

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**TOWN OF SALISBURY, MASSACHUSETTS**

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



# TOWN OF SALISBURY, MASSACHUSETTS

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Salisbury, 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 Salisbury, Massachusetts, (the "Town") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of those 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2019 and the respective changes

in financial position and, where applicable cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 our report dated January 22, 2020, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the financial reporting and compliance.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts 01801  
January 22, 2020

## Management's Discussion and Analysis

As the management of the Town of Salisbury, 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.

### **Financial Highlights**

- The Town's 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 \$41.9 million (*total net position*). Of this amount, over \$8.8 million represented net position of governmental activities and about \$33.1 million represented net position of the business-type activities.
- The Town's total net position increased by nearly \$2.4 million or approximately 6.0% year to year. Governmental activities increased net position by almost \$1.4 million, while the business-type activities increased net position by over \$1.0 million.
- The Town's Unassigned Fund Balance reported in the General Fund was almost \$2.5 million (about 9.3% of General Fund expenditures); and the total fund balance in the General Fund was over \$2.9 million (about 11.1% of General Fund expenditures). The Town also operates one major fund in addition to the General Fund; the fund set up to account for the future construction of the Town's Welcome Center has a restricted fund balance of almost \$0.5 million. The Town's aggregate Nonmajor funds include restricted balances of over \$1.3 million, unassigned deficits (to be funded from subsequent year grant receipts) of about \$155,000, committed fund balance of about \$65,000 and a small portion classified as nonspendable as corpus of endowment of about \$51,000.
- The Town's total long-term debt decreased by almost \$1.9 million during the fiscal year as a result of regular scheduled maturities.

### **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, deferred outflows of financial resources and liabilities and deferred inflows of financial resources, with the difference between the two groups reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, education, community development, health and human services, culture and recreation, fringe benefits, and interest expense. The business-type activities of the Town include water and sewer enterprise funds.

**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.

Governmental funds 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

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

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

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, and Welcome Center Fund which are presented as major funds. Data from the other governmental funds are combined into a single, aggregated presentation entitled Nonmajor Funds.

The Town adopts an annual legally appropriated budget for its General Fund and both its Water and Sewer Enterprise Funds. 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 after the footnotes to the financial statements.

**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 water and sewer activities.

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

**Notes to 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 condensed statement of net position is as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b><u>Assets</u></b>						
Current and other assets	\$ 7,124,779	\$ 7,916,337	\$ 15,518,208	\$ 14,659,025	\$ 22,642,987	\$ 22,575,362
Capital assets, net	39,887,001	38,647,810	37,267,136	37,999,329	77,154,137	76,647,139
Total assets	47,011,780	46,564,147	52,785,344	52,658,354	99,797,124	99,222,501
<b><u>Deferred Outflows of Resources</u></b>	3,352,133	1,959,387	441,741	251,977	3,793,874	2,211,364
<b><u>Liabilities</u></b>						
Long-term liabilities	38,040,569	35,877,785	13,960,110	14,556,629	52,000,679	50,434,414
Other liabilities	735,232	1,130,671	5,866,450	5,799,885	6,601,682	6,930,556
Total liabilities	38,775,801	37,008,456	19,826,560	20,356,514	58,602,361	57,364,970
<b><u>Deferred Inflows of Resources</u></b>	2,762,198	4,065,623	300,345	458,867	3,062,543	4,524,490
<b><u>Net Position</u></b>						
Net investment in capital assets	25,309,833	23,326,810	23,505,211	22,789,663	48,815,044	46,116,473
Restricted	1,947,222	1,984,568	1,314,861	2,825,304	3,262,083	4,809,872
Unrestricted	(18,431,141)	(17,861,923)	8,280,108	6,479,983	(10,151,033)	(11,381,940)
Total Net Position	\$ 8,825,914	\$ 7,449,455	\$ 33,100,180	\$ 32,094,950	\$ 41,926,094	\$ 39,544,405

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's 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 \$41.9 million (*total net position*). This reflects an increase from the preceding year by almost \$2.4 million.

By far the largest portion (\$48.8 million) of the Town's 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 portion of the Town's net position (almost \$3.3 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is in deficit by almost \$10.2 million. This is primarily the result of reporting related to net pension and net OPEB liabilities required under GASB 68 and GASB 75. The recognition of these liabilities had a significant negative impact on the Town's net position that is expected to continue into the foreseeable future.

The condensed statement of changes in net position is as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b><u>Revenues</u></b>						
Program revenues:						
Charges for services	\$ 1,929,707	\$ 1,939,699	\$ 5,348,249	\$ 4,956,114	\$ 7,277,956	\$ 6,895,813
Operating grants and contributions	1,127,257	1,203,209	-	-	1,127,257	1,203,209
Capital grants and contributions	1,273,832	1,436,875	96,591	122,583	1,370,423	1,559,458
General revenues:						
Property taxes	21,593,651	20,381,163	-	-	21,593,651	20,381,163
Intergovernmental	973,614	899,946	-	-	973,614	899,946
Other	2,260,394	1,985,360	108,629	137,845	2,369,023	2,123,205
<b>Total Revenues</b>	<b>29,158,455</b>	<b>27,846,252</b>	<b>5,553,469</b>	<b>5,216,542</b>	<b>34,711,924</b>	<b>33,062,794</b>
<b><u>Expenses</u></b>						
General government	2,760,082	2,717,968	-	-	2,760,082	2,717,968
Public safety	8,102,651	7,118,866	-	-	8,102,651	7,118,866
Education	12,816,685	12,587,813	-	-	12,816,685	12,587,813
Public works	1,611,771	1,561,019	-	-	1,611,771	1,561,019
Health and human services	706,900	698,796	-	-	706,900	698,796
Culture and recreation	886,483	776,986	-	-	886,483	776,986
Community development	528,933	496,134	-	-	528,933	496,134
Interest expense	388,491	580,423	-	-	388,491	580,423
Water	-	-	2,132,040	2,135,844	2,132,040	2,135,844
Sewer	-	-	2,396,199	2,391,175	2,396,199	2,391,175
<b>Total Expenses</b>	<b>27,801,996</b>	<b>26,538,005</b>	<b>4,528,239</b>	<b>4,527,019</b>	<b>32,330,235</b>	<b>31,065,024</b>
Increase in net position before transfers	1,356,459	1,308,247	1,025,230	689,523	2,381,689	1,997,770
Transfers	20,000	60,000	(20,000)	(60,000)	-	-
Change in net position	1,376,459	1,368,247	1,005,230	629,523	2,381,689	1,997,770
Net position, beginning of year	7,449,455	11,456,299	32,094,950	32,230,344	39,544,405	43,686,643
Restatement for net OPEB liability	-	(5,375,091)	-	(764,917)	-	(6,140,008)
Net position, beginning of year, as restated	7,449,455	6,081,208	32,094,950	31,465,427	39,544,405	37,546,635
Net position, end of year	<u>\$ 8,825,914</u>	<u>\$ 7,449,455</u>	<u>\$ 33,100,180</u>	<u>\$ 32,094,950</u>	<u>\$ 41,926,094</u>	<u>\$ 39,544,405</u>

### ***Governmental Activities.***

Net overall operations were consistent with the prior year as the Town's revenues and expenses both increased by approximately the same amount. Specific details are included in the discussion which follows:



## **Revenues**

The Town relies heavily on property taxes, which during 2019 were over \$1.2 million greater than the prior year and made up about 74.1% of total revenues. In Massachusetts, a Town is allowed to assess taxes at an amount that is 2 ½% greater than the prior year plus new growth as well as assessed amounts allowed as part of a debt exclusion or override. The act is more commonly referred to as proposition 2 ½. Thus, the Town experienced an increase in property taxes that was expected.

No other revenue categories were material in amount or fluctuated significantly from year to year.

## **Expenses**

Major expenses during fiscal 2019 were for education and public safety which comprised about 46.1% and 29.1%, respectively, of total expenses.

The Town is one of the three-member communities of the Triton Regional School District. The District assesses the Town a portion of the total cost of providing education services to its students. This is typically assessed as a ratio based on school enrollment. Overall education costs continue to rise, especially benefits. In the current year an increase in regional operating assessments was partially offset by a decrease in the regional debt assessment.

Public Safety expenses were almost \$1.0 million greater than the prior year. This is the Town's most labor-intensive department, and thus the allocation of benefit costs to this department had the most significant impact resulting in this increase.

No other expense categories were material in amount or fluctuated significantly from year to year.

***Business-type Activities.*** The primary revenue sources for both water and sewer activities are comprised of usage fees for metered services and system connections which represented approximately 96.3% of total revenues. The increase in revenues over the prior year was directly related to an increase in connection charges due to two large multi-family housing developments going on-line.

Water and sewer expenses represented 100% of total business-type expenses. Of the total expenses, approximately 61.7% pertains to direct operational costs with the remaining costs represented by debt service (approximately 9.0%) and current year depreciation (approximately 29.3%).

## **Financial Analysis of the Government's Funds**

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

***Governmental Funds.*** The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. The Town presents a General Fund, Welcome Center Fund, and combined Nonmajor Funds.

## **General Fund**

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 approximately \$2.5 million, while total fund balance was over \$2.9 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 9.3% of total General Fund expenditures, while total fund balance represents approximately 11.1% of that same amount.

The current fund balance was consistent with the prior year as revenues approximated expenditures. Favorable budget performance of just under \$1.2 million was offset by free cash appropriations of over \$1.0 million, resulting in a net fund balance change of (\$27,983).

### **Welcome Center Fund**

The Welcome Center Fund was created to account for the construction of a Welcome/Visitors' Center with public restroom facilities at Salisbury Beach.

The current year fund balance of about \$0.5 million represents a decrease of \$0.2 million from the prior year due to expenditures of about that amount.

### **Combined Nonmajor Funds**

The nature of Nonmajor Funds is the accumulation of resources through intergovernmental grants, user charges or contributions. These resources are typically restricted for specific purposes and over time are exhausted by their intended use to zero. Any residual balances at any one particular point in time or during the course of the year is merely the result of timing of revenues and expenditures; therefore, annual surpluses or deficits are not overly meaningful.

**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 Water Fund was over \$6.7 million; and net position of the Sewer Fund amounted to nearly \$26.4 million. Both presented slight increases over the prior year primarily related to an increase in connection fees due to the completion of two large multi-family developments.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were minor (less than 5.0%). The schedule of budgetary information is 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 \$77.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and infrastructure, machinery and equipment and reflects a net increase of approximately \$0.5 million, as a result of almost \$3.2 million of capital asset additions offset by almost \$2.7 million of depreciation.

The Town has undergone significant capital improvements over the past several years. These include major improvements to its town hall, roads, and recreational facilities, the construction of a new library and police station, and the expansion of its wastewater treatment system and a water tank replacement. A significant portion of these improvements were funded by grants from the Federal government and the Commonwealth of Massachusetts. Additional information on the Town's capital assets can be found in Note II. C, of this report.

**Long-term Debt.** At the end of the current fiscal year, the Town had total debt outstanding of approximately \$24.7 million. Of this amount over \$13.9 million represents general obligation bonds of

governmental activities and almost \$10.8 million represents general obligation bonds of business-type activities.

The Town's total long-term debt decreased by almost \$1.9 million during the fiscal year as a result of regular scheduled maturities.

The last bond rating received by the Town was an "AA" as set by S&P for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total equalized valuation. The current debt limitation for the Town is over \$91.3 million, which is significantly in excess of the Town's outstanding general obligation debt.

The Town is also responsible for a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

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

### **Economic Factors and Next Year's Budgets and Rates**

- Consistent with both state and national work force trends, the Town's unemployment rates have continued to stabilize, with little volatility in the last 12 months. This trend is continuing to improve in fiscal 2020. Unemployment rates are now trending at or near their pre-recession levels.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2020 is expected to be approximately 82.2% of the entire property tax levy. The Town relies to a certain extent on its commercial, industrial and personal property real estate tax base which comprise the remainder of the 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. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.
- Local housing prices have been stabilizing in recent years and in some situations are beginning to see an upward trend. The Town expects housing prices to continue to remain stable in 2020.
- The Town set its tax rate for fiscal year 2020 on December 17, 2019.

The above items were considered when the Town developed its budget for fiscal year 2020 which was approved at its Annual Town Meeting in the spring of 2019.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 5 Beach Road, Salisbury, Massachusetts 01952.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,303,523	\$ 12,697,465	\$ 17,000,988
Investments	850,687	-	850,687
Receivables (net):			
Property taxes	725,431	-	725,431
Excise taxes	144,263	-	144,263
User fees	-	1,067,945	1,067,945
Betterments	-	1,752,798	1,752,798
Intergovernmental	277,816	-	277,816
Tax foreclosures	823,059	-	823,059
Capital assets, not being depreciated	5,353,143	5,579,237	10,932,380
Capital assets, net of accumulated depreciation	34,533,858	31,687,899	66,221,757
<b>Total Assets</b>	<b>47,011,780</b>	<b>52,785,344</b>	<b>99,797,124</b>
<b>Deferred Outflows of Resources</b>			
Related to net other postemployment benefits liability	337,088	35,673	372,761
Related to net pension liability	3,015,045	406,068	3,421,113
<b>Total Deferred Outflows of Resources</b>	<b>3,352,133</b>	<b>441,741</b>	<b>3,793,874</b>
<b>Liabilities</b>			
Warrants and accounts payable	211,804	225,487	437,291
Accrued payroll and withholdings	351,565	13,130	364,695
Accrued interest expense	-	272,833	272,833
Other liabilities	18,863	-	18,863
Bond anticipation notes	153,000	5,355,000	5,508,000
Noncurrent liabilities:			
Due within one year	1,308,304	996,832	2,305,136
Due in more than one year	36,732,265	12,963,278	49,695,543
<b>Total Liabilities</b>	<b>38,775,801</b>	<b>19,826,560</b>	<b>58,602,361</b>
<b>Deferred Inflows of Resources</b>			
Related to net other postemployment benefits liability	2,483,962	262,872	2,746,834
Related to net pension liability	278,236	37,473	315,709
<b>Total Deferred Inflows of Resources</b>	<b>2,762,198</b>	<b>300,345</b>	<b>3,062,543</b>
<b>Net Position</b>			
Net investment in capital assets	25,309,833	23,505,211	48,815,044
Restricted:			
Nonexpendable permanent funds	51,000	-	51,000
Expendable permanent funds	180,822	-	180,822
Federal and State grants	614,743	-	614,743
Other purposes	1,100,657	1,314,861	2,415,518
Unrestricted	(18,431,141)	8,280,108	(10,151,033)
<b>Total Net Position</b>	<b>\$ 8,825,914</b>	<b>\$ 33,100,180</b>	<b>\$ 41,926,094</b>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
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	\$ 2,760,082	\$ 601,922	\$ 149,874	\$ 15,600	\$ (1,992,686)		\$ (1,992,686)
Public safety	8,102,651	1,111,234	158,024	928,572	(5,904,821)		(5,904,821)
Education	12,816,685	-	33,688	-	(12,782,997)		(12,782,997)
Public works	1,611,771	13,580	34,076	230,202	(1,333,913)		(1,333,913)
Health and human services	706,900	102,074	237,429	-	(367,397)		(367,397)
Culture and recreation	886,483	17,398	20,110	99,458	(749,517)		(749,517)
Community development	528,933	83,499	494,056	-	48,622		48,622
Interest expense	388,491	-	-	-	(388,491)		(388,491)
Total governmental activities	27,801,996	1,929,707	1,127,257	1,273,832	(23,471,200)		(23,471,200)
Business-type activities:							
Water	2,132,040	2,880,120	-	-		\$ 748,080	748,080
Sewer	2,396,199	2,468,129	-	96,591		168,521	168,521
Total business-type activities	4,528,239	5,348,249	-	96,591		916,601	916,601
Total Primary Government	<u>\$ 32,330,235</u>	<u>\$ 7,277,956</u>	<u>\$ 1,127,257</u>	<u>\$ 1,370,423</u>	(23,471,200)	916,601	(22,554,599)
<u>General Revenues:</u>							
Property taxes					21,593,651	-	21,593,651
Grants and contributions not restricted to specific programs					973,614	-	973,614
Motor vehicle and other excise					1,924,002	-	1,924,002
Penalties and interest on taxes					111,274	-	111,274
Unrestricted investment income					69,972	108,629	178,601
Gain from sale of assets					155,146	-	155,146
<u>Transfers (net)</u>					20,000	(20,000)	-
Total general revenues					24,847,659	88,629	24,936,288
Change in Net Position					1,376,459	1,005,230	2,381,689
<u>Net Position:</u>							
Beginning of year					7,449,455	32,094,950	39,544,405
End of year					<u>\$ 8,825,914</u>	<u>\$ 33,100,180</u>	<u>\$ 41,926,094</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	<u>General Fund</u>	<u>Welcome Center</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,638,025	\$ 499,254	\$ 1,166,244	\$ 4,303,523
Investments	598,298	-	252,389	850,687
Receivables:				
Property taxes	725,431	-	-	725,431
Excise taxes	144,263	-	-	144,263
Intergovernmental	139,071	-	138,745	277,816
Tax foreclosures	823,059	-	-	823,059
<b>Total Assets</b>	<u>5,068,147</u>	<u>499,254</u>	<u>1,557,378</u>	<u>7,124,779</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 5,068,147</u></u>	<u><u>\$ 499,254</u></u>	<u><u>\$ 1,557,378</u></u>	<u><u>\$ 7,124,779</u></u>
<b>Liabilities</b>				
Warrants and accounts payable	\$ 115,006	\$ -	\$ 96,798	\$ 211,804
Accrued payroll	337,073	-	14,492	351,565
Bond anticipation notes	-	-	153,000	153,000
Other liabilities	18,711	-	152	18,863
<b>Total Liabilities</b>	<u>470,790</u>	<u>-</u>	<u>264,442</u>	<u>735,232</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	654,091	-	-	654,091
Unavailable revenue - excise taxes	144,263	-	-	144,263
Unavailable revenue - other	849,373	-	-	849,373
<b>Total Deferred Inflows of Resources</b>	<u>1,647,727</u>	<u>-</u>	<u>-</u>	<u>1,647,727</u>
<b>Fund Balances</b>				
Nonspendable	-	-	51,000	51,000
Restricted	-	499,254	1,331,290	1,830,544
Committed	486,819	-	65,678	552,497
Assigned	5,500	-	-	5,500
Unassigned	2,457,311	-	(155,032)	2,302,279
<b>Total Fund Balances</b>	<u>2,949,630</u>	<u>499,254</u>	<u>1,292,936</u>	<u>4,741,820</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u><u>\$ 5,068,147</u></u>	<u><u>\$ 499,254</u></u>	<u><u>\$ 1,557,378</u></u>	<u><u>\$ 7,124,779</u></u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

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<b>Total Governmental Fund Balances</b>	<b>\$ 4,741,820</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	39,887,001
Other long-term assets are not available to pay for current period expenditures and, therefore are reported as unavailable revenue in the funds.	1,647,727
Deferred outflows and (inflows) of resources to be recognized in future pension and benefits expense are not available resources and, therefore, are not reported in the funds:	
Deferred outflows related to net other postemployment benefits liability	337,088
Deferred outflows related to net pension liability	3,015,045
Deferred inflows related to net other postemployment benefits liability	(2,483,962)
Deferred inflows related to net pension liability	(278,236)
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	(13,927,849)
Unamortized bond premium	(1,204,317)
Capital lease obligations	(606,889)
Post-closing landfill monitoring costs	(184,500)
Compensated absences	(873,326)
Net other postemployment benefits liability	(5,803,935)
Net pension liability	(15,439,753)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 8,825,914</u></b>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	General Fund	Welcome Center	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 21,805,742	\$ -	\$ -	\$ 21,805,742
Intergovernmental	1,221,189	-	2,057,281	3,278,470
Excise taxes	1,897,241	-	22,262	1,919,503
Licenses and permits	451,467	-	-	451,467
Departmental and other revenue	748,139	-	552,578	1,300,717
Penalties and interest on taxes	111,274	-	-	111,274
Fines and forfeitures	177,523	-	-	177,523
Investment income	61,320	-	8,652	69,972
Contributions and donations	-	-	221,598	221,598
<b>Total Revenues</b>	<u>26,473,895</u>	<u>-</u>	<u>2,862,371</u>	<u>29,336,266</u>
<b>Expenditures:</b>				
Current:				
General government	1,845,416	-	271,681	2,117,097
Public safety	5,274,020	-	1,733,122	7,007,142
Education	12,813,356	-	-	12,813,356
Public works	1,435,778	217,170	289,487	1,942,435
Health and human services	483,213	-	89,588	572,801
Culture and recreation	443,749	-	128,764	572,513
Community development	-	-	472,315	472,315
Fringe and pension benefits	2,674,240	-	-	2,674,240
State and county tax assessments	146,264	-	-	146,264
Debt service:				
Principal	842,850	-	100,000	942,850
Interest	536,161	-	-	536,161
<b>Total Expenditures</b>	<u>26,495,047</u>	<u>217,170</u>	<u>3,084,957</u>	<u>29,797,174</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(21,152)</u>	<u>(217,170)</u>	<u>(222,586)</u>	<u>(460,908)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	104,597	-	131,428	236,025
Transfers out	(111,428)	-	(104,597)	(216,025)
Capital leases	-	-	222,600	222,600
Gain from sale of assets	-	-	155,146	155,146
<b>Total Other Financing Sources (Uses)</b>	<u>(6,831)</u>	<u>-</u>	<u>404,577</u>	<u>397,746</u>
<b>Net Change in Fund Balances</b>	(27,983)	(217,170)	181,991	(63,162)
Fund Balances - Beginning, as restated	<u>2,977,613</u>	<u>716,424</u>	<u>1,110,945</u>	<u>4,804,982</u>
Fund Balances - Ending	<u>\$ 2,949,630</u>	<u>\$ 499,254</u>	<u>\$ 1,292,936</u>	<u>\$ 4,741,820</u>

See accompanying notes to basic financial statements.



**TOWN OF SALISBURY, MASSACHUSETTS**

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

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (63,162)**

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:

Capital outlays	\$ 2,583,128	
Depreciation expense	(1,343,937)	
Net effect of reporting capital assets		1,239,191

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 amount presented here as a reconciling item represents the following differences:

Repayments of debt principal	942,850	
Amortization of bond and note premiums	147,670	
Net effect of reporting long-term debt		1,090,520

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

(332,957)

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:

Post-closing landfill monitoring costs	20,000	
Additions to capital lease obligations	(222,600)	
Payments of minimum capital lease principal obligations	129,211	
Other postemployment benefits	277,327	
Pension benefits	(761,071)	
Net effect of reporting long-term liabilities		(557,133)

**Change in Net Position of Governmental Activities** **\$ 1,376,459**

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 3,600,036	\$ 9,097,429	\$ 12,697,465
Receivables, net:			
User charges	398,879	669,066	1,067,945
Betterments	-	50,660	50,660
Total current assets	<u>3,998,915</u>	<u>9,817,155</u>	<u>13,816,070</u>
Noncurrent assets:			
Receivables, net:			
Betterments	-	1,702,138	1,702,138
Land	369,002	1,383,999	1,753,001
Construction in progress	2,124,824	1,701,412	3,826,236
Capital assets, net of depreciation	<u>12,274,675</u>	<u>19,413,224</u>	<u>31,687,899</u>
Total noncurrent assets	<u>14,768,501</u>	<u>24,200,773</u>	<u>38,969,274</u>
<b>Total Assets</b>	<u>18,767,416</u>	<u>34,017,928</u>	<u>52,785,344</u>
<b>Deferred Outflows of Resources</b>			
Related to net other postemployment benefits liability	-	35,673	35,673
Related to net pension liability	<u>78,771</u>	<u>327,297</u>	<u>406,068</u>
<b>Total Deferred Outflows of Resources</b>	<u>78,771</u>	<u>362,970</u>	<u>441,741</u>
<b>Liabilities</b>			
Current liabilities:			
Warrants and accounts payable	109,593	115,894	225,487
Accrued payroll	-	13,130	13,130
Accrued interest expense	164,577	108,256	272,833
Bond anticipation notes payable	2,680,000	2,675,000	5,355,000
Bonds and notes payable	660,476	320,000	980,476
Compensated absences	-	16,356	16,356
Total current liabilities	<u>3,614,646</u>	<u>3,248,636</u>	<u>6,863,282</u>
Noncurrent liabilities:			
Bonds and notes payable	8,080,558	2,140,000	10,220,558
Compensated absences	-	49,067	49,067
Net other postemployment benefits liability	-	614,217	614,217
Net pension liability	<u>403,379</u>	<u>1,676,057</u>	<u>2,079,436</u>
Total noncurrent liabilities	<u>8,483,937</u>	<u>4,479,341</u>	<u>12,963,278</u>
<b>Total Liabilities</b>	<u>12,098,583</u>	<u>7,727,977</u>	<u>19,826,560</u>
<b>Deferred Inflows of Resources</b>			
Related to net other postemployment benefits liability	-	262,872	262,872
Related to net pension liability	<u>7,269</u>	<u>30,204</u>	<u>37,473</u>
<b>Total Deferred Inflows of Resources</b>	<u>7,269</u>	<u>293,076</u>	<u>300,345</u>
<b>Net Position</b>			
Net investment in capital assets	4,411,114	19,094,097	23,505,211
Restricted for debt service	-	1,314,861	1,314,861
Unrestricted	<u>2,329,221</u>	<u>5,950,887</u>	<u>8,280,108</u>
<b>Total Net Position</b>	<u>\$ 6,740,335</u>	<u>\$ 26,359,845</u>	<u>\$ 33,100,180</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Operating Revenues:</b>			
Charges for services	\$ 2,482,062	\$ 2,196,507	\$ 4,678,569
Access fees	398,058	271,622	669,680
<b>Total Operating Revenues</b>	<u>2,880,120</u>	<u>2,468,129</u>	<u>5,348,249</u>
<b>Operating Expenses:</b>			
Operating costs	1,435,742	1,358,330	2,794,072
Depreciation	463,443	863,041	1,326,484
<b>Total Operating Expenses</b>	<u>1,899,185</u>	<u>2,221,371</u>	<u>4,120,556</u>
<b>Operating Income (Loss)</b>	<u>980,935</u>	<u>246,758</u>	<u>1,227,693</u>
<b>Nonoperating Revenues (Expenses):</b>			
Interest income	28,153	80,476	108,629
Interest expense	(232,855)	(174,828)	(407,683)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(204,702)</u>	<u>(94,352)</u>	<u>(299,054)</u>
<b>Income Before Capital Contributions and Transfers</b>	<u>776,233</u>	<u>152,406</u>	<u>928,639</u>
Intergovernmental capital grants	-	1,193	1,193
Betterments	-	95,398	95,398
Transfers out	-	(20,000)	(20,000)
<b>Change in Net Position</b>	<u>776,233</u>	<u>228,997</u>	<u>1,005,230</u>
Total Net Position - Beginning	<u>5,964,102</u>	<u>26,130,848</u>	<u>32,094,950</u>
Total Net Position - Ending	<u>\$ 6,740,335</u>	<u>\$ 26,359,845</u>	<u>\$ 33,100,180</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from users	\$ 2,919,610	\$ 2,475,181	\$ 5,394,791
Payments to employees	-	(358,682)	(358,682)
Payments to vendors	(1,383,851)	(910,173)	(2,294,024)
Net Cash Provided By Operating Activities	1,535,759	1,206,326	2,742,085
<b>Cash Flows from Noncapital Related Financing Activities:</b>			
Net transfers	-	(20,000)	(20,000)
Net Cash (Used In) Noncapital Financing Activities	-	(20,000)	(20,000)
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Issuance of bond anticipation notes	2,680,000	2,675,000	5,355,000
Payment of bond anticipation notes	(2,710,000)	(2,675,000)	(5,385,000)
Premiums from issuance of bonds and notes	(83,680)	-	(83,680)
Receipts from betterments	-	388,321	388,321
Government subsidies	-	13,589	13,589
Acquisition and construction of capital assets	(182,929)	(411,362)	(594,291)
Principal payments on bonds and other long-term notes	(556,578)	(377,700)	(934,278)
Interest expense	(219,787)	(159,544)	(379,331)
Net Cash (Used In) Provided By Capital and Related Financing Activities	(1,072,974)	(546,696)	(1,619,670)
<b>Cash Flows from Investing Activities:</b>			
Interest income	28,153	80,476	108,629
Net Cash Provided By Investing Activities	28,153	80,476	108,629
<b>Net Change in Cash and Cash Equivalents</b>	490,938	720,106	1,211,044
<b>Cash and Cash Equivalents:</b>			
Beginning of year	\$ 3,109,098	8,377,323	11,486,421
End of year	\$ 3,600,036	\$ 9,097,429	\$ 12,697,465
<b>Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities:</b>			
Operating income	\$ 980,935	\$ 246,758	\$ 1,227,693
Depreciation expense	463,443	863,041	1,326,484
Changes in assets and deferred outflows and liabilities and deferred inflows:			
Receivables	39,490	7,052	46,542
Deferred outflows of resources	(38,368)	(151,396)	(189,764)
Deferred inflows of resources	(18,639)	-	(18,639)
Accounts payable, accrued expenses and other liabilities	108,898	240,871	349,769
Net Cash Provided By Operating Activities	\$ 1,535,759	\$ 1,206,326	\$ 2,742,085

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

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2019**

	Affordable Housing Trust	Other Postemployment Benefits Trust	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 34,576	\$ -	\$ 76,366
Investments	717,965	-	-
Money market mutual funds	-	1,347	-
Fixed income mutual funds	-	79,660	-
Equity mutual funds	-	190,879	-
Notes receivable	335,000	-	-
<b>Total Assets</b>	<u>1,087,541</u>	<u>271,886</u>	<u>76,366</u>
<b>Liabilities</b>			
Warrants and accounts payable	-	-	4,420
Planning and performance bonds	-	-	71,946
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>76,366</u>
<b>Net Position</b>			
Held in trust for affordable housing purposes	1,087,541	-	-
Restricted for other postemployment benefits	-	271,886	-
<b>Total Net Position</b>	<u>\$ 1,087,541</u>	<u>\$ 271,886</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2019**

	Affordable Housing Trust	Other Postemployment Benefits Trust
	<u>                    </u>	<u>                    </u>
<b>Additions:</b>		
Contributions:		
Employer	\$ -	\$ 369,888
Other	165,708	-
	<u>                    </u>	<u>                    </u>
Total contributions	165,708	369,888
	<u>                    </u>	<u>                    </u>
Investment income:		
Interest, dividends, realized gains/losses	22,818	11,789
Net investment earnings	22,818	11,789
	<u>                    </u>	<u>                    </u>
<b>Total Additions</b>	188,526	381,677
	<u>                    </u>	<u>                    </u>
<b>Deductions:</b>		
Benefit payments	-	319,888
Public housing assistance	37,483	-
	<u>                    </u>	<u>                    </u>
<b>Total Deductions</b>	37,483	319,888
	<u>                    </u>	<u>                    </u>
<b>Change in Net Position</b>	151,043	61,789
	<u>                    </u>	<u>                    </u>
Net Position - Beginning	936,498	210,097
	<u>                    </u>	<u>                    </u>
Net Position - Ending	<u><u>\$ 1,087,541</u></u>	<u><u>\$ 271,886</u></u>

See accompanying notes to basic financial statements.

## TOWN OF SALISBURY, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

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#### **I. Summary of Significant Accounting Policies**

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

##### **A. Reporting Entity**

The Town is located in Essex County, approximately 40 miles north of Boston. The Town is bordered on its northern side by the State of New Hampshire and on its eastern side by the Atlantic Ocean. The Town was incorporated in 1638. The governing structure utilizes an open town meeting forum, with an elected five-member Board of Selectmen, and an appointed Town Manager who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12 through a regional school district, water and sewer services, street maintenance, and parks and recreational facilities. The water and sewer services are funded almost entirely with user charges and are provided via connections to Town owned 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 Triton Regional School District that provides educational services to three 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 \$11,678,611. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained from the District's administrative office located at 112 Elm Street, Byfield, MA 01922.

Approximately \$500,000 was also paid to Whittier Regional School District a technical high school that services a much smaller portion of the Town's student population.

##### **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 if they exist 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, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows, liabilities and deferred inflows, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
2. The total assets and deferred outflows, liabilities and deferred inflows, 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.

Additionally, 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 have been met.

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

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

The Town considers property tax revenues to be available if they are collected within 60 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.

Welcome Center Fund – Accounts for all the activity associated with the future construction of a Welcome/Visitors’ Center and public restrooms facility at Salisbury Beach.

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

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

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

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, assessments, 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:

Water Enterprise Fund – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Sewer Enterprise Fund – is used to account for the operation of the sewer department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

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.

Affordable Housing Trust Fund – is used to account for funds held in trust for affordable housing purposes.

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town that will be used to subsidize future net OPEB liabilities.

#### **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 for the Town are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of its 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 at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and 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. Net 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 \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	40 years
Machinery and equipment	5-7 years
Vehicles	5-10 years
Infrastructure	25-50 years

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

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

*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 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 financial resources. This separate financial statement element 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 changes in the net other postemployment benefit liability. The deferred pensions and OPEB items will be recognized in pension expense and benefits expense in future years as more fully described in Note III Subsections A and C.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of financial resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that are reported on the government-wide statement of net position which relate to inflows from changes in the net pension liability and the net other postemployment benefit liability. The deferred pensions and OPEB items will be recognized in pension and benefits expense in future years as more fully described in Note III Subsections A and C. The Town also reports one type of item that arises under a modified accrual basis of accounting which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from three sources: (1) property taxes, (2) excise taxes, and (3) other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

*Nonexpendable permanent funds* represent amounts held in trust whereby expenditures are subject to various trust agreements.

*Expendable permanent funds* represent amounts held in trust whereby expenditures are subject to various trust agreements.

*Federal and State grants* represent position that have restrictions placed on them from federal and state granting agencies.

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

*Fund Equity* – In the fund financial statements, fund balance for governmental funds is reported in 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 such as the corpus of an endowment.

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

*Committed* represents amounts that can only be used for specific purposes pursuant to formal action of the Town Meeting through Town Meeting Votes, which represent the most binding constraint that give rise to committed fund balance. 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 they are neither restricted nor committed. The Board of Selectmen has by ordinance authorized the Finance Director 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.

*Stabilization Fund* – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$598,298 at June 30, 2019 and is reported as unassigned fund balance in the General Fund.

*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 Finance Director 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 \$486,819 of encumbrances from Town Meeting votes in the general fund as committed. The Town also reports \$5,500 of encumbrances approved by the Finance Director from normal purchasing activity as assigned. There are no encumbrances reported in the other funds.

The following represent the categorizations of fund balance:

	General	Welcome Center Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 51,000	\$ 51,000
Restricted:				
General government	-	-	396,377	396,377
Public safety	-	-	318,565	318,565
Public works	-	-	254,098	254,098
Health and human services	-	-	79,426	79,426
Culture and recreation	-	499,254	140,351	639,605
Community development	-	-	142,473	142,473
Committed:				
General government	284,558	-	-	284,558
Public safety	16,078	-	-	16,078
Public works	186,183	-	-	186,183
Pension and fringe benefits	-	-	65,678	65,678
Assigned:				
Public safety	4,000	-	-	4,000
Pension and fringe benefits	1,500	-	-	1,500
Unassigned	2,457,311	-	(155,032)	2,302,279
<b>Totals</b>	<b>\$ 2,949,630</b>	<b>\$ 499,254</b>	<b>\$ 1,292,936</b>	<b>\$ 4,741,820</b>

## **E. Excess of Expenditures Over Appropriations and Deficits**

The Town incurred deficits in its Nonmajor Governmental funds in the aggregate amount of \$155,032. These deficits will be funded through future long-term borrowings and grant reimbursements. A snow and ice deficit of \$22,989 was raised in fiscal 2020 through taxation.

## **F. Use of Estimates**

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

# **II. Detailed Notes to All Funds**

## **A. Deposits and Investments**

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

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

*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 year-end, the carrying amount of the Town's deposits was \$17,111,930 and the bank balance was \$17,477,959. Of the Town's bank balance, \$14,412,405 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

*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 may not be able to recover the full amount of its principal investment and/or investment earnings. The Town does maintain an investment policy for custodial credit risk relative to investment holdings. All securities not held directly the Town will be held in the Town's name and tax identification number by a third-party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The Town's investments in negotiable certificates of deposit are fully covered by federal depository insurance.

*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.

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2019:

Investments	Fair Value Total	Time Until Maturity			
		< 1 Year	1 - 5 Years	6 - 10 Years	> 10 Years
Corp. Fixed Income Securities	\$ 622,138	\$ -	\$ 622,138	\$ -	\$ -
Government Obligations	527,926	239,931	287,995	-	-
Fixed Income Mutual Funds	84,796	11,705	50,929	22,162	-
Certificates of Deposit	285,754	-	285,754	-	-
Total investments with maturities	1,520,614	<u>\$ 251,636</u>	<u>\$ 1,246,816</u>	<u>\$ 22,162</u>	<u>\$ -</u>
Other Investments:					
Equities	96,132				
Equity Mutual Funds	190,879				
Money Market Mutual Funds	32,913				
Total investment without maturities	319,924				
Total Investments	<u>\$ 1,840,538</u>				

**Interest Rate Risk** – 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.

**Concentration of Credit Risk** – The Town does not place a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town did not maintain balances in any single investment that would represent more than 5% of the Town’s total investments.

**Credit Risk** – The Town has not adopted a formal policy related to credit risk. During the fiscal year, the Town limited its investments to money market accounts and bank deposits.

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

Investments	Fair Value Total	Time Until Maturity		
		< 1 Year	1 - 5 Years	6 - 10 Years
Corp. Fixed Income Securities	\$ 622,138	\$ -	\$ 622,138	\$ -
Government Obligations	527,927	239,931	287,996	-
Fixed Income Mutual Funds	84,796	11,705	50,929	22,162
Certificates of Deposit	285,754	-	285,754	-
Total investments with maturities	1,520,615	<u>\$ 251,636</u>	<u>\$ 1,246,817</u>	<u>\$ 22,162</u>
Other Investments:				
Equities	96,132			
Equity Mutual Funds	190,879			
Money Market Mutual Funds	32,913			
Total investment without maturities	319,924			
Total Investments	<u>\$ 1,840,539</u>			

At June 30, 2019 the credit quality ratings of investments were as follows:

Bond Ratings	Corporate Fixed Income	Government Obligations	Fixed Income Mutual Funds	Certificate of Deposit
Aaa	\$ -	\$ 527,926	\$ -	\$ -
Aa2	65,584	-	-	-
Aa3	74,870	-	-	-
A1	243,422	-	-	-
A2	40,466	-	-	-
A3	115,921	-	-	-
Baa1	24,950	-	-	-
Baa2	56,925	-	-	-
Not rated	-	-	84,796	285,754
	<u>\$ 622,138</u>	<u>\$ 527,926</u>	<u>\$ 84,796</u>	<u>\$ 285,754</u>



## B. Receivables

Receivables as of year-end 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 and other asset type:			
Real estate and personal property taxes	\$ 359,816	\$ (172,098)	\$ 187,718
Tax deferrals	54,664	-	54,664
Tax liens	483,049	-	483,049
Excise taxes	144,263	-	144,263
Intergovernmental	277,816	-	277,816
Tax foreclosures	823,059	-	823,059
Total	<u>\$ 2,142,667</u>	<u>\$ (172,098)</u>	<u>\$ 1,970,569</u>

Receivables as of year-end for the Town's proprietary funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user fees	\$ 395,995	\$ -	\$ 395,995
Water liens	2,884	-	2,884
Sewer user fees	664,998	-	664,998
Sewer liens	4,068	-	4,068
Sewer betterments - apportioned	50,660	-	50,660
Sewer betterments - unapportioned	1,702,138	-	1,702,138
Total	<u>\$ 2,820,743</u>	<u>\$ -</u>	<u>\$ 2,820,743</u>

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

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Nonmajor Governmental Funds	Total
Receivables and other asset type:			
Real estate and personal property taxes	\$ 116,378	\$ -	\$ 116,378
Tax deferrals	54,664	-	54,664
Tax liens	483,049	-	483,049
Excise taxes	144,263	-	144,263
Intergovernmental	26,314	-	26,314
Tax foreclosures	823,059	-	823,059
Total	<u>\$ 1,647,727</u>	<u>\$ -</u>	<u>\$ 1,647,727</u>

## C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 4,052,534	\$ -	\$ -	\$ 4,052,534
Construction in process	481,318	819,291	-	1,300,609
Total capital assets not being depreciated	4,533,852	819,291	-	5,353,143
Capital assets being depreciated:				
Buildings and improvements	23,122,934	-	-	23,122,934
Infrastructure	17,676,929	197,286	-	17,874,215
Machinery and equipment	2,092,836	1,433,101	-	3,525,937
Vehicles	3,385,353	133,450	-	3,518,803
Total capital assets being depreciated	46,278,052	1,763,837	-	48,041,889
Less accumulated depreciation for:				
Buildings and improvements	(2,859,946)	(579,661)	-	(3,439,607)
Infrastructure	(5,342,319)	(343,213)	-	(5,685,532)
Machinery and equipment	(1,475,581)	(231,477)	-	(1,707,058)
Vehicles	(2,486,248)	(189,586)	-	(2,675,834)
Total accumulated depreciation	(12,164,094)	(1,343,937)	-	(13,508,031)
Total capital assets being depreciated, net	34,113,958	419,900	-	34,533,858
Governmental activities capital assets, net	\$ 38,647,810	\$ 1,239,191	\$ -	\$ 39,887,001
<u><i>Business Activities - All:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,753,001	\$ -	\$ -	\$ 1,753,001
Construction in process	3,472,656	353,580	-	3,826,236
Total capital assets not being depreciated	5,225,657	353,580	-	5,579,237
Capital assets being depreciated:				
Buildings and improvements	39,100	-	-	39,100
Infrastructure	58,563,137	145,330	-	58,708,467
Machinery and equipment	1,058,699	50,381	-	1,109,080
Vehicles	242,082	45,000	-	287,082
Total capital assets being depreciated	59,903,018	240,711	-	60,143,729
Less accumulated depreciation for:				
Buildings and improvements	(5,690)	(1,263)	-	(6,953)
Infrastructure	(26,292,524)	(1,241,842)	-	(27,534,366)
Machinery and equipment	(609,267)	(65,401)	-	(674,668)
Vehicles	(221,865)	(17,978)	-	(239,843)
Total accumulated depreciation	(27,129,346)	(1,326,484)	-	(28,455,830)
Total capital assets being depreciated, net	32,773,672	(1,085,773)	-	31,687,899
Business activities capital assets, net	\$ 37,999,329	\$ (732,193)	\$ -	\$ 37,267,136

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities: Water</u>				
Capital assets not being depreciated:				
Land	\$ 369,002	\$ -	\$ -	\$ 369,002
Construction in process	2,096,225	28,599	-	2,124,824
Total capital assets not being depreciated	2,465,227	28,599	-	2,493,826
Capital assets being depreciated:				
Infrastructure	17,904,403	145,330	-	18,049,733
Machinery and equipment	613,748	9,000	-	622,748
Total capital assets being depreciated	18,518,151	154,330	-	18,672,481
Less accumulated depreciation for:				
Infrastructure	(5,484,445)	(428,275)	-	(5,912,720)
Machinery and equipment	(449,918)	(35,168)	-	(485,086)
Total accumulated depreciation	(5,934,363)	(463,443)	-	(6,397,806)
Total Water capital assets being depreciated, net	12,583,788	(309,113)	-	12,274,675
<u>Business-type Activities: Sewer</u>				
Capital assets not being depreciated:				
Land	1,383,999	-	-	1,383,999
Construction in process	1,376,431	324,981	-	1,701,412
Total capital assets not being depreciated	2,760,430	324,981	-	3,085,411
Capital assets being depreciated:				
Buildings	39,100	-	-	39,100
Infrastructure	40,658,734	-	-	40,658,734
Machinery and equipment	444,951	41,381	-	486,332
Vehicles	242,082	45,000	-	287,082
Total capital assets being depreciated	41,384,867	86,381	-	41,471,248
Less accumulated depreciation for:				
Buildings	(5,690)	(1,263)	-	(6,953)
Infrastructure	(20,808,079)	(813,567)	-	(21,621,646)
Machinery and equipment	(159,349)	(30,233)	-	(189,582)
Vehicles	(221,865)	(17,978)	-	(239,843)
Total accumulated depreciation	(21,194,983)	(863,041)	-	(22,058,024)
Total Sewer capital assets being depreciated, net	20,189,884	(776,660)	-	19,413,224
Total Business-type activities - capital assets, net	\$ 37,999,329	\$ (732,193)	\$ -	\$ 37,267,136

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>	
General government	\$ 99,683	Water	\$ 463,443
Public safety	592,374	Sewer	863,041
Public works	411,447	Total Business-Type Activities	\$ 1,326,484
Culture and recreation	240,433		
Total Governmental Activities	\$ 1,343,937		

#### D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In		
	General Fund	Nonmajor Funds	Total
General Fund	\$ -	\$ 111,428	\$ 111,428 (1)
Nonmajor Governmental Funds	104,597	-	104,597 (2)
Sewer Enterprise Fund	-	20,000	20,000 (3)
Total	<u>\$ 104,597</u>	<u>\$ 131,428</u>	<u>\$ 236,025</u>

(1) Transfer to nonmajor funds to supplement capital projects and other activities.

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

(3) Transfers to nonmajor funds to fund compensated absence reserve.

#### 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 (TANS).

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 and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively. Temporary notes outstanding at June 30, 2019, are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2018	Additions	Retirements	June 30, 2019
BAN	2.00%	09/14/18	\$ 68,000	\$ -	\$ (68,000)	\$ -
BAN	1.90%	09/14/18	85,000	-	(85,000)	-
BAN	3.00%	09/13/19	-	153,000	-	153,000
Total Governmental Notes			<u>153,000</u>	<u>153,000</u>	<u>(153,000)</u>	<u>153,000</u>
BAN	2.00%	09/14/18	2,710,000	-	(2,710,000)	-
BAN	3.00%	09/13/19	-	2,680,000	-	2,680,000
Total Business-Type Notes - Water			<u>2,710,000</u>	<u>2,680,000</u>	<u>(2,710,000)</u>	<u>2,680,000</u>
BAN	2.00%	09/14/18	2,675,000	-	(2,675,000)	-
BAN	3.00%	09/13/19	-	2,675,000	-	2,675,000
Total Business-Type Notes - Sewer			<u>2,675,000</u>	<u>2,675,000</u>	<u>(2,675,000)</u>	<u>2,675,000</u>
Total Business-Type Notes - All			<u>5,385,000</u>	<u>5,355,000</u>	<u>(5,385,000)</u>	<u>5,355,000</u>
Total Notes Payable			<u>\$ 5,538,000</u>	<u>\$ 5,508,000</u>	<u>\$ (5,538,000)</u>	<u>\$ 5,508,000</u>

Temporary notes outstanding at year end were issued for park land improvements (\$153,000), water well project (\$2,680,000), wastewater treatment facility (\$2,000,000), and Lafayette road sewer planning (\$675,000).

## F. Long-Term Obligations

**Bond and Note Indebtedness** – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs. The following reflects the activity in the long-term liabilities for the year ended June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<b>Governmental Activities:</b>					
Bond and note indebtedness	\$ 14,595,000	\$ -	\$ (755,000)	\$ 13,840,000	\$ 745,000
Notes from direct borrowings and placements	275,699	-	(187,850)	87,849	87,849
Unamortized bond premium	1,351,987	-	(147,670)	1,204,317	138,806
Capital lease obligations	513,500	222,600	(129,211)	606,889	124,632
Post-closure landfill monitoring	204,500	-	(20,000)	184,500	20,000
Compensated absences	873,326	218,332	(218,332)	873,326	192,017
Other postemployment benefits	5,567,090	3,055,297	(2,818,452)	5,803,935	-
Net pension liability	12,496,683	5,085,883	(2,142,813)	15,439,753	-
Total Governmental Activities	<u>\$ 35,877,785</u>	<u>\$ 8,582,112</u>	<u>\$ (6,419,328)</u>	<u>\$ 38,040,569</u>	<u>\$ 1,308,304</u>
<b>Business-type Activities: Water</b>					
Bond and note indebtedness	\$ 7,210,000	\$ -	\$ (445,000)	\$ 6,765,000	\$ 470,000
Notes from direct borrowings and placements	1,654,141	-	(111,578)	1,542,563	113,840
Unamortized bond premium	517,151	-	(83,680)	433,471	76,636
Net pension liability	326,489	132,873	(55,983)	403,379	-
Total Business-type Activities: Water	<u>9,707,781</u>	<u>132,873</u>	<u>(696,241)</u>	<u>9,144,413</u>	<u>660,476</u>
<b>Business-type Activities: Sewer</b>					
Bond and note indebtedness	2,790,000	-	(330,000)	2,460,000	320,000
Notes from direct borrowings and placements	47,700	-	(47,700)	-	-
Compensated absences	65,423	16,536	(16,536)	65,423	16,356
Other postemployment benefits	589,152	323,335	(298,270)	614,217	-
Net pension liability	1,356,573	552,096	(232,612)	1,676,057	-
Total Business-type Activities: Sewer	<u>4,848,848</u>	<u>891,967</u>	<u>(925,118)</u>	<u>4,815,697</u>	<u>336,356</u>
Total Business-type Activities: All	<u>\$ 14,556,629</u>	<u>\$ 1,024,840</u>	<u>\$ (1,621,359)</u>	<u>\$ 13,960,110</u>	<u>\$ 996,832</u>

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the respective business-type funds.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 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”.

Below is a summary of outstanding long-term debt obligations for the year ended June 30, 2019:

Description of Issue	Maturing Fiscal Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i><u>Governmental Activities:</u></i>						
General Obligation Bonds	Varies	Varies	\$ 14,595,000	\$ -	\$ (755,000)	\$ 13,840,000
MCWT Note	2020	Varies	175,699	-	(87,850)	87,849
Promissory Notes	2019	Varies	100,000	-	(100,000)	-
Total Governmental Bond and Note Indebtedness			14,870,699	-	(942,850)	13,927,849
<i><u>Business-type Activities - Water</u></i>						
General Obligation Refunding Bond	2031	3.5 - 5.0%	7,210,000	-	(445,000)	6,765,000
MCWT Note	2031	2.0%	1,566,382	-	(106,567)	1,459,815
MCWT Note	2033	2.0%	87,759	-	(5,011)	82,748
Total Water Bond and Note Indebtedness			8,864,141	-	(556,578)	8,307,563
<i><u>Business-type Activities - Sewer</u></i>						
General Obligation Bond	2031	3.0 - 4.0%	2,540,000	-	(200,000)	2,340,000
General Obligation Refunding Bonds	2020	3.5 - 4.0%	250,000	-	(130,000)	120,000
MCWT Note	2019	Varies	47,700	-	(47,700)	-
Total Sewer Bond and Note Indebtedness			2,837,700	-	(377,700)	2,460,000
Total Business-type Bond and Note Indebtedness			11,701,841	-	(934,278)	10,767,563
Total Long-Term Bond and Note Indebtedness - All			\$ 26,572,540	\$ -	\$ (1,877,128)	\$ 24,695,412

*Authorized and Unissued Debt* – At June 30, 2019, the Town carried authorized and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
Town Creek Culvert	\$ 152,292
Energy Conservation	68,585
Police Station Construction	300,000
Water DWS-07-09	62,838
Park Land Improvements	157,000
Partridge Brook Park Phase II	700,000
Rail Trail	40,819
Lafayette Road Sewer System	13,500,000
Liberty Street Improvements	350,000
Total authorized and unissued	<u>\$ 15,331,534</u>

The current debt limitation for the Town is over \$91.3 million, which is significantly in excess of the Town's outstanding general obligation debt.

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

<i>Governmental Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2020	\$ 745,000	\$ 87,849	\$ 832,849	\$ 495,185	\$ 2,416	\$ 497,601	\$ 1,330,450
2021	750,000	-	750,000	460,210	-	460,210	1,210,210
2022	755,000	-	755,000	425,060	-	425,060	1,180,060
2023	760,000	-	760,000	389,735	-	389,735	1,149,735
2024	770,000	-	770,000	361,635	-	361,635	1,131,635
2025-2029	3,885,000	-	3,885,000	1,326,475	-	1,326,475	5,211,475
2030-2034	3,660,000	-	3,660,000	633,471	-	633,471	4,293,471
2035-2039	2,515,000	-	2,515,000	134,862	-	134,862	2,649,862
Total	<u>\$ 13,840,000</u>	<u>\$ 87,849</u>	<u>\$ 13,927,849</u>	<u>\$ 4,226,633</u>	<u>\$ 2,416</u>	<u>\$ 4,229,049</u>	<u>\$ 18,156,898</u>

<i>Business-type Activities: Water - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2020	\$ 470,000	\$ 113,840	\$ 583,840	\$ 199,100	\$ 29,763	\$ 228,863	\$ 812,703
2021	480,000	116,148	596,148	180,100	27,464	207,564	803,712
2022	505,000	118,502	623,502	160,400	25,119	185,519	809,021
2023	520,000	120,905	640,905	139,900	22,729	162,629	803,534
2024	540,000	123,355	663,355	118,700	20,286	138,986	802,341
2025-2029	2,970,000	655,312	3,625,312	302,250	63,041	365,291	3,990,603
2030-2034	1,280,000	294,501	1,574,501	25,700	6,719	32,419	1,606,920
Total	<u>\$ 6,765,000</u>	<u>\$ 1,542,563</u>	<u>\$ 8,307,563</u>	<u>\$ 1,126,150</u>	<u>\$ 195,121</u>	<u>\$ 1,321,271</u>	<u>\$ 9,628,834</u>

<i>Business-type Activities: Sewer - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2020	\$ 320,000	\$ -	\$ 320,000	\$ 92,000	\$ -	\$ 92,000	\$ 412,000
2021	200,000	-	200,000	81,600	-	81,600	281,600
2022	200,000	-	200,000	73,600	-	73,600	273,600
2023	200,000	-	200,000	65,600	-	65,600	265,600
2024	200,000	-	200,000	57,600	-	57,600	257,600
2025-2029	960,000	-	960,000	171,400	-	171,400	1,131,400
2030-2034	380,000	-	380,000	15,200	-	15,200	395,200
Total	<u>\$ 2,460,000</u>	<u>\$ -</u>	<u>\$ 2,460,000</u>	<u>\$ 557,000</u>	<u>\$ -</u>	<u>\$ 557,000</u>	<u>\$ 3,017,000</u>

<i>Business-type Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2020	\$ 790,000	\$ 113,840	\$ 903,840	\$ 291,100	\$ 29,763	\$ 320,863	\$ 1,224,703
2021	680,000	116,148	796,148	261,700	27,464	289,164	1,085,312
2022	705,000	118,502	823,502	234,000	25,119	259,119	1,082,621
2023	720,000	120,905	840,905	205,500	22,729	228,229	1,069,134
2024	740,000	123,355	863,355	176,300	20,286	196,586	1,059,941
2025-2029	3,930,000	655,312	4,585,312	473,650	63,041	536,691	5,122,003
2030-2034	1,660,000	294,501	1,954,501	40,900	6,719	47,619	2,002,120
Total	<u>\$ 9,225,000</u>	<u>\$ 1,542,563</u>	<u>\$ 10,767,563</u>	<u>\$ 1,683,150</u>	<u>\$ 195,121</u>	<u>\$ 1,878,271</u>	<u>\$ 12,645,834</u>

Capital Leases – The Town has entered into non-cancelable leases for the purchase of a car and three trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets presently in use by the Town having been acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Police Interceptor	\$ 42,131
Fire Pumper Truck	498,799
DPW Dump Truck	182,220
Fire Pumper Truck	222,600
Less: accumulated depreciation	<u>(210,876)</u>
Total	<u>\$ 734,874</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2019, are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Governmental Activities</u>
2020	\$ 144,359
2021	144,358
2022	105,429
2023	105,430
2024	57,367
2025-2029	<u>114,735</u>
Total minimum lease payments	671,678
Less: amounts representing interest	<u>(64,789)</u>
Present value of minimum lease payments	<u>\$ 606,889</u>

### **III. Other Information**

#### **A. Retirement System**

Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Essex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2018 were issued and may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers MA 01923.



Membership – Membership in the System as of December 31, 2018, was as follows:

Retired participants and beneficiaries receiving benefits	1,858
Inactive participants with a vested right to retirement benefits or entitled to a return of their employee contributions	1,212
Active participants	<u>2,774</u>
Total	<u><u>5,844</u></u>

Benefit Terms – The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

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. Members of the System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform, with certain exceptions, from retirement system to retirement 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 group classification.

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 (the System's current funding schedule allows for full funding by June 30, 2035). Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,486,168 to the System in fiscal year 2019, which was the actuarially determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 25.99% in fiscal year 2019.

Net Pension Liability – At June 30, 2019, the Town reported a liability of \$17,519,189 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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 (see below) nor were there any material changes to the System's benefit terms since the 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 4.147% at December 31, 2018.

Pension Expense – The Town recognized \$2,349,741 in pension expense in the statement of activities in fiscal year 2019.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	901,077	-
Changes in assumptions	928,794	-
Changes in proportion differences	1,591,242	-
Differences between expected and actual experience	-	151,950
Changes in proportion differences	-	163,759
	<u>\$ 3,421,113</u>	<u>\$ 315,709</u>

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

Year Ended June 30,	Amount
2020	\$ 939,257
2021	836,457
2022	656,536
2023	673,154
Total	<u>\$ 3,105,404</u>

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed 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 Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	Discount Rate			
	Current Rate	1% lower	Current	1% greater
Net Pension Liability	7.50%	\$ 21,659,190	\$ 17,519,189	\$ 14,036,120

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:

Investment rate of return	Full prefunding: 7.5% per year, net of investment expenses
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	7.5% decreasing to 3.75% after 5 years of service
Cost of Living Adjustment	3% of first \$14,000
Pre-Retirement Mortality	RP-2000 Employee Mortality Table projected generationally with Scale BB
Post-Retirement Mortality	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB
Disabled Mortality	RP-2000 Healthy Annuitant Mortality Table set forward two years projected generationally with Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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 allocations and projected arithmetic real rates of return for each major asset class after deducting inflation, but before investment expenses, are summarized in the following table:

Asset Class	Target Allocation	Expected Investment 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%
	<u>100.00%</u>	

## B. 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.

## C. Other Postemployment Benefits (OPEB)

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

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

With respect to OPEB plan reporting, GASB issued GASB Statement No.’s 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No, 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Reporting requirements for governments who administer an OPEB plan as defined under the accounting standard are required to present disclosures under both GASB 74 and GASB 75.

GASB 74 requires specific disclosures and required supplementary information that relate directly to the fiduciary fund in which the OPEB Plan is recorded. GASB 75 address disclosures related to the net OPEB liability required to be recorded by the government in its applicable financial statements. A number of these disclosures are identical, especially if the measurement date under GASB 75 is the same as the plan year-end date. When a different measurement date is used different assumptions and calculations will result.

For the year-ended June 30, 2019, the Town elected to use a measurement date that was the same as the plan year-end date; thus, the majority of the same disclosures are used and will not be repeated.

### **GASB Statement No. 75**

OPEB Plan disclosures that impact the Town’s net OPEB liability using a measurement date of June 30, 2019, are summarized as follows:

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

Active employees	85
Retirees and beneficiaries	73
Total	<u>158</u>

**Contributions** – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of premiums for both health and life insurance benefits. 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. 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 6.3% 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, 2018. The components of the net OPEB liability of the Town at June 30, 2019 were as follows:

Total OPEB Liability	\$ 6,690,038
Plan fiduciary net position	<u>(271,886)</u>
Net OPEB liability	<u>\$ 6,418,152</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.06%

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	Full prefunding: 7.5% per year, net of investment expenses
Municipal bond rate	2.79% as of June 30, 2019
Discount Rate	7.5%, net of OPEB plan investment expense including inflation.
Inflation	2.00% annually as of June 30, 2019 and for future periods
Health Care Trend Rate	4.5%
Salary Increases	3.25% annually as of June 30, 2019 and for future periods
Cost of Living Adjustment	Not applicable
Pre-Retirement Mortality	RP-2014 Blue Collar Mortality Table with Scale MP-2015, fully generational
Post-Retirement Mortality	RP-2014 Blue Collar Mortality Table with Scale MP-2015, fully generational
Disabled Mortality	RP-2000 Mortality Table set forward six years for Group 1 and 2 and set forward two years for Group 4. Generational adjusting is based on Scale MP-2015.
Actuarial Cost Method	Individual Entry Age Normal

Discount Rate – The discount rate used to measure the total OPEB liability was 7.5%. There were no key changes in assumptions from the prior valuation.

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	35.89%	7.92%
International Equity	22.57%	4.73%
Domestic Bond	19.07%	5.69%
International Bond	5.45%	5.80%
Alternatives	16.53%	5.50%
Private Equity	0.00%	13.91%
Cash	0.49%	2.00%
	<u>100.00%</u>	
Real rate of return		5.50%
Inflation assumption		2.00%
Total nominal rate of return		7.50%
Investment expense		0.00%
Net investment return		<u>7.50%</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			
	Current Rate	1% lower	Current	1% greater
Net OPEB Liability	7.50%	\$ 7,456,204	\$ 6,418,152	\$5,756,928

  

	Health Care Rate			
	Current Rate	1% lower	Current	1% greater
Net OPEB Liability	4.50%	\$ 5,621,458	\$ 6,418,152	\$7,653,950

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	\$ 6,366,339	\$ 210,097	\$ 6,156,242
Changes for the year:			
Service cost	165,480	-	165,480
Interest	478,107	-	478,107
Difference between expected and actual experience	-	-	-
Change in assumptions	-	-	-
Net investment income	-	11,789	(11,789)
Employer contributions	-	369,888	(369,888)
Benefit payments withdrawn from trust	-	(319,888)	319,888
Benefit payments	(319,888)	-	(319,888)
Net changes	323,699	61,789	261,910
Balances at June 30, 2019	<u>\$ 6,690,038</u>	<u>\$ 271,886</u>	<u>\$ 6,418,152</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 \$63,212. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2019 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 360,428	\$ -
Differences between expected and actual earnings	12,333	-
Changes in assumptions	-	2,746,834
	<u>\$ 372,761</u>	<u>\$ 2,746,834</u>

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

Year Ended June 30,	Amount
2020	\$ (562,777)
2021	(562,775)
2022	(563,802)
2023	(565,681)
2024	(119,038)
Total	<u>\$ (2,374,073)</u>

#### **GASB Statement No. 74**

OPEB Plan disclosures that impact the Town's net OPEB liability using a reporting date of June 30, 2019 are summarized in this section except disclosures under GASB 74 that are identical to GASB 75 are not repeated.

**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 5.48%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### **D. Tax Abatements**

The Town enters into property tax abatements with local businesses as an incentive for economic growth, including expansion of current facilities and job opportunities for local residents. The agreements are commonly referred to as tax increment financing, or TIF, agreements. Under Massachusetts General Law Chapter 40, Section 59, property owners may be granted property tax abatements of up to 100% of the value of a tax increment for a maximum term of twenty years provided the property is located in a TIF zone. TIF zones are approved by the Massachusetts Economic Assistance Coordinating Council. Furthermore, the Town Meeting must approve all TIF agreements.

For the fiscal year ended June 30, 2019, the Town did not abate any property taxes under this program.

#### **E. Commitments and Contingencies**

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 ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2019. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.



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

#### **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 accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$184,500 has been recorded as a liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations. Debt related to closure activities was issued in the form of bonds and has been presented as bonded debt in the Governmental Funds.

#### **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.

#### **H. Prior Period Restatement**

In prior years, the Police Station Construction Fund was classified as a major fund as it satisfied the criteria for such reporting. Since the Police Station was substantially completed at the end of fiscal 2018, it was no longer reported as a major fund during fiscal 2019; therefore, a restatement to reduce the prior year ending Police Station Construction Fund balance by \$22,567 and increase the prior year ending aggregate Nonmajor Fund Balance by this same amount was made.

**TOWN OF SALISBURY, 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)*

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	4.147%	3.767%	3.737%	3.549%	3.657%
Town's proportionate share of the net pension liability	\$ 17,519	\$ 14,180	\$ 14,398	\$ 12,895	\$ 12,408
Town's covered payroll	\$ 5,717	\$ 5,495	\$ 4,885	\$ 4,756	\$ 4,576
Town's proportionate share of the net pension liability as a percentage of its covered payroll	306.4%	258.1%	294.7%	271.1%	271.2%
Plan fiduciary net position as a percentage of the total pension liability	51.89%	55.40%	51.12%	51.01%	52.27%

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN***(dollar amounts are in thousands)*

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,486	\$ 1,266	\$ 1,169	\$ 1,055	\$ 1,006
Contributions in relation to the actuarially determined contribution	<u>1,486</u>	<u>1,266</u>	<u>1,169</u>	<u>1,055</u>	<u>1,006</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 5,717	\$ 5,495	\$ 4,885	\$ 4,756	\$ 4,576
Contributions as a percentage of covered-employee payroll	26.0%	23.0%	23.9%	22.2%	22.0%

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 auditors' report.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

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

	For Year Ended June 30,		
	2019	2018	2017
Total OPEB liability:			
Service cost	\$ 165,480	\$ 325,851	\$ 325,851
Interest	478,107	386,192	368,705
Differences between expected and actual experience	-	531,654	-
Changes in assumptions	-	(4,051,744)	-
Benefit payments	(319,888)	(306,113)	(209,604)
Net change in total OPEB liability	323,699	(3,114,160)	484,952
Total OPEB liability - beginning of year	6,366,339	9,480,499	8,995,547
Total OPEB liability - end of year (a)	<u>\$ 6,690,038</u>	<u>\$ 6,366,339</u>	<u>\$ 9,480,499</u>
Plan fiduciary net position:			
Contributions - employer	\$ 369,888	\$ 356,113	\$ 259,604
Net investment income	11,789	(1,927)	341
Benefit payments	(319,888)	(306,113)	(209,604)
Net change in Plan fiduciary net position	61,789	48,073	50,341
Plan fiduciary net position - beginning of year	210,097	162,024	111,683
Plan fiduciary net position - end of year (b)	<u>\$ 271,886</u>	<u>\$ 210,097</u>	<u>\$ 162,024</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 6,418,152</u>	<u>\$ 6,156,242</u>	<u>\$ 9,318,475</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.06%	3.30%	1.70%
Covered payroll	\$ 5,853,673	\$ 5,655,723	\$ 4,497,990
Net OPEB liability as a percentage of covered payroll	109.64%	108.85%	207.17%

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.

See independent auditors' report.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

**SCHEDULE OF CONTRIBUTIONS - OPEB PLAN  
LAST 10 FISCAL YEARS**

	For Year Ended June 30,		
	2019	2018	2017
Actuarially-determined contribution	\$ 643,587	\$ 712,043	\$ 694,556
Contributions in relation to the actuarially-determined contribution	(369,888)	(356,113)	(259,604)
Contribution deficiency (excess)	<u>\$ 273,699</u>	<u>\$ 355,930</u>	<u>\$ 434,952</u>
Covered payroll	\$ 5,853,673	\$ 5,655,723	\$ 4,497,990
Contribution as a percentage of covered payroll	6.32%	6.30%	5.77%
Valuation Date	July 1, 2018	July 1, 2018	July 1, 2016
Amortization Period	30 years	30 years	30 years
Investment rate of return	7.50%	7.50%	4.00%
Municipal Bond Rate	2.79%	3.45%	3.13%
Discount Rate	7.50%	7.50%	4.00%
Inflation	2.00%	2.00%	2.75%
Healthcare cost trend rates	4.50%	4.50%	5.50%
Salary increases	3.25%	3.25%	4.00%
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 - OPEB PLAN  
LAST 10 FISCAL YEARS**

	For Year Ended June 30,		
	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	5.48%	-1.16%	0.25%

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 SALISBURY, MASSACHUSETTS

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

	Budgeted Amounts		Actual	Continuing	Actual	Variance
	Original	Final	Budgetary	Appropriations and	Budgetary	Positive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
<b>Revenues:</b>						
Property Taxes	\$ 21,436,607	\$ 21,444,200	\$ 21,808,567	\$ -	\$ 21,808,567	\$ 364,367
Intergovernmental	1,209,248	1,209,248	1,221,189	-	1,221,189	11,941
Motor Vehicle and Other Excise	1,852,500	1,852,500	1,897,241	-	1,897,241	44,741
Departmental and Other Revenue	586,330	586,330	748,139	-	748,139	161,809
Licenses and Permits	442,500	442,500	451,467	-	451,467	8,967
Penalties and Interest	75,000	75,000	111,274	-	111,274	36,274
Fines and Forfeitures	163,900	163,900	177,523	-	177,523	13,623
Investment Income	18,000	18,000	40,246	-	40,246	22,246
Total Revenues	25,784,085	25,791,678	26,455,646	-	26,455,646	663,968
<b>Expenditures:</b>						
General government	2,230,091	2,363,637	2,007,316	284,558	2,291,874	71,763
Public safety	5,162,118	5,382,043	5,274,020	20,078	5,294,098	87,945
Education	12,339,454	12,815,411	12,813,355	-	12,813,355	2,056
Public works	1,572,180	1,907,390	1,582,238	186,183	1,768,421	138,969
Health and human services	541,490	531,913	483,213	-	483,213	48,700
Culture and recreation	483,887	463,887	443,749	-	443,749	20,138
Fringe and pension benefits	3,086,948	3,047,730	2,900,893	1,500	2,902,393	145,337
State and county tax assessments	146,264	146,264	146,264	-	146,264	-
Debt service	1,379,230	1,379,230	1,379,011	-	1,379,011	219
Total Expenditures	26,941,662	28,037,505	27,030,059	\$ 492,319	27,522,378	515,127
<b>Other Financing Sources (Uses):</b>						
Transfers in	642,068	843,068	843,068		843,068	-
Transfers out	(25,000)	(141,428)	(141,428)		(141,428)	-
Total Other Financing Sources (Uses)	617,068	701,640	701,640		701,640	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(540,509)	(1,544,187)	\$ 127,227		\$ (365,092)	\$ 1,179,095
<b>Other Budgetary Items:</b>						
Prior year encumbrances	542,316	542,316				
Prior year appropriation deficit	(26,807)	(26,807)				
Free cash transfers	25,000	1,028,678				
Total Other Budgetary Items	540,509	1,544,187				
<b>Net Budget</b>	\$ -	\$ -				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

# TOWN OF SALISBURY, MASSACHUSETTS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2019

### I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Warrant Advisory Committee and approved by the Town members at the Town’s annual meeting in May. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting or the Board of Selectmen however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2019, Town Meeting approved \$1.2 million in supplemental budgetary changes which were funded from free cash and transfers from available funds.

The Finance Director 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:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 26,455,646
Interest earned by stabilization funds	\$ -	\$ 21,074	21,074
Property tax revenue recognition	(2,825)	-	(2,825)
Revenue on a GAAP basis	<u>\$ (2,825)</u>	<u>\$ 21,074</u>	<u>\$ 26,473,895</u>
Expenditures on a budgetary basis			\$ 27,030,059
OPEB contribution	\$ -	\$ 30,000	30,000
Indirect cost allocations	-	(565,012)	(565,012)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (535,012)</u>	<u>\$ 26,495,047</u>
Transfers on a budgetary basis (net)			\$ 701,640
Stabilization transfers	\$ -	\$ (185,000)	(185,000)
OPEB contribution	-	30,000	30,000
Nonmajor account closures	11,541	-	11,541
Indirect cost allocations	-	(565,012)	(565,012)
Transfers on a GAAP basis (net)	<u>\$ 11,541</u>	<u>\$ (720,012)</u>	<u>\$ (6,831)</u>