revenues of the Town's business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this discretely presented component unit, is based solely on the report of the other auditors.

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2019, except for the Light Department, which is as of December 31, 2018, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement of Prior Year Ending Balances

As discussed in Note IV certain balances in the Government-Wide Statement of Net Position were restated which caused the previously reported total net position in the governmental and business-type activities to be restated. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and 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 a report dated October 9, 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, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 9, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Middleton, 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 (December 31, 2018 for the Light Department). 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 found in this report.

Financial Highlights

- The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$37.6 million (*total net position*).
- The Town's total net position increased by approximately \$1.3 million year-over-year. This was the result of a decrease in governmental activities of approximately \$1.4 million offset by about a \$0.1 million increase in Light Department operations.
- The Town's total long-term debt in its governmental activities decreased by nearly \$1 million due to regular scheduled maturities.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of over \$13.2 million, which was approximately \$1.0 million higher than the prior year. Of the ending fund balance over \$5.6 million (14.8% of expenditures) is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures or nonspendable.

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, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Town's assets and deferred outflows of resources and its liabilities and deferred inflows of resources, 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 sick pay).

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, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town consist completely of Light Department activities.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 items) or (b) legally or contractually required to be maintained 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 or in other major funds if negative.

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.

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. 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 this report.

Proprietary Funds – *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 enterprise funds of the Light Department.

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 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 following table represents the condensed statement of net position:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<u>Assets</u>						
Current and other assets	\$ 20,498,007	\$ 16,475,334	\$ 15,401,015	\$ 15,778,699	\$ 35,899,022	\$ 32,254,033
Capital assets, net	54,518,082	55,597,030	11,959,527	11,592,264	66,477,609	67,189,294
Total assets	75,016,089	72,072,364	27,360,542	27,370,963	102,376,631	99,443,327
Deferred outflows of resources	3,702,208	1,952,156	918,611	402,880	4,620,819	2,355,036
<u>Liabilities</u>						
Long-term liabilities	56,070,226	51,855,448	4,621,358	4,265,603	60,691,584	56,121,051
Other liabilities	6,904,226	3,784,061	1,224,054	1,364,491	8,128,280	5,148,552
Total liabilities	62,974,452	55,639,509	5,845,412	5,630,094	68,819,864	61,269,603
Deferred inflows of resources	337,260	306,587	239,000	75,215	576,260	381,802
<u>Net Position</u>						
Net investment in capital assets	40,795,178	40,911,838	11,959,527	11,592,264	52,754,705	52,504,102
Restricted	6,165,527	6,148,067	-	502,071	6,165,527	6,650,138
Unrestricted	(31,554,120)	(29,782,218)	10,235,214	9,974,199	(21,318,906)	(19,808,019)
Total Net Position	\$ 15,406,585	\$ 17,277,687	\$ 22,194,741	\$ 22,068,534	\$ 37,601,326	\$ 39,346,221

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$37.6 million (*total net position*), which represents an approximate \$0.7 million increase from the prior year’s balance.

The largest portion (\$52.8 million) of the Town’s overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt 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 significant portion of the Town’s total net position (\$6.2 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position* which is currently in a deficit position of over \$21.3 million. Surpluses of over \$10.2 million in the business-type activities are offset by a deficit of nearly \$31.6 million in the governmental activities. The business-type surplus may be used to meet the

ongoing obligations of the business-type activities. The governmental activities deficit is primarily the result of approximately \$42.1 million in obligations related to OPEB and pensions. The Town expects that its deficit in unrestricted net position will continue to increase for the foreseeable future until a mechanism to more adequately fund its annual OPEB obligation is in place.

The following table represents the condensed statement of changes in net position:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 3,424,586	\$ 3,069,294	\$ 13,903,397	\$ 13,343,136	\$ 17,327,983	\$ 16,412,430
Operating grants and contributions	4,493,221	4,379,896	576,456	469,879	5,069,677	4,849,775
Capital grants and contributions	553,573	355,139	-	-	553,573	355,139
General revenues:						
Property taxes	29,020,330	27,899,193	-	-	29,020,330	27,899,193
Excise taxes	2,494,660	2,452,278	-	-	2,494,660	2,452,278
Unrestricted investment earnings	265,505	89,470	(656,279)	552,896	(390,774)	642,366
Other	861,847	574,756	-	-	861,847	574,756
Total Revenues	41,113,722	38,820,026	13,823,574	14,365,911	54,937,296	53,185,937
<u>Expenses</u>						
General government	2,654,464	2,570,318	-	-	2,654,464	2,570,318
Public safety	5,842,299	5,475,166	-	-	5,842,299	5,475,166
Education	28,900,150	27,451,770	-	-	28,900,150	27,451,770
Public works	2,943,480	2,864,444	-	-	2,943,480	2,864,444
Health and human services	796,684	730,824	-	-	796,684	730,824
Culture and recreation	1,168,463	998,083	-	-	1,168,463	998,083
Debt service	449,333	346,771	-	-	449,333	346,771
Electric light	-	-	13,459,723	12,045,856	13,459,723	12,045,856
Total Expenses	42,754,873	40,437,376	13,459,723	12,045,856	56,214,596	52,483,232
Change in net position before transfers	(1,641,151)	(1,617,350)	363,851	2,320,055	(1,277,300)	702,705
Transfers	223,000	204,000	(223,000)	(204,000)	-	-
Change in net position	(1,418,151)	(1,413,350)	140,851	2,116,055	(1,277,300)	702,705
Net position, beginning of year	17,277,687	18,691,037	22,068,534	19,952,479	39,346,221	38,643,516
Restatement for net OPEB liability	(452,951)	-	(14,644)	-	(467,595)	-
Net position, beginning of year, as restated	16,824,736	18,691,037	22,053,890	19,952,479	38,878,626	38,643,516
Net position, end of year	<u>\$ 15,406,585</u>	<u>\$ 17,277,687</u>	<u>\$ 22,194,741</u>	<u>\$ 22,068,534</u>	<u>\$ 37,601,326</u>	<u>\$ 39,346,221</u>

Governmental Activities – Total revenues in fiscal year 2019 in the Town’s governmental activities increased almost \$2.3 million from fiscal year 2018. This increase was due primarily to an increase in property taxes which were over \$1.1 million greater than the prior year. Charges for services were approximately \$0.4 million higher than the prior year due to increased ambulance and water usage and other revenues were nearly \$0.3 million higher than the prior year due to higher unrestricted state aid and penalties and interest on taxes. All other revenue categories experienced minor increases and decreases that aggregated to the remaining net increase. The greatest revenue areas were property taxes which represented 70.6% of revenues. The increase was in line with the statutorily allowed increase from year to year and was expected. Operating grants which represented 10.9% of revenues were consistent with the prior year. No other revenue sources were greater than 10% of total revenues in fiscal years 2019 or 2018.

Total expenses for the current fiscal year were nearly \$42.8 million which was \$2.3 million higher than the prior year, primarily the result of education spending. Education represents by far the largest expense

category for the Town. In fiscal year 2019, education expenses represented approximately 67.6% of total expenses, consistent with 67.9% in the prior year. The Town continues to fund education expenses above the minimum state requirements. Public safety expenses represented 13.7% of total fiscal year 2019 expense; consistent with 13.5% in the prior year. No other expense types were greater than 10% of total expenses in fiscal years 2019 and 2018.

Business-Type Activities – Operating revenues of the light department increased as actual customer kilowatt hour sales increased approximately 2.3%. There were no rate changes during the year. Operating expenses increased approximately \$1.5 million, primarily due to higher power costs and pension and OPEB costs.

Government Funds Financial Analysis

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.

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of over \$13.2 million, which is over \$1.0 million higher than the prior year. Of the ending fund balance approximately \$5.6 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was nearly \$5.6 million, while total general fund balance was nearly \$7.9 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 14.8% of total general fund expenditures, while total fund balance represents approximately 20.5% of that same amount. The change from the prior year was negligible.

The Town also maintains a major fund to account for its various capital projects. The Town reported \$0.1 million as restricted. The fund had virtually no activity in the current year thus remained unchanged.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds and trust funds. The fund balances in the nonmajors funds were \$0.1 million greater than last year due to timing of revenues and expenditures and the majority of the total, \$5.1 million was restricted.

Proprietary Funds – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the Light Department was nearly \$22.2 million.

Fiduciary Fund – The Town’s fiduciary fund is comprised of the Town and Light Department’s OPEB trusts and private purpose trust funds. The OPEB trusts increased over \$0.1 million and \$0.2 million respectively for the Town and Light Department trusts due to continued funding beyond the pay go amount; and the private purpose trust funds were relatively unchanged.

General Fund Budgetary Highlights

Differences between the original operating budget and the final amended operating 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 \$66.5 million, net of accumulated depreciation. This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment and infrastructure. The balance was consistent with the prior year as additions and depreciation approximated each other.

Additional information on the Town capital assets can be found in Note II, Section C of this report.

Long-term Debt – At June 30, 2019, the Town had total debt outstanding of approximately \$13.9 million, all reported in the governmental activities. Debt decreased approximately \$1 million due to regular scheduled maturities.

Moody’s Investors Service assigned a bond rating of Aa2 for its general obligation debt.

Additional information on the Town’s debt can be found in Note II, Sections E and F of this report.

Economic Factors and Next Year’s Budgets and Rates

- The Town’s real estate tax base is made up predominantly of residential taxes, which when setting the 2020 tax rate will be approximately 83% of the entire real estate 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 tax levy without a ballot override by the voters.
- Unemployment rates continue to improve, both nationally and at the local level. Rates are currently trending towards or better than historic highs.
- The Town’s housing market has stabilized and prices are approaching their early 2000 peaks. This has been fueled by an attractive mortgage market as rates are still relatively low. The Town is participating in this rebound as real estate sales are exceeding their assessed values and in certain situations their asking prices, however the extent and breadth of this rebound cannot be easily predicted.
- The Town anticipates receiving nearly \$2.4 million in state aid for 2020 and has factored this amount into its tax rate setting process. This is a significant budget source for the Town as a substantial portion of this aid, more commonly referred to as Chapter 70 is used to subsidize the education budget.

The above items were considered when the Town accepted its budget for fiscal year 2020 at the May 2019 Town Meeting.

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 CFO/Town Accountant, 48 South Main Street, Middleton, Massachusetts 01949.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 16,067,745	\$ 3,237,554	\$ 19,305,299
Investments	2,701,558	8,408,893	11,110,451
Receivables, net:			
Property taxes	640,134	-	640,134
User charges	4,944	1,322,899	1,327,843
Departmental and other	539,922	226,979	766,901
Intergovernmental	75,243	-	75,243
Unbilled revenue	-	185,164	185,164
Inventory	-	607,898	607,898
Prepaid items	-	1,409,747	1,409,747
Other assets	-	1,881	1,881
Tax foreclosures	468,461	-	468,461
Capital assets not being depreciated	6,891,331	2,219,869	9,111,200
Capital assets, net of accumulated depreciation	47,626,751	9,739,658	57,366,409
Total Assets	75,016,089	27,360,542	102,376,631
Deferred Outflows of Resources			
Related to Pensions	2,287,912	477,316	2,765,228
Related to OPEB	1,414,296	441,295	1,855,591
Total Deferred Outflows of Resources	3,702,208	918,611	4,620,819
Liabilities			
Warrants and accounts payable	744,919	721,689	1,466,608
Accrued payroll and withholdings	1,131,713	-	1,131,713
Accrued interest	175,018	-	175,018
Customer deposits	-	214,844	214,844
Other liabilities	14,819	287,521	302,340
Bond anticipation notes payable	3,745,000	-	3,745,000
Noncurrent liabilities:			
Due within one year	1,092,757	-	1,092,757
Due in more than one year	56,070,226	4,621,358	60,691,584
Total Liabilities	62,974,452	5,845,412	68,819,864
Deferred Inflows of Resources			
Related to Pensions	222,968	239,000	461,968
Related to OPEB	114,292	-	114,292
Total Deferred Inflows of Resources	337,260	239,000	576,260
Net Position			
Net investment in capital assets	40,795,178	11,959,527	52,754,705
Restricted for:			
Nonexpendable permanent funds	173,403	-	173,403
Expendable permanent funds	132,544	-	132,544
Grants and gifts	399,330	-	399,330
Other specific purposes	5,460,250	-	5,460,250
Unrestricted	(31,554,120)	10,235,214	(21,318,906)
Total Net Position	\$ 15,406,585	\$ 22,194,741	\$ 37,601,326

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
FISCAL 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
Primary government:							
Governmental activities:							
General government	\$ 2,654,464	\$ 531,134	\$ 33,002	\$ -	\$ (2,090,328)		\$ (2,090,328)
Public safety	5,842,299	1,294,131	2,304	192,436	(4,353,428)		(4,353,428)
Education	28,900,150	711,286	4,214,083	-	(23,974,781)		(23,974,781)
Public works	2,943,480	817,689	11,205	318,488	(1,796,098)		(1,796,098)
Health and human services	796,684	56,667	216,046	-	(523,971)		(523,971)
Culture and recreation	1,168,463	11,393	16,581	42,649	(1,097,840)		(1,097,840)
Interest expense	449,333	2,286	-	-	(447,047)		(447,047)
Total governmental activities	42,754,873	3,424,586	4,493,221	553,573	(34,283,493)		(34,283,493)
Business-type activities:							
Electric Light	13,459,723	13,903,397	576,456	-		\$ 1,020,130	1,020,130
Total business-type activities	13,459,723	13,903,397	576,456	-		1,020,130	1,020,130
Total Primary Government	\$ 56,214,596	\$ 17,327,983	\$ 5,069,677	\$ 553,573	(34,283,493)	1,020,130	(33,263,363)
General Revenues:							
Property taxes					29,020,330	-	29,020,330
Motor vehicle and other excise					2,494,660	-	2,494,660
Payments in lieu of taxes					134,776	-	134,776
Grants and contributions not restricted to specific programs					585,995	-	585,995
Penalties and interest on taxes					141,076	-	141,076
Unrestricted investment income					265,505	(656,279)	(390,774)
Transfers (net)					223,000	(223,000)	-
Total general revenues					32,865,342	(879,279)	31,986,063
Change in Net Position					(1,418,151)	140,851	(1,277,300)
Net Position:							
Beginning of year, as restated (see Note IV)					16,824,736	22,053,890	38,878,626
End of year					\$ 15,406,585	\$ 22,194,741	\$ 37,601,326

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 7,396,632	\$ 3,896,696	\$ 4,774,417	\$ 16,067,745
Investments	2,273,549	-	428,009	2,701,558
Receivables, net of allowance for uncollectibles:				
Property taxes	636,938	-	3,196	640,134
Intergovernmental	-	-	75,243	75,243
User charges	-	-	4,944	4,944
Departmental and other	168,195	-	371,727	539,922
Tax foreclosures	468,461	-	-	468,461
Total Assets	10,943,775	3,896,696	5,657,536	20,498,007
Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 10,943,775	\$ 3,896,696	\$ 5,657,536	\$ 20,498,007
Liabilities				
Warrants and accounts payable	\$ 744,919	\$ -	\$ -	\$ 744,919
Accrued payroll and withholdings	1,131,713	-	-	1,131,713
Other liabilities	9,298	-	5,521	14,819
Bond anticipation notes payable	-	3,745,000	-	3,745,000
Total Liabilities	1,885,930	3,745,000	5,521	5,636,451
Deferred Inflows of Resources				
Unavailable revenues - property taxes	636,938	-	3,196	640,134
Unavailable revenues - other	636,656	-	376,671	1,013,327
Total Deferred Inflows of Resources	1,273,594	-	379,867	1,653,461
Fund Balances				
Nonspendable	-	-	173,403	173,403
Restricted	361,816	151,696	5,098,745	5,612,257
Committed	463,254	-	-	463,254
Assigned	1,353,988	-	-	1,353,988
Unassigned	5,605,193	-	-	5,605,193
Total Fund Balances	7,784,251	151,696	5,272,148	13,208,095
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 10,943,775	\$ 3,896,696	\$ 5,657,536	\$ 20,498,007

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

Total Governmental Fund Balances	\$ 13,208,095
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	54,518,082
Other long-term assets are unavailable to pay current-period expenditures	1,653,461
Deferred outflows and inflows of resources to be recognized in future fiscal years are not available resources and, therefore, are not reported in the funds:	
Deferred outflows related to pensions	2,287,912
Deferred outflows related to other postemployment benefits	1,414,296
Deferred inflows related to pensions	(114,292)
Deferred inflows related to other postemployment benefits	<u>(222,968)</u>
Net effect of reporting deferred outflows and inflows of resources	3,364,948
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due.	(175,018)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Bonds and notes payable	(13,840,000)
Unamortized premiums on bonds	(286,766)
Direct borrowings and placements	(64,898)
Landfill closure	(840,000)
Net pension liability	(17,695,058)
Net other postemployment benefits liability	<u>(24,436,261)</u>
Net effect of reporting long-term liabilities	<u>(57,162,983)</u>
Net Position of Governmental Activities	<u>\$ 15,406,585</u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 28,896,681	\$ -	\$ 236,348	\$ 29,133,029
Intergovernmental	4,533,810	-	1,035,546	5,569,356
Motor vehicle and other excises	2,500,949	-	-	2,500,949
Licenses and permits	609,341	-	-	609,341
Penalties and interest on taxes	141,076	-	-	141,076
Payments in lieu of taxes	134,776	-	-	134,776
Fines and forfeitures	13,837	-	-	13,837
Charges for services	-	-	1,229,989	1,229,989
Departmental and other revenue	603,737	-	953,711	1,557,448
Investment income	241,488	-	24,017	265,505
Contributions and donations	-	-	63,433	63,433
Total Revenues	<u>37,675,695</u>	<u>-</u>	<u>3,543,044</u>	<u>41,218,739</u>
Expenditures:				
Current:				
General government	1,952,598	6,250	10,585	1,969,433
Public safety	4,327,463	-	211,113	4,538,576
Education	22,688,639	5,000	1,123,166	23,816,805
Public works	1,742,561	-	754,101	2,496,662
Health and human services	452,457	-	124,962	577,419
Culture and recreation	588,693	-	44,190	632,883
Pension and employee benefits	4,460,459	-	-	4,460,459
State and county assessments	434,387	-	-	434,387
Debt service:				
Principal	819,475	-	166,588	986,063
Interest	471,750	-	8,350	480,100
Total Expenditures	<u>37,938,482</u>	<u>11,250</u>	<u>2,443,055</u>	<u>40,392,787</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(262,787)</u>	<u>(11,250)</u>	<u>1,099,989</u>	<u>825,952</u>
Other Financing Sources (Uses):				
Transfers in	1,205,852	-	-	1,205,852
Transfers out	-	-	(982,852)	(982,852)
Total Other Financing Sources (Uses)	<u>1,205,852</u>	<u>-</u>	<u>(982,852)</u>	<u>223,000</u>
Net Change in Fund Balances	943,065	(11,250)	117,137	1,048,952
FUND BALANCES - Beginning of year	<u>6,841,186</u>	<u>162,946</u>	<u>5,155,011</u>	<u>12,159,143</u>
FUND BALANCES - End of year	<u>\$ 7,784,251</u>	<u>\$ 151,696</u>	<u>\$ 5,272,148</u>	<u>\$ 13,208,095</u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2019**

Net Change in Fund Balances - Total Governmental Fund Balances	\$ 1,048,952
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items:</p>	
Capital outlays	1,248,275
Depreciation expense	<u>(2,327,223)</u>
Net effect of reporting capital assets	(1,078,948)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:</p>	
Amortization of premiums on bonds and notes payable	41,421
Repayments of debt	<u>986,063</u>
Net effect of reporting long-term debt	1,027,484
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.</p>	
	(105,017)
<p>In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.</p>	
	(10,654)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p>	
Landfill closure	52,500
Pension benefits	(777,985)
Other postemployment benefits	<u>(1,574,483)</u>
Net effect of reporting long-term liabilities	(2,299,968)
Change in Net Position of Governmental Activities	<u>\$ (1,418,151)</u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Business-Type Activities Electric Light Enterprise (December 31, 2018)
Assets	
Current assets:	
Cash and cash equivalents	\$ 3,237,554
Investments	8,408,893
Receivables (net):	
User charges	1,322,899
Departmental and other	226,979
Unbilled revenue	185,164
Inventory	607,898
Prepaid items	1,409,747
Other current assets	1,881
Total current assets	15,401,015
Noncurrent assets:	
Nondepreciable capital assets	2,219,869
Capital assets (net of depreciation)	9,739,658
Total noncurrent assets	11,959,527
Total Assets	27,360,542
Deferred Outflows of Resources	
Related to Pensions	477,316
Related to OPEB	441,295
Total Deferred Outflows of Resources	918,611
Liabilities	
Current liabilities:	
Warrants and accounts payable	721,689
Customer deposits	214,844
Other liabilities	287,521
Total current liabilities	1,224,054
Noncurrent liabilities:	
Compensated absences	69,697
Net other postemployment benefits liability	586,441
Net pension liability	3,965,220
Total noncurrent liabilities	4,621,358
Total Liabilities	5,845,412
Deferred Inflows of Resources	
Related to Pensions	239,000
Total Deferred Inflows of Resources	239,000
Net Position	
Net investment in capital assets	11,959,527
Restricted	-
Unrestricted	10,235,214
Total Net Position	\$ 22,194,741

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS**

FISCAL YEAR ENDED JUNE 30, 2019

	Business-Type Activities Electric Light Enterprise (December 31, 2018)
Operating Revenues:	
Charges for services	\$ 13,903,397
Other operating revenues	<u>576,456</u>
Total Operating Revenues	<u>14,479,853</u>
Operating Expenses:	
Purchased power and production	9,826,486
Other operating expenses	2,969,800
Depreciation	<u>663,437</u>
Total Operating Expenses	<u>13,459,723</u>
Operating Income (Loss)	<u>1,020,130</u>
Nonoperating Revenues (Expenses):	
Investment income (loss)	<u>(656,279)</u>
Total Nonoperating Revenues (Expenses)	<u>(656,279)</u>
Income (Loss) Before Transfers	363,851
Transfers out	<u>(223,000)</u>
Change in Net Position	140,851
Total Net Position - Beginning of the Year	<u>22,053,890</u>
Total Net Position - End of the Year	<u><u>\$ 22,194,741</u></u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Business-Type Activities Electric Light Enterprise (December 31, 2018)
Cash Flows from Operating Activities:	
Receipts from customers	\$ 14,970,739
Payments to suppliers	(11,357,718)
Payments to employees	(1,608,259)
Operating transfers out	(223,000)
Net Cash Provided by (Used in) Operating Activities	1,781,762
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(1,030,700)
Net Cash Used in Capital and Related Financing Activities	(1,030,700)
Cash Flows from Investing Activities:	
Investment income	(656,279)
Investment of operating cash, net	613,373
Net Cash Provided by (Used in) Investing Activities	(42,906)
Net Change in Cash and Cash Equivalents	708,156
Cash and Cash Equivalents:	
Beginning of the year	2,529,398
End of the year	\$ 3,237,554
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating Income (Loss)	\$ 1,020,130
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Operating transfers out	(223,000)
Depreciation	663,437
Changes in assets and liabilities:	
Receivables	547,572
Unbilled revenue	(23,634)
Inventory	(2,501)
Prepaid items	(48,970)
Accounts payable	(126,702)
Customer deposits	(33,052)
Other liabilities	22,060
Net other postemployment benefits liability	(225,247)
Net pension liability	211,669
Net Cash Provided by (Used in) Operating Activities	\$ 1,781,762

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

		(Light Department) December 31, 2018		
	Other Postemployment Benefits Trust Fund	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	\$ -	\$ 819,560	\$ 89,284	\$ 121,975
Investments:				
Negotiable certificates of deposit	-	-	74,102	24,184
Common stock	-	-	108,066	35,268
Corporate fixed income securities	-	-	189,886	57,604
U.S. government obligations	-	-	142,544	46,520
PRIT	1,292,921	-	-	-
Total Assets	<u>1,292,921</u>	<u>819,560</u>	<u>603,882</u>	<u>285,551</u>
Liabilities				
Agency liabilities	-	-	-	285,551
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,551</u>
Net Position				
Restricted for other postemployment benefits	1,292,921	819,560	-	-
Held in trust for private purposes	-	-	603,882	-
Total Net Position	<u>\$ 1,292,921</u>	<u>\$ 819,560</u>	<u>\$ 603,882</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

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

		(Light Department) December 31, 2018	
	Other Postemployment Benefits Trust Fund	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
Additions			
Contributions:			
Employer	\$ 684,902	\$ 300,000	\$ -
Other	-	-	2,838
Total contributions	684,902	300,000	2,838
Investment income:			
Interest and dividends	72,264	(63,804)	17,396
Total Additions	757,166	236,196	20,234
Deductions			
Education - scholarships	-	-	2,500
Health and human services	-	-	21,759
Retiree benefits	609,902	-	-
Total Deductions	609,902	-	24,259
CHANGE IN NET POSITION	147,264	236,196	(4,025)
NET POSITION AT BEGINNING OF YEAR	1,145,657	583,364	607,907
NET POSITION AT END OF YEAR	\$ 1,292,921	\$ 819,560	\$ 603,882

See accompanying notes to basic financial statements.

TOWN OF MIDDLETON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

I. Summary of Significant Accounting Policies

The accompanying basic financial statements of the Town of Middleton, Massachusetts (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 approximately twenty miles north of Boston. It is bordered by the Towns of North Reading, North Andover, Boxford, Topsfield, Danvers, Peabody and Lynnfield. The Town was settled in 1659 and incorporated as a Town in 1728; and uses the open town meeting form of government. It is governed by a five-member elected Board of Selectmen with an appointed Town Administrator. Members of the Town’s Board of Selectmen serve three-year terms.

The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, utility services, street maintenance, parks and recreational facilities.

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 there are no component units required to be included in the financial statements.

The Town is a member community of the Masconomet Regional School District that provides educational services in grades 7 to 12 to the Towns of Middleton, Topsfield and Boxford. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2019, the Town’s share of the operating and debt service expenses was \$9,795,231. Complete audited financial statements can be obtained directly from the District’s administrative office located at 20 Endicott Road, Topsfield, Massachusetts 01983.

The Town is a member community of the Essex North Shore Agricultural and Technical School District that provides educational services in grades 9 to 12 to many area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2019, the Town’s share of the operating and debt service expenses was \$836,187. Complete audited financial statements can be obtained directly from the District’s administrative office located at 565 Maple Street, Hathorne, Massachusetts 01937.

The Town does not have an equity interest in either of the joint ventures.

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 and deferred outflows of financial resources, liabilities and deferred inflows of financial resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows of financial resources, liabilities and deferred inflows of financial resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets and deferred outflows of financial resources, liabilities and deferred inflows of financial resources, 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*. 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 are 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*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

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 applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

The Town considers property tax revenues to be available if they are collected within sixty days after the end of the fiscal year and are material. 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 government 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.

Town Capital Projects Fund – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Nonmajor Governmental Funds – consist of other special revenue, capital projects 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 government reports the following major proprietary funds:

Light Department – accounts for user charges collected to finance costs associated with providing electric power to the Town’s residents and businesses.

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:

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations.

Private-Purpose Trust Fund – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used primarily for public assistance and scholarships.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund 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 of the Town are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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 to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes that are secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental receivables are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

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 fund financial statements. The Light Department's prepaid items represent a deposit used to facilitate timely payments of certain monthly power invoices.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns 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. Interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

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:

Buildings and improvements	7 to 40 years
Land improvements	20 to 30 years
Machinery and equipment	3 to 10 years
Infrastructure	30 to 100 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 – 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 permanent funds and proprietary funds is retained in the funds.

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured. For governmental activities, the liability for compensated absences is not material and is therefore not reported in these financial statements.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts 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 has two types of items that are reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability and the other postemployment benefit liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A. The deferred other postemployment benefits will be recognized in employee benefits expense in future years as more fully described in Note III, subsection C.

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 has three items that are reported as deferred inflows of resources. The first arises only under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items are reported on the government-wide statement of net position and relate to outflows from changes in the net pension liability and the other postemployment benefit liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A. The deferred other postemployment benefits will be recognized in employee benefits expense in future years as more fully described in Note III, subsection C.

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

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

Grants and gifts represent assets that have restrictions placed on them from federal and state granting agencies, donors and other outside parties for specific governmental programs and uses.

Other specific purposes represent assets that are restricted by third parties 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) or (b) legally or contractually required to be maintained intact as the corpus of the 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 Town has by ordinance authorized the Town Accountant to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

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.

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 purchasing

activity approved by the Town Accountant 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. The Town reports \$101,199 of encumbrances from normal purchasing activity in the general fund as assigned and \$463,254 of encumbrances from Town Meeting Articles in the general fund as committed. There are no encumbrances reported in any other fund.

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

	General	Capital Projects	Nonmajor Governmental	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 173,403	\$ 173,403
Restricted:				
School revolving	-	-	582,928	582,928
Federal and state grants	-	-	246,478	246,478
Ambulance services	-	-	1,103,025	1,103,025
Gift funds	-	-	152,852	152,852
Septic betterments	-	-	65,528	65,528
Cable access programming	-	-	455,945	455,945
Water services	-	-	959,246	959,246
Community preservation	-	-	921,259	921,259
Other capital outlay	-	151,696	-	151,696
Cemetery trust funds	-	-	49,485	49,485
Other trust funds	-	-	83,059	83,059
Debt service	361,816	-	-	361,816
Other purposes	-	-	478,940	478,940
Committed:				
General government	255,104	-	-	255,104
Public works	50,158	-	-	50,158
Public safety	33,911	-	-	33,911
Education	116,708	-	-	116,708
Other purposes	7,373	-	-	7,373
Assigned:				
Purchase orders	101,199	-	-	101,199
Subsequent years' budget	1,252,789	-	-	1,252,789
Unassigned	5,605,193	-	-	5,605,193
	<u>\$ 7,784,251</u>	<u>\$ 151,696</u>	<u>\$ 5,272,148</u>	<u>\$13,208,095</u>

Stabilization Funds – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. At June 30, 2019, the Town reported a balance in its stabilization fund of \$1,534,904, which is reported as unassigned in the general fund.

The Town maintains a special education stabilization fund, which may be used for any special education purpose upon a two-thirds vote of the Town Meeting. At June 30, 2019, the Town reported a balance in its special education stabilization fund of \$157,269, which is reported as unassigned in the general fund.

The Town maintains a capital stabilization fund, which may be used for any capital purpose upon a two-thirds vote of the Town Meeting. At June 30, 2019, the Town reported a balance in its capital stabilization fund of \$419,227, which is reported as unassigned in the general fund.

The Town maintains a retirement stabilization fund, which may be used for retirement costs upon a two-thirds vote of the Town Meeting. At June 30, 2019, the Town reported a balance in its retirement stabilization fund of \$26,202, which is reported as unassigned in the general fund.

E. Excess of Expenditures Over Appropriations and Fund Deficits

The Town incurred no deficits in the current year.

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 (the "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.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust, or MMDT, which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2018, the Town, excluding the Light Department, had bank deposits totaling \$10,423,943 with a carrying value of \$10,923,913. Of the bank balance, \$3,680,461 was not insured by the Federal Deposit Insurance Corporation ("FDIC"), the depositors' insurance fund or collateralization agreements and therefore exposed to custodial credit risk.

At year-end, the Light Department's carrying amount of segregated bank deposits was \$217,186. The bank balance of these Department segregated funds maintained by the Town Treasurer was \$230,771. In addition to the segregated funds, there was \$2,956,204 of operating cash pooled

within various accounts maintained by the Town Treasurer. Bank deposits are pooled with, or in the same financial institution as, Town operated funds and therefore specific collateralization information on these deposits is not available.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town or Light Department may not be able to recover the full amount of its principal investment and/or investment earnings. The Town's investment in the MMDT and PRIT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town's investments in United States governmental obligations, bond and equity mutual funds and other investment funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town's investments in negotiable certificates of deposit are fully insured by the FDIC. The Town's investment in a repurchase agreement is held by a counterparty, but not in the Town's name. The repurchase agreement is fully collateralized with U.S. government securities.

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 Town's best estimate of what market participants would use in pricing the investment at the measurement date.

U.S government obligations, bond mutual funds and equity mutual funds are classified in Level 1 and are valued using prices quoted in active markets for those securities, while the remaining investments are classified in Level 2. Negotiable certificates of deposit and repurchase agreements are valued using matrix pricing based on the securities' relationship to benchmark quoted prices. Other investment mutual funds are valued based on the published fair value per share (unit) for each fund. The State Treasurer's PRIT fund is valued based on the composition and fair value of the underlying investments contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly. The State Treasurer's investment pool (MMDT) is valued at amortized cost. The MMDT's investment advisor may value the pool using an alternative valuation method that more accurately reflects the fair value in accordance with the pools fair value pricing policies should amortized cost not approximate the fair value of the pool.

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:

	6/30/19	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
Corporate fixed income securities	\$ 1,027,129	\$ 1,027,129	\$ -	\$ -
U.S. government obligations	829,489	829,489	-	-
Negotiable certificates of deposit	431,214	-	431,214	-
Repurchase agreements	3,192,703	-	3,192,703	-
State treasurer's PRIT fund	1,292,921	-	1,292,921	-
Total debt securities	6,773,456	1,856,618	4,916,838	-
Equity securities:				
Common stock	628,855	628,855	-	-
Equity mutual funds	369,711	369,711	-	-
Other investment funds	93,334	-	93,334	-
Total equity securities	1,091,900	998,566	93,334	-
Total investments by fair value level	\$ 7,865,356	\$ 2,855,184	\$ 5,010,172	\$ -
Investments measured at amortized costs				
Massachusetts Municipal Depository Trust	2,162,388			
Total investments	10,027,744			

At December 31, 2017, the light department's investments are categorized as follows: Level 1 - \$664,569 US government securities, \$541,137 equities and \$4,986,822 mutual and money market funds; Level 2 - \$946,185 municipal bonds and \$983,039 corporate bonds; \$1,101,007 certificates of deposit are not classified.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates. The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2019, the Town had the following investments with maturities:

Investments	6/30/19	Maturities in Years		
		Less than 1	1 - 5	6 - 10
Corporate fixed income securities	\$ 1,027,129	\$ 358,912	\$ 668,217	\$ -
U.S. government obligations	829,489	595,584	233,905	-
Negotiable certificates of deposit	431,214	300,540	130,674	-
Total investments with maturities	<u>\$ 2,287,832</u>	<u>\$ 1,255,036</u>	<u>\$ 1,032,796</u>	<u>\$ -</u>

The Light Department had investments as follows 1) US Government Securities, \$664,569 beyond five years; 2) for certificates of deposit, \$79,900 less than one year, \$59,354 between one and two years, \$484,403 between two and five years and \$477,350 beyond five years; 3) for municipal bonds, \$946,185 beyond five years; and 4) for corporate bonds, \$983,039 beyond five years.

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2019, Town has 22% of its investments in MMDT, 13% in the PRIT fund and 32% in repurchase agreements collateralized with U. S. government backed securities.

Credit Risk – The Town has not adopted a formal policy related to credit risk. The Town's investments in U.S. government obligations are rated Aaa by Moody's. Corporate bonds are rated \$120,815 as Aaa, \$415,293 as A1, \$130,810 as A2, \$209,272 as Baa1 and \$150,939 as Baa2. The Town's remaining investments are unrated.

The Light Department's U.S. government securities are rated Aaa by Moody's and AA+ by Standards and Poor's. Municipal bonds are rated \$946,185 as AA to A and corporate bonds are rated \$93,936 as AAA, \$574,962 as AA to A and \$314,141 are rated BBB by Standards and Poor's. Mutual funds, money market funds and certificates of deposit are not rated.

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:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 334,175	\$ -	\$ 334,175
Tax liens and deferrals	302,763	-	302,763
Community preservation surcharges	3,196	-	3,196
Motor vehicle and other excise taxes	165,588	-	165,588
User charges	4,944	-	4,944
Ambulance fees	601,963	(240,785)	361,178
Other	13,156	-	13,156
Intergovernmental	75,243	-	75,243
Total	<u>\$ 1,501,028</u>	<u>\$ (240,785)</u>	<u>\$ 1,260,243</u>

Receivables at year-end for the Town's Electric Light Department Enterprise Fund are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Customer accounts receivable	\$ 1,375,160	\$ (52,261)	\$ 1,322,899
Other accounts receivable	219,742	-	219,742
Unbilled revenue	185,164	-	185,164
Purchased power credits receivable	7,237	-	7,237
Total	<u>\$ 1,787,303</u>	<u>\$ (52,261)</u>	<u>\$ 1,735,042</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental	Total
Receivable and other asset types:			
Real estate and personal property taxes	\$ 334,175	\$ -	\$ 334,175
Tax liens and deferrals	302,763	-	302,763
Motor vehicle and other excise taxes	165,588	-	165,588
Community preservation surcharges	-	3,196	3,196
User charges		4,944	4,944
Ambulance fees	-	361,178	361,178
Other	2,607	10,549	13,156
Tax foreclosures	468,461	-	468,461
Total	<u>\$ 1,273,594</u>	<u>\$ 379,867</u>	<u>\$ 1,653,461</u>

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019 (December 31, 2018 for Electric Light Department) was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 6,583,884	\$ -	\$ -	\$ 6,583,884
Construction in process	245,161	176,361	(114,075)	307,447
Total capital assets not being depreciated	6,829,045	176,361	(114,075)	6,891,331
Capital assets being depreciated:				
Land improvements	1,888,307	118,100	(48,939)	1,957,468
Buildings and improvements	44,683,136	-	-	44,683,136
Machinery and equipment	6,906,733	688,957	(205,924)	7,389,766
Infrastructure	30,521,706	378,932	(5,798)	30,894,840
Total capital assets being depreciated	83,999,882	1,185,989	(260,661)	84,925,210
Less accumulated depreciation for:				
Land improvements	(1,046,788)	(57,618)	48,939	(1,055,467)
Buildings and improvements	(14,798,553)	(1,172,518)	-	(15,971,071)
Machinery and equipment	(4,562,164)	(460,700)	205,924	(4,816,940)
Infrastructure	(14,824,392)	(636,387)	5,798	(15,454,981)
Total accumulated depreciation	(35,231,897)	(2,327,223)	260,661	(37,298,459)
Total capital assets being depreciated, net	48,767,985	(1,141,234)	-	47,626,751
Total governmental activities capital assets, net	\$ 55,597,030	\$ (964,873)	\$ (114,075)	\$ 54,518,082
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,174,079	\$ 45,790	\$ -	\$ 2,219,869
Capital assets being depreciated:				
Buildings and improvements	1,272,928	13,030	-	1,285,958
Machinery and equipment	2,520,739	163,788	(32,000)	2,652,527
Infrastructure	17,506,969	808,092	(133,000)	18,182,061
Total capital assets being depreciated	21,300,636	984,910	(165,000)	22,120,546
Less accumulated depreciation for:				
Buildings and improvements	(605,677)	(25,720)	-	(631,397)
Machinery and equipment	(1,733,239)	(114,976)	32,000	(1,816,215)
Infrastructure	(9,543,535)	(522,741)	133,000	(9,933,276)
Total accumulated depreciation	(11,882,451)	(663,437)	165,000	(12,380,888)
Total capital assets being depreciated, net	9,418,185	321,473	-	9,739,658
Total business-type activities capital assets, net	\$ 11,592,264	\$ 367,263	\$ -	\$ 11,959,527

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 96,492	Light Department	\$ 663,437
Public safety	258,626		<u>\$ 663,437</u>
Education	963,772		
Public works	800,826		
Health and human services	11,456		
Culture and recreation	196,051		
	<u>\$ 2,327,223</u>		

D. Interfund Receivables, Payables and Transfers

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

<u>Transfers Out</u>	<u>Transfers In</u> <u>General Fund</u>
Nonmajor Governmental Funds	\$ 982,852 (1)
Electric Light Enterprise Fund	<u>223,000 (1)</u>
Total	<u>\$ 1,205,852</u>

(1) Transfers to general fund to supplement operating budgets.

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 or 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 (“GANS”). 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.

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

During the fiscal year, the Town borrowed \$3,745,000 through a BAN issued at 3.0% for the South Main land acquisition and master plan project. The BAN is due and payable on April 20, 2020.

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations related to personnel costs.

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

The following table reflects the activity in the Town’s long-term liability accounts during the fiscal year ended June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness (a)	\$ 14,810,000	\$ -	\$ (970,000)	\$ 13,840,000	\$ 985,000
Unamortized bond premium	328,187	-	(41,421)	286,766	39,194
Direct borrowings and placements (a)	80,961	-	(16,063)	64,898	16,063
Landfill closure	892,500	-	(52,500)	840,000	52,500
Net pension liability	15,801,844	4,466,803	(2,573,589)	17,695,058	-
Net other postemployment benefits liability (b)	21,406,891	3,828,564	(799,194)	24,436,261	-
Total Governmental Activities	\$ 53,320,383	\$ 8,295,367	\$ (4,452,767)	\$ 57,162,983	\$ 1,092,757
<i>Business-Type Activities - MELD:</i>					
Compensated absences	\$ 66,954	\$ 2,743	\$ -	\$ 69,697	\$ -
Net pension liability	3,842,901	122,319	-	3,965,220	-
Net other postemployment benefits liability	355,748	230,693	-	586,441	-
Total Business-Type Activities	\$ 4,265,603	\$ 355,755	\$ -	\$ 4,621,358	\$ -

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

(b) As restated. See note IV.

The governmental activities liabilities will be liquidated by the General Fund. The business-type liabilities will be liquidated by the Electric Light Department Enterprise Fund.

The following is a summary of outstanding long-term debt obligations as of June 30, 2019:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.30 - 5.00%	\$ 13,600,000	\$ -	\$ (865,000)	\$ 12,735,000
General Obligation Bonds	2.50 - 3.00%	1,210,000	-	(105,000)	1,105,000
Federal Home Loan Bonds	5.00%	44,400	-	(9,800)	34,600
Massachusetts Clean Water Trust Notes	3.00 - 5.25%	36,561	-	(6,263)	30,298
Total Governmental Activities		14,890,961	-	(986,063)	13,904,898
Add: Unamortized bond premium		328,187	-	(41,421)	286,766
Total Governmental Activities, net		\$ 15,219,148	\$ -	\$ (1,027,484)	\$ 14,191,664

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

Year Ending June 30,	<i>Governmental Activities</i>			
	General Obligation Bonds		Direct Borrowings and Placements	
	Principal	Interest	Principal	Interest
2020	\$ 985,000	\$ 437,420	\$ 16,063	\$ 2,418
2021	1,005,000	403,142	16,063	1,665
2022	1,030,000	364,647	16,186	909
2023	1,060,000	324,700	11,586	265
2024	1,045,000	284,453	1,000	-
2025 - 2029	5,075,000	934,481	4,000	-
2030 - 2034	3,640,000	219,450	-	-
Total	<u>\$ 13,840,000</u>	<u>\$ 2,968,293</u>	<u>\$ 64,898</u>	<u>\$ 5,257</u>

The following table summarizes authorized but unissued debt at June 30, 2019:

Project	Amount
<i>Governmental:</i>	
Septic loans	\$ 84,969
South Main Street	3,745,000
Total Authorized and Unissued	<u>\$ 3,829,969</u>

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan for the Town and other member units deemed eligible by the Essex Regional Retirement Board. The System was established under Chapter 32 of Massachusetts General Laws. Stand-alone financial statements for the year ended December 31, 2018 were issued and are available at the Retirement Office, 491 Maple Street, #202, Danvers, Massachusetts 01923.

Current membership in the System for all employers as of December 31, 2018 was as follows:

Retirees and beneficiaries currently receiving benefits	1,858
Active plan members	2,774
Inactive plan members	<u>1,212</u>
Total	<u>5,844</u>

Benefit Terms – Membership in the 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 System do not participate in the Federal Social Security Retirement System.

Massachusetts contributory retirement system benefits are uniform from retirement system to system. The 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 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 System.

The 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 System's benefit terms in 2018.

Contributions Requirements – The System 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 and electric light department contributed \$1,744,589 to the System in fiscal year 2019. This approximated the actuarially-determined contribution requirement for the fiscal year. The

Town and electric light department's contributions as a percentage of covered payroll was approximately 22.7% in fiscal year 2019.

Net Pension Liability – At June 30, 2019, the Town proportionate share of the net pension liability was \$22,036,187 however this does not equal the amount recorded because the Light Department uses a year earlier measurement period. 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 made in this update to the actuarial assumptions since the last actuarial valuation.

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 System relative to the projected contributions of all employers. The Town's proportion was approximately 5.216% at January 1, 2018.

Fiduciary Net Position – The elements of the System's basic financial statements (that is, all information about the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the fiduciary fund financial statements.

The System's fiduciary net position was determined using the accrual basis of accounting. The System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by 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 \$2,658,764 in pension expense in the statement of activities in fiscal year 2019; \$479,873 of this amount was incurred by the Light Department.

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings	\$ 910,122	\$ -
Changes in assumptions	938,118	-
Difference between expected and actual experience	-	153,476
Changes in proportion and differences between Town contributions and proportionate share of contributions	439,672	69,492
Total	<u>\$ 2,287,912</u>	<u>\$ 222,968</u>

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

<u>Year ended June 30,</u>	
2020	\$ 754,250
2021	546,272
2022	393,412
2023	371,010
Total	<u>\$ 2,064,944</u>

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, the Light Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings	\$ -	\$ 174,581
Changes in assumptions	325,556	-
Difference between expected and actual experience	-	56,115
Changes in proportion and differences between Light contributions and proportionate share of contributions	151,760	8,304
Total	<u>\$ 477,316</u>	<u>\$ 239,000</u>

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

<u>Year ended December 31</u>	
2019	\$ 92,449
2020	96,307
2021	43,989
2022	5,571
Total	<u>\$ 238,316</u>

Actuarial Valuation – The measurement of the 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 January 1, 2018 actuarial valuation included:

Actuarial Valuation Date	January 1, 2018
Investment rate of return:	7.50% per annum
Projected salary increases:	Based on years of service. 7.50% year one, 6.5% year two, 6.00% year three, 5.50% year four, 5.00% year 5; 3.75% thereafter
Cost of living adjustments:	3% on the first \$14,000 of a member’s retirement allowance is assumed to be granted every year.
Mortality rates:	RP – 2000 mortality table (sex distinct) projected with scale BB and Generational Mortality
Disabled life mortality:	RP – 2000 mortality table (sex distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	21.00%	6.16%
International developed markets equity	13.00%	6.69%
International emerging markets equity	5.00%	9.47%
Core fixed income	15.00%	1.89%
High-yield fixed income	8.00%	4.00%
Real estate	10.00%	4.58%
Commodities	4.00%	4.77%
Hedge fund, GTAA, Risk parity	11.00%	3.68%
Private equity	13.00%	10.00%
Total Fund Expected Return/Total	100.00%	7.50%

Discount Rate – The discount rate used to measure the total pension liability was 7.50%, which represents a decrease from the 7.75% in the previous actuarial valuation. 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 at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the 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 7.5% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Town’s proportionate share of the net pension liability	\$27,243,612	\$22,036,187	\$17,655,073

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, (measured as of June 30, 2018) the Commonwealth contributed \$1,163,984 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 0.088531%, 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 table below presents the Town’s proportionate share of the following (dollar amounts are in thousands):

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 20,991,728	\$ (20,991,728)	\$ —
Pension expense	2,127,208	(2,127,208)	—

The Town recognized \$2,127,208 in intergovernmental revenue and pension expense relative to this arrangement.

C. Risk Financing

The Town is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

D. Other Postemployment Benefits

The Town administers a single-employer defined benefit healthcare plan (the “OPEB Plan”). The OPEB Plan provides health, dental and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 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 an audited stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2019:

Active employees	209
Inactive employees	<u>83</u>
Total	<u><u>292</u></u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 40% of the set premium for medical; 25% for dental, and 50% for life insurance. The remainder of the cost is funded by general revenues of the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis and also pays 60% of a retiree’s Medicare Part B premium. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2019, the Town’s average contribution rate was approximately 6.2% of covered payroll.

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

Total OPEB Liability	\$ 25,729,182
Plan fiduciary net position	<u>(1,292,921)</u>
Net OPEB liability	<u><u>\$ 24,436,261</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	5.0%

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:

Investment rate of return	7.04%, net of OPEB plan investment expense, including inflation.
Municipal bond rate	2.79% as of June 30, 2019
Discount Rate	4.50%, net of OPEB plan investment expense including inflation. Using a blend of the Municipal Bond Index Rate for unfunded periods and the Investment Rate of Return.
Inflation	2.75% annually as of June 30, 2019 and for future periods
Health Care Trend Rate	5%
Salary Increases	3.00% annually as of July 1, 2017 and for future periods
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females
Actuarial Cost Method	Individual entry age normal

Discount Rate – The discount rate used to measure the total OPEB liability was 4.5%. The only key change in assumptions from the prior year was the decrease of this discount rate from 5.00%.

Long Term Expected Rate of Return – 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 were as reflected in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity - Large Cap	14.50%	4.00%
Domestic Equity - Small/Mid Cap	3.50%	6.00%
International Equity - Developed Mar	16.00%	4.50%
International Equity - Emerging Mark	6.00%	7.00%
Domestic Fixed Income	20.00%	2.00%
International Fixed Income	3.00%	3.00%
Alternatives	23.00%	6.50%
Real Estate	14.00%	6.25%
Cash	0.00%	0.00%
	<u>100.00%</u>	
Real rate of return		4.79%
Inflation assumption		2.75%
Total nominal rate of return		7.54%
Investment expense		-0.50%
Net investment return		<u>7.04%</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% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

	Discount Rate		
	1% Decrease (3.5%)	Current rate (4.50%)	1% Increase (5.50%)
Net OPEB Liability	\$ 28,803,886	\$ 24,436,261	\$ 20,954,466

	Health Care Rate		
	1% Decrease (4.00%)	Current rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	\$ 18,596,825	\$ 24,436,261	\$ 31,863,630

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2019:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2018	\$ 22,552,548		\$ 21,406,891
		\$ 1,145,657	
Changes for the year:			
Service cost	1,055,101	-	1,055,101
Interest	1,048,772	-	1,048,772
Change in assumptions	1,682,663	-	1,682,663
Net investment income	-	72,264	(72,264)
Employer contributions	-	684,902	(684,902)
Benefit payments withdrawn from trust	-	(609,902)	609,902
Benefit payments	(609,902)	-	(609,902)
Net changes	3,176,634	147,264	3,029,370
Balances at June 30, 2019	<u>\$ 25,729,182</u>	<u>\$ 1,292,921</u>	<u>\$ 24,436,261</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2019, the Town recognized OPEB expense of \$2,259,385. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	\$ -	\$ 21,246
Changes of Assumptions	1,414,296	-
Differences between actual and expected experience	-	93,046
	<u>\$ 1,414,296</u>	<u>\$ 114,292</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:

June 30,	
2020	\$ 238,761
2021	238,761
2022	238,763
2023	248,773
2024	262,485
thereafter	72,461
	<u>\$ 1,300,004</u>

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such 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 follows the same investment policies that apply to all other Town Trust funds. Notably it can be invested in accordance with State Statutes that govern Trust investments including PRIM which is an external investment pool managed by the State.

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 6.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Electric Light Department OPEB – Electric Light Department OPEB, which is not material to the overall financial statements, may be reviewed in detail in the Electric Light Department financial statements.

E. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 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.

Grant Compliance – Amounts received 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 Town expects such amounts, if any, to be immaterial.

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 Town expects the amount if any, in these situations, to be immaterial.

Electric Light Department -

MELD is a Town owned utility responsible for the purchase and distribution of electric power throughout the Town of Middleton. MELD has its own Board of Commissioners elected at large by citizenry of the Town of Middleton.

MELD is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop bulk power supply for its Members and other utilities.

MMWEC is authorized to construct, own or purchase ownership interest in, and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs).

Among other things, PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt services on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of project capability to an additional amount not to exceed 25% of their original participants' share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in W.F. Wyman Unit No. 4 plant, which is owned and operated by subsidiaries of FPL Energy Wyman IV, LLC, an indirect subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy, LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for Unit 3 extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook Resources, LLC (formerly FPL Energy Seabrook, LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy, LLC). The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has stated its intention to request an extension of the Seabrook Station operating license for an additional twenty years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson-Act. Originally enacted in 1957, the Act has been renewed several times. In July, 2005, as part of the Energy Policy Act of 2005, Congress extended the Price-Anderson Act until the end of 2025.

MELD has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and the PPAs, the Plant is required to make certain payments to MMWEC payable solely from Plant revenues. Under the PSAs each Participant is unconditionally obligated to make

all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

As of December 31, 2018, total capital expenditures for MMWEC's projects amounted to \$1,652,338,000 of which \$39,994,000 represents the amount associated with the Plant's Project Capability of the projects in which it participates, although such amount is not allocated to the Plant. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue bonds \$7,110,000, of which \$293,000 is associated with the Plant's share of Project Capability of the projects in which it participates, although such amount is not allocated to the Plant. As of December 31, 2018, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is \$7,419,000, of which \$306,000 is anticipated to be billed to the Plant in future years.

The estimated aggregate amount of the Plant's required payments under the PSAs and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2018 and estimated for future years is summarized as follows:

For years ended	
December 31,	
2019	306,000
Total	\$ 306,000

In addition, the Plant is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Plant's total O&M costs including debt service under the PSAs were \$1,176,000 and \$2,233,000 for the years ended December 31, 2018 and 2017, respectively.

The MELD purchases its power through contracts with various power suppliers, including MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the MELD anticipates some stability to its power cost expenses over the next few years.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In addition, the Town acquired a parcel of land in fiscal year 2009 that was formerly used as a landfill and is responsible for post-closure testing and monitoring. Finally, the Town acquired another parcel of land that was formerly used as the Town landfill and is also responsible for the post-closure testing and monitoring of the site.

In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring and other post-closure liabilities for these three parcels, \$840,000, has been recorded as a governmental activities' liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementations –

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.

Future 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.

IV. Restatement

The Town changed the measurement date of its beginning net OPEB liability from July 1, 2017 to June 30, 2018 which caused a decrease in the Town's governmental-activities net position reported at June 30, 2018.

The impact is illustrated in the table below:

	<u>Governmental</u>
Net position at June 30, 2018, as reported	\$ 17,277,687
Impact in change of measurement date	<u>(452,951)</u>
Net position at June 30, 2018, as restated	<u>\$ 16,824,736</u>

TOWN OF MIDDLETON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2019

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

(dollar amounts are in thousands)

	<u>2019</u>	<u>Year Ended June 30,</u> <u>2018</u>	<u>2017</u>	<u>2016</u>
Town's proportion of the net pension liability (asset)	5.22%	5.23%	5.06%	4.93%
Town's proportionate share of the net pension liability (asset)	\$ 22,036	\$ 19,679	\$ 19,507	\$ 17,900
Town's covered payroll	\$ 7,695	\$ 7,388	\$ 7,060	\$ 6,129
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	286.4%	266.4%	276.3%	292.1%
Plan fiduciary net position as a percentage of the total pension liability	51.9%	55.4%	51.1%	51.0%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN

(dollar amounts are in thousands)

	<u>2019</u>	<u>Year Ended June 30,</u> <u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 1,743	\$ 1,628	\$ 1,467	\$ 1,258
Contributions in relation to the actuarially determined contribution	<u>1,745</u>	<u>1,630</u>	<u>1,468</u>	<u>1,258</u>
Contribution deficiency (excess)	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ -</u>
Town's covered payroll	\$ 7,695	\$ 7,388	\$ 7,060	\$ 6,129
Contributions as a percentage of covered payroll	22.7%	22.1%	20.8%	20.5%

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

See accompanying independent auditor's report.

TOWN OF MIDDLETON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2019

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM

(dollar amounts are in thousands)

	<u>2018</u>	<u>Year Ended June 30,</u> <u>2017</u>	<u>2016</u>	<u>2015</u>
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 23,711,289	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643
Commonwealth's actuarially determined contribution	\$ 1,314,783	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930

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

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

See accompanying independent auditor's report.

TOWN OF MIDDLETON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEAR ENDED JUNE 30, 2019**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS**

	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB liability:			
Service cost	\$ 1,055,101	\$ 883,961	\$ 845,336
Interest	1,048,772	1,087,561	1,012,331
Difference between expected and actual plan experience	-	302,431	-
Changes of assumptions	1,682,663	-	-
Benefit payments	(609,902)	(565,578)	(510,717)
Net change in total OPEB liability	3,176,634	1,708,375	1,346,950
Total OPEB liability - beginning of year	22,552,548	20,844,173	20,719,298
Total OPEB liability - end of year (a)	<u>\$ 25,729,182</u>	<u>\$ 22,552,548</u>	<u>\$ 22,066,248</u>
Plan fiduciary net position:			
Contributions - employer	\$ 684,902	\$ 615,578	\$ 610,717
Net investment income	72,264	96,789	109,117
Benefit payments	(609,902)	(565,578)	(510,717)
Net change in Plan fiduciary net position	147,264	146,789	209,117
Plan fiduciary net position - beginning of year	1,145,657	998,868	789,751
Plan fiduciary net position - end of year (b)	<u>\$ 1,292,921</u>	<u>\$ 1,145,657</u>	<u>\$ 998,868</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 24,436,261</u>	<u>\$ 21,406,891</u>	<u>\$ 21,067,380</u>
Plan fiduciary net position as a percentage of the total OPEB liability	5.03%	5.08%	4.53%
Covered payroll	\$ 11,055,578	\$ 10,733,570	\$ 10,700,000
Net OPEB liability as a percentage of covered payroll	221.03%	199.44%	196.89%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b of GASB 74.

See independent auditors' report.

TOWN OF MIDDLETON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEAR ENDED JUNE 30, 2019**

**SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	June 30, 2019	June 30, 2018	June 30, 2017
Actuarially-determined contribution	\$ 2,490,680	\$ 2,189,164	\$ 2,033,068
Contributions in relation to the actuarially-determined contribution	(684,902)	(615,578)	(610,717)
Contribution deficiency (excess)	<u>\$ 1,805,778</u>	<u>\$ 1,573,586</u>	<u>\$ 1,422,351</u>
Covered payroll	\$11,055,578	\$10,733,570	\$ 10,700,000
Contribution as a percentage of covered payroll	6.20%	5.74%	5.71%
Valuation Date	July 1, 2017	July 1, 2017	July 1, 2017
Amortization Period	30 years	30 years	30 years
Investment rate of return	7.04%	7.04%	7.04%
Municipal Bond Rate	2.79%	3.45%	3.16%
Single Equivalent Discount Rate	4.50%	5.00%	4.75%
Inflation	2.75%	2.75%	2.75%
Healthcare cost trend rates	5.00%	5.00%	5.00%
Salary increases	3.00%	3.00%	3.00%
Actuarial Cost Method	Individual Entry Age Normal (for all years presented)		
Asset Valuation Method	Market Value of Assets as of Reporting Date (for all years presented)		

**SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS**

	June 30, 2019	June 30, 2018	June 30, 2017
Annual money-weighted rate of return, net of investment expense	6.14%	9.46%	10.92%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

TOWN OF MIDDLETON, MASSACHUSETTS

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

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance
	Original	Final	Budgetary	and continuing	Budgetary	Positive
	Budget	Budget	Amounts	appropriations	Adjusted	(Negative)
REVENUES						
Real estate and personal property taxes, net	\$28,433,510	\$28,433,510	\$ 28,896,681		\$28,896,681	\$ 463,171
Intergovernmental	2,359,644	2,359,644	2,406,602		2,406,602	46,958
Motor vehicle and other excises	2,380,000	2,380,000	2,500,949		2,500,949	120,949
Payments in lieu of taxes	130,000	130,000	134,776		134,776	4,776
License and permits	605,000	605,000	609,341		609,341	4,341
Departmental and other revenue	531,355	531,355	603,737		603,737	72,382
Penalties and interest on taxes	80,000	80,000	141,076		141,076	61,076
Fines and forfeitures	12,000	12,000	13,837		13,837	1,837
Investment income	70,000	70,000	145,719		145,719	75,719
Total Revenues	34,601,509	34,601,509	35,452,718	\$ -	35,452,718	851,209
EXPENDITURES						
General government	2,477,521	2,476,521	1,952,599	261,579	2,214,178	262,343
Public safety	4,690,887	4,690,887	4,327,463	53,911	4,381,374	309,513
Education	23,411,634	23,416,634	22,611,242	544,835	23,156,077	260,557
Public works	1,905,148	1,916,148	1,742,561	67,868	1,810,429	105,719
Health and human services	526,842	526,842	452,457	9,326	461,783	65,059
Culture and recreation	606,238	606,238	588,693	-	588,693	17,545
Fringe Benefits	2,498,871	2,498,871	2,333,250	1,161	2,334,411	164,460
State and county tax assessments	438,091	438,091	434,387	-	434,387	3,704
Debt service	1,282,835	1,292,835	1,291,225	-	1,291,225	1,610
Total Expenditures	37,838,067	37,863,067	35,733,877	938,680	36,672,557	1,190,510
OTHER FINANCING SOURCES (USES)						
Transfers in	1,016,011	1,016,011	1,205,852	-	1,205,852	189,841
Total Other Financing Sources (Uses)	1,016,011	1,016,011	1,205,852	\$ -	\$ 1,205,852	189,841
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	(2,220,547)	(2,245,547)	\$ 924,693			\$2,231,560
Other Budgetary Items:						
Undesignated surplus (free cash)	825,093	850,093				
Overlay surplus	192,765	192,765				
Encumbrance reversions	50,000	50,000				
Prior year encumbrances	1,152,689	1,152,689				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

TOWN OF MIDDLETON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by the Town Meeting at the Town’s annual meeting in May. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within each department. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2019, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 35,452,718
Stabilization revenue	\$ -	\$ 95,769	95,769
On behalf payments	2,127,208	-	2,127,208
Revenues on a GAAP basis	<u>\$ 2,127,208</u>	<u>\$ 95,769</u>	<u>\$ 37,675,695</u>
Expenditures on a budgetary basis			\$ 35,733,877
Change in expenditure recognition	\$ 77,397	\$ -	77,397
On behalf payments	2,127,208	-	2,127,208
Expenditures on a GAAP basis	<u>\$ 2,204,605</u>	<u>\$ -</u>	<u>\$ 37,938,482</u>
Other financing sources (uses) on a budgetary basis			\$ 1,205,852
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,205,852</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 Middleton, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, 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 (except for the Middleton Electric Light Department "the Light Department", which is as of December 31, 2018) and have issued our report thereon October 9, 2019.

We did not audit the financial statements of the Light Department, a Town Department reported as an enterprise fund and part of the Town's business-type funds. The Light Department represents 100% of each of the assets, net position, and operating revenues of the Town's business-type activities. The accompanying financial statements do not include all disclosures for the Light Department, as required by generally accepted accounting principles. Such information can be found in separately issued financial statements for the year-ended December 31, 2018, which was audited by the other auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 9, 2019