



TOWN OF SOUTHAMPTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

To the Select Board
Town of Southamton, 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 Southamton, Massachusetts, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 of Southampton, Massachusetts, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

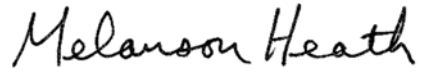
Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2020 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts,

and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive style with a large initial 'M' and 'H'.

April 16, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the financial statements. The basic financial statements comprise of 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 our finances in a manner similar to a private-sector business.

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

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

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

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

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

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

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

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$13,027,593 (i.e., net position), a change of \$1,009,299 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,204,566, a change of \$(429,974) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$747,851, a change of \$50,510 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 6,014,551	\$ 5,274,890	\$ 1,109,042	\$ 1,018,892	\$ 7,123,593	\$ 6,293,782
Capital assets	<u>14,470,861</u>	<u>13,332,283</u>	<u>10,325,547</u>	<u>10,473,499</u>	<u>24,796,408</u>	<u>23,805,782</u>
Total Assets	20,485,412	18,607,173	11,434,589	11,492,391	31,920,001	30,099,564
Deferred outflows of resources	1,624,139	1,183,878	41,863	16,679	1,666,002	1,200,557
Current liabilities	2,485,061	1,368,437	400,333	379,649	2,885,394	1,748,086
Noncurrent liabilities	<u>14,267,115</u>	<u>13,202,801</u>	<u>1,312,709</u>	<u>1,378,204</u>	<u>15,579,824</u>	<u>14,581,005</u>
Total Liabilities	16,752,176	14,571,238	1,713,042	1,757,853	18,465,218	16,329,091
Deferred inflows of resources	2,063,155	2,912,093	30,037	40,643	2,093,192	2,952,736
Net investment in capital assets	12,383,501	11,709,680	9,093,862	9,147,695	21,477,363	20,857,375
Restricted	3,082,306	3,164,485	-	-	3,082,306	3,164,485
Unrestricted	<u>(12,171,587)</u>	<u>(12,566,445)</u>	<u>639,511</u>	<u>562,879</u>	<u>(11,532,076)</u>	<u>(12,003,566)</u>
Total Net Position	<u>\$ 3,294,220</u>	<u>\$ 2,307,720</u>	<u>\$ 9,733,373</u>	<u>\$ 9,710,574</u>	<u>\$ 13,027,593</u>	<u>\$ 12,018,294</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$13,027,593, a change of \$1,009,299 in comparison to the prior year.

The largest portion of net position, \$21,477,363, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$3,082,306, represents resources that are subject to external restrictions and internal designations on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(11,532,076), primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Program revenues:						
Charges for services	\$ 945,748	\$ 987,918	\$ 931,542	\$ 952,994	\$ 1,877,290	\$ 1,940,912
Operating grants and contributions	5,082,449	5,057,885	-	-	5,082,449	5,057,885
Capital grants and contributions	96,481	566,822	-	-	96,481	566,822
General revenues:						
Property taxes	12,442,819	11,684,666	-	-	12,442,819	11,684,666
Excises	1,035,059	1,022,243	-	-	1,035,059	1,022,243
Penalties, interest and other taxes	266,590	220,223	-	-	266,590	220,223
Grants and contributions not restricted to specific programs	674,495	652,216	-	-	674,495	652,216
Investment income	33,984	19,945	2,205	1,418	36,189	21,363
Miscellaneous	4,005	47,992	62,171	58,339	66,176	106,331
Total Revenues	20,581,630	20,259,910	995,918	1,012,751	21,577,548	21,272,661
Expenses						
General government	913,412	1,033,880	-	-	913,412	1,033,880
Public safety	2,766,068	2,847,656	-	-	2,766,068	2,847,656
Education	13,972,905	13,631,395	-	-	13,972,905	13,631,395
Public works	1,178,164	1,758,300	-	-	1,178,164	1,758,300
Health and human services	195,910	192,695	-	-	195,910	192,695
Culture and recreation	379,520	281,647	-	-	379,520	281,647
Interest on long-term debt	65,186	70,038	-	-	65,186	70,038
Intergovernmental	123,965	90,411	-	-	123,965	90,411
Water	-	-	808,415	601,157	808,415	601,157
Transfer station	-	-	164,704	161,929	164,704	161,929
Total Expenses	19,595,130	19,906,022	973,119	763,086	20,568,249	20,669,108
Change in Net Position	986,500	353,888	22,799	249,665	1,009,299	603,553
Net Position - Beginning of Year	2,307,720	1,953,832	9,710,574	9,460,909	12,018,294	11,414,741
Net Position - End of Year	<u>\$ 3,294,220</u>	<u>\$ 2,307,720</u>	<u>\$ 9,733,373</u>	<u>\$ 9,710,574</u>	<u>\$ 13,027,593</u>	<u>\$ 12,018,294</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$986,500. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 278,248
Major fund - Community preservation fund expenditures in excess of revenues	(187,232)
Major fund - Other special revenue funds expenditures and transfers out in excess of revenues	(30,234)
Major fund - Capital project expenditures and transfers out in excess of transfers in	(621,207)
Non-major fund revenues and transfers in in excess of expenditures	130,451
Depreciation expense in excess of principal debt service	(267,638)
Capital assets purchases from grant and general resources	1,583,066
Change in net pension liability, net of deferrals	102,564
Change in net OPEB liability, net of deferrals	(67,389)
Other timing differences	<u>65,871</u>
Total	<u>\$ 986,500</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$22,799. Key elements of this change are as follows:

Water operations	\$ (12,186)
Transfer station operations	<u>34,985</u>
Change in Net Position	<u>\$ 22,799</u>

D. FINANCIAL ANALYSIS OF FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$3,204,566, a change of \$(429,974) in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed below	\$ 278,248
Major fund - Community preservation fund expenditures in excess of revenues	(187,232)
Major fund - Other special revenue funds expenditures and transfers out in excess of revenues	(30,234)
Major fund - Capital project expenditures and transfers out in excess of transfers in	(621,207)
Non-major fund revenues and transfers in in excess of expenditures	<u>130,451</u>
Total	<u>\$ (429,974)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$747,851, while total fund balance was \$1,087,500. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>% of Total 2019 General Fund Expenditures</u>
Unassigned Fund Balance	\$ 747,851	\$ 697,341	\$ 50,510	4.2%
Total Fund Balance	\$ 1,087,500	\$ 809,252	\$ 278,248	6.2%

The total fund balance of the general fund changed by \$278,248 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Shortfall of tax collections compared to budget	\$ (12,262)
State and local revenues over budget	93,552
Budgetary appropriations unspent by departments	97,577
Use of free cash and overlay surplus as a funding source	(240,731)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	9,969
Other use - appropriation deficit	7,254
Budget variance	120,401
Change in Stabilization funds	<u>202,488</u>
Total	<u>\$ 278,248</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
Ambulance stabilization fund	\$ 77,736	\$ 76,770	\$ 966
Capital stabilization fund	206,294	17,545	188,749
Operating stabilization fund	<u>386,459</u>	<u>373,686</u>	<u>12,773</u>
Total	<u>\$ 670,489</u>	<u>\$ 468,001</u>	<u>\$ 202,488</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$639,511, a change of \$76,632 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$303,731. Major reasons for these amendments include:

Transfers to:		
Capital stabilization fund	\$	106,846
Operating stabilization fund		91,582
Contribution to OPEB trust fund		30,527
Increase in general government budget		43,276
Increase in public safety budget		2,000
Increase in public works budget		27,000
Increase in health and human services budget		<u>2,500</u>
Total	\$	<u>303,731</u>

Of this increase, \$240,731 was funded by free cash, \$34,000 was funded by public access TV revenue, \$27,000 was funded by a transfer from the operating stabilization fund, and \$2,000 was funded by a transfer from the ambulance special revenue fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$24,796,408 (net of accumulated depreciation). This

investment in capital assets includes land, construction in progress, buildings and improvements, and machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Depreciation expense - governmental activities	\$	(444,488)
Depreciation expense - business-type activities		(171,759)
Departmental vehicles and equipment		
General government		65,455
Public safety		6,297
Water		42,272
Land		
Pomeroy Meadow Rd		612,500
Glendale Rd		688,982
Disposals - business type		(18,465)
Construction in progress		209,832

Long-term debt. At the end of the current fiscal year, total long-term debt outstanding was \$2,433,235 , all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Southampton'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:

Ms. Vicki Leigh-Moro
Town Accountant
Town of Southampton
210 College Highway
Southampton, MA 01073

TOWN OF SOUTHAMPTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 2,957,879	\$ 1,000,152	\$ 3,958,031
Investments	1,680,318	-	1,680,318
Receivables, net of allowance for uncollectible:			
Property taxes	152,102	-	152,102
Excises	97,749	-	97,749
User fees	47,453	108,890	156,343
Departmental and other	36,525	-	36,525
Intergovernmental	820,996	-	820,996
Loans	10,847	-	10,847
Noncurrent:			
Property taxes	154,250	-	154,250
Loans	56,432	-	56,432
Land and construction in progress	9,765,629	548,500	10,314,129
Capital assets, net of accumulated depreciation	4,705,232	9,777,047	14,482,279
Deferred Outflows of Resources			
Related to pensions	915,859	34,202	950,061
Related to OPEB	708,280	7,661	715,941
	<hr/>	<hr/>	<hr/>
Total Assets and Deferred Outflows of Resources	22,109,551	11,476,452	33,586,003
Liabilities			
Current:			
Warrants payable	298,443	32,454	330,897
Accounts payable	58,964	-	58,964
Accrued payroll	477,663	-	477,663
Accrued interest payable	-	24,080	24,080
Notes payable	1,473,141	151,844	1,624,985
Current portion of long-term liabilities:			
Notes payable	26,450	-	26,450
Bonds payable	150,400	181,070	331,470
Other	-	10,885	10,885
Noncurrent:			
Bonds payable, net of current portion	1,160,200	915,115	2,075,315
Net pension liability	6,858,225	256,116	7,114,341
Net OPEB liability	6,096,658	65,940	6,162,598
Other, net of current portion	152,032	75,538	227,570
Deferred Inflows of Resources			
Related to pensions	291,096	10,871	301,967
Related to OPEB	1,772,059	19,166	1,791,225
	<hr/>	<hr/>	<hr/>
Total Liabilities and Deferred Inflows of Resources	18,815,331	1,743,079	20,558,410
Net Position			
Net investment in capital assets	12,383,501	9,093,862	21,477,363
Restricted for:			
Grants and other statutory restrictions	2,576,558	-	2,576,558
Permanent funds:			
Nonexpendable	365,317	-	365,317
Expendable	140,431	-	140,431
Unrestricted	(12,171,587)	639,511	(11,532,076)
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 3,294,220	\$ 9,733,373	\$ 13,027,593

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General government	\$ 913,412	\$ 163,904	\$ 208,618	\$ -	\$ (540,890)	\$ -	\$ (540,890)
Public safety	2,766,068	578,546	50,991	-	(2,136,531)	-	(2,136,531)
Education	13,972,905	191,393	4,204,931	-	(9,576,581)	-	(9,576,581)
Public works	1,178,164	8,540	43,777	96,481	(1,029,366)	-	(1,029,366)
Health and human services	195,910	3,365	138,746	-	(53,799)	-	(53,799)
Culture and recreation	379,520	-	435,386	-	55,866	-	55,866
Interest	65,186	-	-	-	(65,186)	-	(65,186)
Intergovernmental	<u>123,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,965)</u>	<u>-</u>	<u>(123,965)</u>
Total Governmental Activities	19,595,130	945,748	5,082,449	96,481	(13,470,452)	-	(13,470,452)
Business-Type Activities							
Water services	808,415	743,988	-	-	-	(64,427)	(64,427)
Transfer station services	<u>164,704</u>	<u>187,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,850</u>	<u>22,850</u>
Total Business-Type Activities	<u>973,119</u>	<u>931,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,577)</u>	<u>(41,577)</u>
Total	<u>\$ 20,568,249</u>	<u>\$ 1,877,290</u>	<u>\$ 5,082,449</u>	<u>\$ 96,481</u>	(13,470,452)	(41,577)	(13,512,029)
General Revenues							
					12,442,819	-	12,442,819
					1,035,059	-	1,035,059
					266,590	-	266,590
					674,495	-	674,495
					33,984	2,205	36,189
					<u>4,005</u>	<u>62,171</u>	<u>66,176</u>
Total General Revenues					<u>14,456,952</u>	<u>64,376</u>	<u>14,521,328</u>
Change in Net Position					986,500	22,799	1,009,299
Net Position							
Beginning of Year					<u>2,307,720</u>	<u>9,710,574</u>	<u>12,018,294</u>
End of Year					<u>\$ 3,294,220</u>	<u>\$ 9,733,373</u>	<u>\$ 13,027,593</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and short-term investments	\$ 1,412,671	\$ 380,271	\$ 572,256	\$ 77,231	\$ 515,450	\$ 2,957,879
Investments	77,187	1,124,652	-	-	478,479	1,680,318
Receivables:						
Property taxes	147,504	4,598	-	-	-	152,102
Tax liens	154,250	-	-	-	-	154,250
Excises	97,749	-	-	-	-	97,749
User fees, net of allowance for uncollectible	-	-	47,453	-	-	47,453
Departmental and other	-	-	-	-	36,525	36,525
Intergovernmental	282,516	-	409,450	-	129,030	820,996
Loans	-	-	67,279	-	-	67,279
Total Assets	<u>\$ 2,171,877</u>	<u>\$ 1,509,521</u>	<u>\$ 1,096,438</u>	<u>\$ 77,231</u>	<u>\$ 1,159,484</u>	<u>\$ 6,014,551</u>
Liabilities						
Warrants payable	\$ 260,479	\$ -	\$ -	\$ -	\$ 37,964	\$ 298,443
Accounts payable	-	-	-	-	58,964	58,964
Accrued payroll	441,454	-	-	-	36,209	477,663
Notes payable	-	-	550,000	923,141	-	1,473,141
Total Liabilities	701,933	-	550,000	923,141	133,137	2,308,211
Deferred Inflows of Resources						
Unavailable revenues	382,444	4,598	114,732	-	-	501,774
Fund Balances						
Nonspendable	-	-	-	-	365,317	365,317
Restricted	-	-	431,706	-	661,030	1,092,736
Committed	284,030	1,504,923	-	-	-	1,788,953
Assigned	55,619	-	-	-	-	55,619
Unassigned	<u>747,851</u>	<u>-</u>	<u>-</u>	<u>(845,910)</u>	<u>-</u>	<u>(98,059)</u>
Total Fund Balances	<u>1,087,500</u>	<u>1,504,923</u>	<u>431,706</u>	<u>(845,910)</u>	<u>1,026,347</u>	<u>3,204,566</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,171,877</u>	<u>\$ 1,509,521</u>	<u>\$ 1,096,438</u>	<u>\$ 77,231</u>	<u>\$ 1,159,484</u>	<u>\$ 6,014,551</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION**

JUNE 30, 2019

Total Governmental Fund Balances	\$	3,204,566
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		14,470,861
Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible) and are not deferred until collection.		501,774
Long-term liabilities, including bonds payable, net pension liability and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.		(14,730,949)
Other		<u>(152,032)</u>
Net Position of Governmental Activities	\$	<u><u>3,294,220</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2019

	General	Community Preservation Fund	Other Special Revenue Funds	Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 12,176,259	\$ 236,931	\$ -	\$ -	\$ -	\$ 12,413,190
Excises	1,015,537	-	-	-	-	1,015,537
Penalties, interest and other taxes	242,680	23,910	-	-	-	266,590
Charges for services	98,831	-	196,292	-	408,886	704,009
Intergovernmental	4,008,046	127,497	517,746	-	713,554	5,366,843
Licenses and permits	237,719	-	-	-	-	237,719
Fines and forfeitures	4,816	-	-	-	-	4,816
Investment income	26,776	-	-	-	7,208	33,984
Miscellaneous	3,395	-	610	-	-	4,005
Total Revenues	17,814,059	388,338	714,648	-	1,129,648	20,046,693
Expenditures						
Current:						
General government	643,461	3,344	63,126	15,000	1,144	726,075
Public safety	1,826,044	-	49,940	4,800	217,786	2,098,570
Education	11,533,627	-	1,500	37,900	633,211	12,206,238
Public works	853,783	2,761	-	-	95,056	951,600
Health and human services	117,921	-	17,746	-	22,928	158,595
Culture and recreation	165,377	569,465	419,954	619,422	34,287	1,808,505
Employee benefits	2,161,083	-	-	-	-	2,161,083
Debt service	242,036	-	-	-	-	242,036
Intergovernmental	123,965	-	-	-	-	123,965
Total Expenditures	17,667,297	575,570	552,266	677,122	1,004,412	20,476,667
Excess (Deficiency) of Revenues Over Expenditures	146,762	(187,232)	162,382	(677,122)	125,236	(429,974)
Other Financing Sources (Uses)						
Transfers in	203,986	-	-	137,500	5,215	346,701
Transfers out	(72,500)	-	(192,616)	(81,585)	-	(346,701)
Total Other Financing Sources (Uses)	131,486	-	(192,616)	55,915	5,215	-
Change in Fund Balance	278,248	(187,232)	(30,234)	(621,207)	130,451	(429,974)
Fund Balance, at Beginning of Year, as reclassified	809,252	1,692,155	461,940	(224,703)	895,896	3,634,540
Fund Balance, at End of Year	\$ 1,087,500	\$ 1,504,923	\$ 431,706	\$ (845,910)	\$ 1,026,347	\$ 3,204,566

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

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

Net Change in Fund Balances - Total Governmental Funds \$ (429,974)

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

Capital outlay	1,583,066
Depreciation	(444,488)

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

Repayments of debt	176,850
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Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectible.

53,011

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

Net pension liability and related deferred outflows and inflows of resources	(67,389)
Net OPEB liability and related deferred outflows and inflows of resources	102,564

Other	<u>12,860</u>
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Change in Net Position of Governmental Activities \$ 986,500

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Property taxes	\$ 12,188,521	\$ 12,188,521	\$ 12,188,521	\$ -
Excises	1,022,500	1,022,500	1,015,537	(6,963)
Penalties, interest and other taxes	188,000	188,000	242,680	54,680
Charges for services	90,533	90,533	98,831	8,298
Intergovernmental	3,333,435	3,367,435	3,425,674	58,239
Licenses and permits	235,998	235,998	237,719	1,721
Fines and forfeitures	12,000	12,000	4,816	(7,184)
Investment income	6,500	6,500	19,178	12,678
Miscellaneous	-	-	3,395	3,395
Total Revenues	17,077,487	17,111,487	17,236,351	124,864
Expenditures				
General government	672,969	679,701	648,395	31,306
Public safety	1,869,600	1,871,600	1,834,274	37,326
Education	10,937,247	10,937,247	10,944,697	(7,450)
Public works	853,081	882,625	856,976	25,649
Health and human services	125,944	128,444	118,138	10,306
Culture and recreation	133,258	167,258	165,330	1,928
Employee benefits	2,131,923	2,162,450	2,161,083	1,367
Debt service	242,036	242,036	242,036	-
Intergovernmental	121,110	121,110	123,965	(2,855)
Total Expenditures	17,087,168	17,192,471	17,094,894	97,577
Excess (Deficiency) of Revenues Over Expenditures	(9,681)	(80,984)	141,457	222,441
Other Financing Sources/Uses				
Transfers in	137,336	166,336	135,024	(31,312)
Transfers out	-	(198,428)	(198,428)	-
Use of free cash:				
Operating budget	-	11,776	-	(11,776)
Transfer to Stabilization funds	-	198,428	-	(198,428)
Contribution to OPEB trust fund	-	30,527	-	(30,527)
Other uses	(7,254)	(7,254)	-	7,254
Total Other Financing Sources/Uses	130,082	201,385	(63,404)	(264,789)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$ 120,401 *	\$ 120,401 *	\$ 78,053	\$ (42,348)

* The revenue and expenditure budgets adopted and reported by the Town did not balance.

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Assets			
Current:			
Cash and short-term investments	\$ 952,065	\$ 48,087	\$ 1,000,152
User fees, net of allowance for uncollectible	<u>108,890</u>	<u>-</u>	<u>108,890</u>
Total Current Assets	1,060,955	48,087	1,109,042
Noncurrent:			
Land	368,900	179,600	548,500
Capital assets, net of accumulated depreciation	<u>9,770,460</u>	<u>6,587</u>	<u>9,777,047</u>
Total Noncurrent Assets	10,139,360	186,187	10,325,547
Deferred Outflows of Resources			
Related to pensions	28,977	5,225	34,202
Related to OPEB	<u>7,661</u>	<u>-</u>	<u>7,661</u>
Total Assets and Deferred Outflows of Resources	11,236,953	239,499	11,476,452
Liabilities			
Current:			
Warrants payable	22,453	10,001	32,454
Accrued interest payable	24,080	-	24,080
Notes payable	151,844	-	151,844
Current portion of long-term liabilities:			
Bonds payable	161,070	20,000	181,070
Other	<u>-</u>	<u>10,885</u>	<u>10,885</u>
Total Current Liabilities	359,447	40,886	400,333
Noncurrent:			
Bonds payable, net of current portion	915,115	-	915,115
Net pension liability	216,987	39,129	256,116
Net OPEB liability	65,940	-	65,940
Other, net of current portion	<u>10,228</u>	<u>65,310</u>	<u>75,538</u>
Total Noncurrent Liabilities	1,208,270	104,439	1,312,709
Deferred Inflows of Resources			
Related to pensions	9,210	1,661	10,871
Related to OPEB	<u>19,166</u>	<u>-</u>	<u>19,166</u>
Total Liabilities and Deferred Inflows of Resources	1,596,093	146,986	1,743,079
Net Position			
Net investment in capital assets	8,907,675	186,187	9,093,862
Unrestricted	<u>733,185</u>	<u>(93,674)</u>	<u>639,511</u>
Total Net Position	\$ <u>9,640,860</u>	\$ <u>92,513</u>	\$ <u>9,733,373</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Operating Revenues			
Charges for services	\$ 726,716	\$ 187,554	\$ 914,270
Other	<u>17,272</u>	<u>-</u>	<u>17,272</u>
Total Operating Revenues	743,988	187,554	931,542
Operating Expenses			
Salaries and benefits	238,153	32,199	270,352
Other operating expenses	336,381	130,469	466,850
Depreciation	<u>171,258</u>	<u>501</u>	<u>171,759</u>
Total Operating Expenses	<u>745,792</u>	<u>163,169</u>	<u>908,961</u>
Operating Income (Loss)	(1,804)	24,385	22,581
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	50,040	12,131	62,171
Investment income	2,201	4	2,205
Interest expense	<u>(62,623)</u>	<u>(1,535)</u>	<u>(64,158)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(10,382)</u>	<u>10,600</u>	<u>218</u>
Change in Net Position	(12,186)	34,985	22,799
Net Position, at Beginning of Year	<u>9,653,046</u>	<u>57,528</u>	<u>9,710,574</u>
Net Position, at End of Year	\$ <u><u>9,640,860</u></u>	\$ <u><u>92,513</u></u>	\$ <u><u>9,733,373</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Enterprise Funds		
	Water	Transfer Station	Total
	Fund	Fund	Fund
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 730,495	\$ 187,554	\$ 918,049
Payments to vendors and employees	<u>(477,166)</u>	<u>(159,553)</u>	<u>(636,719)</u>
Net Cash Provided By Operating Activities	253,329	28,001	281,330
Cash Flows From Noncapital Financing Activities			
Intergovernmental receipt	<u>50,040</u>	<u>12,131</u>	<u>62,171</u>
Net Cash Provided By Noncapital Financing Activities	50,040	12,131	62,171
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(23,807)	-	(23,807)
Principal payments on bonds and notes	(159,453)	(20,000)	(179,453)
Interest expense	<u>(64,254)</u>	<u>(1,535)</u>	<u>(65,789)</u>
Net Cash (Used For) Capital and Related Financing Activities	(247,514)	(21,535)	(269,049)
Cash Flows From Investing Activities			
Investment income	<u>2,201</u>	<u>4</u>	<u>2,205</u>
Net Cash Provided By Investing Activities	<u>2,201</u>	<u>4</u>	<u>2,205</u>
Net Change in Cash and Short-Term Investments	58,056	18,601	76,657
Cash and Short Term Investments, Beginning of Year	<u>894,009</u>	<u>29,486</u>	<u>923,495</u>
Cash and Short Term Investments, End of Year	<u>\$ 952,065</u>	<u>\$ 48,087</u>	<u>\$ 1,000,152</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities			
Operating income (loss)	\$ (1,804)	\$ 24,385	\$ 22,581
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	171,258	501	171,759
Changes in assets, liabilities, and deferred outflows/inflows:			
User fees	(13,493)	-	(13,493)
Deferred outflows - related to pensions	(23,134)	(3,629)	(26,763)
Deferred outflows - related to OPEB	1,579	-	1,579
Warrants payable and accrued liabilities	15,193	10,001	25,194
Landfill liability	-	(10,885)	(10,885)
Net pension liability	109,442	9,745	119,187
Net OPEB liability	2,777	-	2,777
Deferred inflows - related to pensions	(4,619)	(2,117)	(6,736)
Deferred inflows - related to OPEB	<u>(3,870)</u>	<u>-</u>	<u>(3,870)</u>
Net Cash Provided By Operating Activities	<u>\$ 253,329</u>	<u>\$ 28,001</u>	<u>\$ 281,330</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency Funds
Assets		
Cash and short-term investments	\$ 31,036	\$ 17,485
Investments in:		
Certificates of deposit	-	10,744
Corporate bonds	-	46,603
Corporate equities	127,939	12,745
Federal agency securities	-	41,975
Mutual funds	67,413	-
U.S. Treasury notes	<u>-</u>	<u>25,667</u>
Total Investments	<u>195,352</u>	<u>137,734</u>
Total Assets	226,388	155,219
Liabilities		
Other liabilities	<u>-</u>	<u>155,219</u>
Total Liabilities	<u>-</u>	<u>\$ 155,219</u>
Net Position		
Restricted for OPEB purposes	\$ <u>226,388</u>	

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

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

	<u>Other Post- Employment Benefits Trust Fund</u>
Additions	
Contributions	\$ 242,109
Interest income	<u>14,092</u>
Total Additions	256,201
 Deductions	
Benefit payments to plan members and beneficiaries	<u>211,582</u>
Net Increase	44,619
 Net Position Restricted for OPEB Purposes:	
Beginning of Year	<u>181,769</u>
End of Year	<u>\$ 226,388</u>

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

Town of Southamptton, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Southamptton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major

individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *community preservation fund* is a fund authorized by Massachusetts General Laws Chapter 44B, under which the Town receives State aid and assesses taxpayers a surcharge on real property. Within certain limits, the

Town may appropriate funds from this account for various purposes that fall under the categories of open space, historic preservation or community housing.

- The *other special revenue funds* are used to account for the receipt and expenditure of certain Town grant and revolving funds. These include ambulance, PEG programming, and the septic betterment/loan funds.
- The *capital project fund* is used to account for various capital projects of the Town.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water enterprise fund*, which accounts for operations of the Town's water delivery system.
- The *transfer station enterprise fund*, which accounts for the operations of the Town's landfill.

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

The Town reports the following fiduciary funds:

- The *other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

Investments consist of certificates of deposit, corporate bonds, corporate equities, federal agency securities, mutual funds and U.S. Treasury notes. These investments are not carried at fair value by the Town; however, adjustments have been made to report them at fair value, except certificates of deposit, which are reported at cost.

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5% (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$3,954.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	40
Building improvements	40
Water infrastructure	100
Vehicles and equipment	5 - 10

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal

level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
GAAP basis	\$ 17,814,059	\$ 17,667,297	\$ 131,486
Remove the effect of adding the Town's Stabilization fund(s) per GASB 54	(7,598)	-	(194,890)
Adjust tax revenue to accrual basis	12,262	-	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(17,596)	-
Add end of year appropriation carryforwards to expenditures	-	27,565	-
Reverse the effect on non-budgeted State contributions for teachers retirement	<u>(582,372)</u>	<u>(582,372)</u>	<u>-</u>
Budgetary Basis	\$ <u>17,236,351</u>	\$ <u>17,094,894</u>	\$ <u>(63,404)</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Education	\$ (7,450)
Intergovernmental	(2,855)

E. Deficit Fund Equity

The Town's capital project fund reflected a deficit balance of \$(845,910) as of June 30, 2019. It is anticipated that the deficit in this fund will be eliminated through future bond proceeds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding 60% of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2019, \$755,621 of the Town's bank balance of \$4,254,924 was exposed to custodial credit risk as it represents the Town's deposit in repurchase agreements. These deposits are held by the bank's counterparty and are not in the name of the Town.

4. Investments – Town

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

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposit	\$ 141,825
Corporate bonds	615,152
Corporate equities	168,228
Federal agency securities	554,056
U.S. Treasury notes	<u>338,791</u>
Total Investments	\$ <u>1,818,052</u>

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town does not have a formal investment policy related to credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Unrated</u>	<u>Rating as of Year End</u>		
			<u>Aaa</u>	<u>A1/A2/A3</u>	<u>Baa1/2</u>
Certificates of deposit	\$ 141,825	\$ 141,825	\$ -	\$ -	\$ -
Corporate bonds	<u>615,152</u>	<u>-</u>	<u>43,037</u>	<u>303,131</u>	<u>268,984</u>
Total	\$ <u>756,977</u>	\$ <u>141,825</u>	\$ <u>43,037</u>	\$ <u>303,131</u>	\$ <u>268,984</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have a formal investment policy related to custodial credit risk.

As of June 30, 2019, none of the Town's investments were exposed to custodial credit risk exposure.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have a formal investment policy related to concentration of credit risk exposure.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1 year</u>	<u>1-5 years</u>
Certificates of deposit	\$ 141,825	\$ 91,785	\$ 50,040
Corporate bonds	615,152	172,937	442,215
Federal agency securities	554,056	-	554,056
U.S. Treasury notes	<u>338,791</u>	<u>268,847</u>	<u>69,944</u>
Total	\$ <u>1,649,824</u>	\$ <u>533,569</u>	\$ <u>1,116,255</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy for foreign currency risk.

F. Fair Value

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

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

categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

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

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

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

<u>Description</u>	<u>Amount</u>	in active markets for identical assets <u>(Level 1)</u>	Significant observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Investments by fair value level:				
Corporate bonds	\$ 615,152	\$ -	\$ 615,152	\$ -
Corporate equities	168,228	168,228	-	-
Federal agency securities	554,056	-	554,056	-
U.S. Treasury notes	<u>338,791</u>	<u>-</u>	<u>338,791</u>	<u>-</u>
Total	\$ <u>1,676,227</u>	\$ <u>168,228</u>	\$ <u>1,507,999</u>	\$ <u>-</u>

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

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

5. Investments – OPEB Trust Fund

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

<u>Investment Type</u>	<u>Amount</u>
Corporate equities	\$ 139,951
Mutual funds	<u>55,401</u>
Total Investments	\$ <u>195,352</u>

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Town adopted an investment policy specific to OPEB trust fund investments in March 2018. The Town's OPEB Trust Fund’s investment policies related to credit risk are to only purchase investment grade securities. There is no limit on the amount of U.S. Treasury and U.S government agency obligations.

All of the Town's investments in mutual funds and corporate equities are exempt from credit risk disclosure.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The OPEB Trust Fund's investment policy on custodial credit risk is to review the financial institution’s financial statements to limit the Town’s exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town’s name and tax identification number by a third-party custodian.

As of June 30, 2019, none of the OPEB Trust Fund’s total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the OPEB Trust Fund’s brokerage firm, which is also the counterparty to these securities.

C. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund's investment policy manages concentration of credit risk by diversifying the investment portfolio.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The OPEB Trust Fund's policy related to interest rate risk limits and monitors investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

All of the Town's investments in mutual funds and corporate equities are exempt from interest rate risk disclosure.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Per the OPEB Trust Fund's investment policy, there are no policies specific to foreign currency risk.

F. Fair Value

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

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

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not

considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.

- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

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

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

Description	Amount	Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Corporate equities	\$ 139,951	\$ 139,951	\$ -	\$ -
Mutual funds	<u>55,401</u>	<u>55,401</u>	<u>-</u>	<u>-</u>
Total	\$ <u>195,352</u>	\$ <u>195,352</u>	\$ <u>-</u>	\$ <u>-</u>

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

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

6. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor’s

for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Property taxes and excises receivable at June 30, 2019 consist of the following:

	<u>Total</u>
Real estate taxes	\$ 143,143
Personal property taxes	4,361
Community preservation act	4,598
Tax liens	<u>154,250</u>
Total Property Taxes	306,352
Less current portion:	<u>(152,102)</u>
Noncurrent Taxes Receivable	<u>\$ 154,250</u>
Motor vehicle excise	96,950
Other excise	<u>799</u>
Total Excises	<u>\$ 97,749</u>

7. User Fee Receivables

Receivables for user charges at June 30, 2019 consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Governmental Activities			
Ambulance	\$ <u>138,517</u>	\$ <u>(91,064)</u>	\$ <u>47,453</u>
Business-Type Activities			
Water charges	\$ 105,188	\$ -	\$ 105,188
Water liens/tax title	<u>3,702</u>	<u>-</u>	<u>3,702</u>
Total Business-Type	\$ <u>108,890</u>	\$ <u>-</u>	\$ <u>108,890</u>

8. Intergovernmental Receivables

The balance reported in the general fund represents late State aid, which was received in July 2019. The balance in other special revenue funds and nonmajor governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019.

9. Loans Receivable

This balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

10. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 27,672,557	\$ -	\$ -	\$ 27,672,557
Machinery, equipment and furnishings	3,752,058	71,752	-	3,823,810
Infrastructure	<u>67,699</u>	<u>-</u>	<u>-</u>	<u>67,699</u>
Total capital assets, being depreciated	31,492,314	71,752	-	31,564,066
Less accumulated depreciation for:				
Buildings and improvements	(23,629,546)	(207,505)	-	(23,837,051)
Machinery, equipment and furnishings	(2,774,645)	(233,598)	-	(3,008,243)
Infrastructure	<u>(10,155)</u>	<u>(3,385)</u>	<u>-</u>	<u>(13,540)</u>
Total accumulated depreciation	<u>(26,414,346)</u>	<u>(444,488)</u>	<u>-</u>	<u>(26,858,834)</u>
Total capital assets, being depreciated, net	5,077,968	(372,736)	-	4,705,232
Capital assets, not being depreciated:				
Land	8,234,600	1,301,482	-	9,536,082
Construction in progress (CIP)	<u>19,715</u>	<u>209,832</u>	<u>-</u>	<u>229,547</u>
Total capital assets, not being depreciated	<u>8,254,315</u>	<u>1,511,314</u>	<u>-</u>	<u>9,765,629</u>
Governmental activities capital assets, net	<u>\$ 13,332,283</u>	<u>\$ 1,138,578</u>	<u>\$ -</u>	<u>\$ 14,470,861</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,341,348	\$ -	\$ -	\$ 1,341,348
Machinery, equipment and furnishings	123,166	42,272	(30,775)	134,663
Infrastructure	<u>12,441,266</u>	<u>-</u>	<u>-</u>	<u>12,441,266</u>
Total capital assets, being depreciated	13,905,780	42,272	(30,775)	13,917,277
Less accumulated depreciation for:				
Buildings and improvements	(1,167,168)	(32,317)	-	(1,199,485)
Machinery, equipment, and furnishings	(67,746)	(15,029)	12,310	(70,465)
Infrastructure	<u>(2,745,867)</u>	<u>(124,413)</u>	<u>-</u>	<u>(2,870,280)</u>
Total accumulated depreciation	<u>(3,980,781)</u>	<u>(171,759)</u>	<u>12,310</u>	<u>(4,140,230)</u>
Total capital assets, being depreciated, net	9,924,999	(129,487)	(18,465)	9,777,047
Capital assets, not being depreciated:				
Land	<u>548,500</u>	<u>-</u>	<u>-</u>	<u>548,500</u>
Total capital assets, not being depreciated	<u>548,500</u>	<u>-</u>	<u>-</u>	<u>548,500</u>
Business-type activities capital assets, net	<u>\$ 10,473,499</u>	<u>\$ (129,487)</u>	<u>\$ (18,465)</u>	<u>\$ 10,325,547</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities	
General government	\$ 125,999
Public safety	135,457
Education	47,790
Public works	88,049
Health and human services	5,431
Culture and recreation	<u>41,762</u>
Total Governmental Activities	\$ <u>444,488</u>
Business-Type Activities	
Water	\$ 171,258
Transfer Station	<u>501</u>
Total Business-Type Activities	\$ <u>171,759</u>

11. Deferred Outflows of Resources

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

12. Warrants and Accounts Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019. Accounts payable represent additional 2019 expenditures paid after July 15, 2019.

13. Notes Payable

The Town had the following notes outstanding at June 30, 2019:

<u>Purpose</u>	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance</u>
Bond anticipation	2.30%	04/01/19	04/01/20	\$ 414,985
Land acquisition	2.05%	06/26/19	05/25/20	1,060,000
MCWT septic program note	0.00%	05/21/15	10/24/19	<u>150,000</u>
Total				\$ <u>1,624,985</u>

* The maturity date for the MCWT Septic note is the date the note will be converted to a long-term note.

The following summarizes activity in notes payable during fiscal year 2019:

<u>Purpose</u>	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 471,837	\$ 414,985	\$ (471,837)	\$ 414,985
Land acquisition	-	1,060,000	-	1,060,000
MCWT septic program note	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total	\$ <u>621,837</u>	\$ <u>1,474,985</u>	\$ <u>(471,837)</u>	\$ <u>1,624,985</u>

14. Long-Term Debt

A. General Obligation Bonds and Notes from Direct Borrowings

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

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of <u>June 30, 2019</u>
Governmental Activities			
Bonds Payable:			
MWPAT - Pequot Pond Sewer	08/01/19	1.0 - 2.0	\$ 20,000
MWPAT - Title V Loans	08/01/20	1.0 - 2.0	20,600
MWPAT - Septic Betterment	07/15/25	-	52,500
MWPAT - Septic Betterment	07/15/27	-	22,500
Larrabee Renovation	06/30/30	2.0 - 5.0	1,195,000
Notes Payable:			
Fire department truck *	2020	4.25	<u>26,450</u>
Total Governmental Activities			\$ <u>1,337,050</u>
Business-Type Activities			
Bonds Payable:			
MWPAT - Landfill capping	08/01/19	1.0 - 2.0	\$ 20,000
MWPAT - Country Road (Water)	08/01/19	1.0 - 2.0	65,000
MWPAT - Water system upgrade	08/01/22	1.0 - 2.0	270,000
Water system expansion (RDA Loan)	04/06/33	5.63	287,291
Water system expansion # 3 (RDA Loan)	10/01/35	5.38	<u>453,894</u>
Total Business-Type Activities			\$ <u>1,096,185</u>

* This borrowing is a combination of several short-term notes intended to finance this purchase over a period of time. This is being accomplished by rolling over short-term notes for lesser amounts each year. The interest rate reported is the interest rate for the short-term note issued in fiscal year 2019 and due in fiscal year 2020.

B. Future Debt Service

The annual payments to retire all general obligation bonds, long-term notes payable and notes from direct borrowings outstanding as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>General Obligation Bonds and Notes</u>			<u>Notes from Direct Borrowings</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 136,450	\$ 55,332	\$ 191,782	\$ 40,400	\$ -	\$ 40,400
2021	110,000	45,168	155,168	20,200	-	20,200
2022	110,000	39,668	149,668	10,000	-	10,000
2023	110,000	35,248	145,248	10,000	-	10,000
2024	110,000	30,870	140,870	10,000	-	10,000
2025 - 2029	540,000	87,724	627,724	25,000	-	25,000
2030 - 2030	<u>105,000</u>	<u>4,372</u>	<u>109,372</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,221,450</u>	\$ <u>298,382</u>	\$ <u>1,519,832</u>	\$ <u>115,600</u>	\$ <u>-</u>	\$ <u>115,600</u>

<u>Business-Type</u>	<u>General Obligation Bonds</u>			<u>Notes from Direct Borrowings</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 31,070	\$ 40,557	\$ 71,627	\$ 150,000	\$ 3,003	\$ 153,003
2021	32,776	38,851	71,627	65,000	1,963	66,963
2022	34,574	37,053	71,627	70,000	818	70,818
2023	36,472	35,155	71,627	70,000	-	70,000
2024	38,474	33,153	71,627	-	-	-
2025 - 2029	226,457	131,678	358,135	-	-	-
2030 - 2034	265,121	62,336	327,457	-	-	-
Thereafter	<u>76,241</u>	<u>6,190</u>	<u>82,431</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>741,185</u>	\$ <u>384,973</u>	\$ <u>1,126,158</u>	\$ <u>355,000</u>	\$ <u>5,784</u>	\$ <u>360,784</u>

C. Changes in General Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Governmental Activities						
Notes payable	\$ 52,900	\$ -	\$ (26,450)	\$ 26,450	\$ (26,450)	\$ -
Bonds payable:						
General obligation bonds	1,305,000	-	(110,000)	1,195,000	(110,000)	1,085,000
Notes from direct borrowings	<u>156,000</u>	<u>-</u>	<u>(40,400)</u>	<u>115,600</u>	<u>(40,400)</u>	<u>75,200</u>
Subtotal - Bonds payable	1,461,000	-	(150,400)	1,310,600	(150,400)	1,160,200
Net pension liability	5,739,827	1,118,398	-	6,858,225	-	6,858,225
Net OPEB liability	5,961,032	135,626	-	6,096,658	-	6,096,658
Other:						
Compensated absences	<u>164,892</u>	<u>-</u>	<u>(12,860)</u>	<u>152,032</u>	<u>-</u>	<u>152,032</u>
Totals	<u>\$ 13,379,651</u>	<u>\$ 1,254,024</u>	<u>\$ (189,710)</u>	<u>\$ 14,443,965</u>	<u>\$ (176,850)</u>	<u>\$ 14,267,115</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Business-Type Activities						
Bonds payable						
General obligation bonds	\$ 770,638	\$ -	\$ (29,453)	\$ 741,185	\$ (31,070)	\$ 710,115
Notes from direct borrowings	<u>505,000</u>	<u>-</u>	<u>(150,000)</u>	<u>355,000</u>	<u>(150,000)</u>	<u>205,000</u>
Subtotal - Bonds payable	1,275,638	-	(179,453)	1,096,185	(181,070)	915,115
Net pension liability	136,929	119,187	-	256,116	-	256,116
Net OPEB liability	63,163	2,777	-	65,940	-	65,940
Other:						
Landfill liability	87,080	-	(10,885)	76,195	(10,885)	65,310
Compensated absences	<u>5,732</u>	<u>4,496</u>	<u>-</u>	<u>10,228</u>	<u>-</u>	<u>10,228</u>
Subtotal - Other	<u>92,812</u>	<u>4,496</u>	<u>(10,885)</u>	<u>86,423</u>	<u>(10,885)</u>	<u>75,538</u>
Totals	<u>\$ 1,568,542</u>	<u>\$ 126,460</u>	<u>\$ (190,338)</u>	<u>\$ 1,504,664</u>	<u>\$ (191,955)</u>	<u>\$ 1,312,709</u>

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

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

E. Overlapping Debt

The Town is a member community of other governmental agencies, which are authorized to issue debt. The Town is not directly responsible for the payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies and are funded through user charges and/or assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
Hampshire Regional School District:			
Hampshire Regional HS	\$ <u>475,000</u>	57.12%	\$ <u>271,320</u>

15. Landfill Closure and Post Closure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$76,195 reported as landfill post closure care liability at June 30, 2019 represents the remaining estimated post closure maintenance costs. These amounts are based on what it would cost to perform all post closure care in 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB, in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

17. Transfers

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

Governmental Funds	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 203,986	\$ 72,500
Major governmental funds:		
Other special revenue funds	-	192,616
Capital project funds	137,500	81,585
Nonmajor funds:		
Special revenue funds	<u>5,215</u>	<u>-</u>
Subtotal Nonmajor funds	<u>5,215</u>	<u>-</u>
Total	<u>\$ 346,701</u>	<u>\$ 346,701</u>

18. Governmental Funds – Balances

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

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

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes stabilization funds restricted for specific purposes and the balance in the community preservation fund.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and surplus (free cash) set aside to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods, the general stabilization fund, and deficit funds.

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

	General Fund	Community Preservation Fund	Other Special Revenue Funds	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Nonexpendable						
permanent funds	\$ -	\$ -	\$ -	\$ -	\$ 365,317	\$ 365,317
Total Nonspendable	-	-	-	-	365,317	365,317
Restricted						
Special revenue funds	-	-	431,706	-	520,599	952,305
Expendable permanent funds	-	-	-	-	140,431	140,431
Total Restricted	-	-	431,706	-	661,030	1,092,736
Committed						
Stabilization funds for specific purposes *	284,030	-	-	-	-	284,030
Community preservation fund	-	1,504,923	-	-	-	1,504,923
Total Committed	284,030	1,504,923	-	-	-	1,788,953
Assigned						
Reserve for encumbrances	27,565	-	-	-	-	27,565
Reserve for expenditures	28,054	-	-	-	-	28,054
Total Assigned	55,619	-	-	-	-	55,619
Unassigned						
General fund	361,392	-	-	-	-	361,392
General stabilization fund *	386,459	-	-	-	-	386,459
Deficit fund balances	-	-	-	(845,910)	-	(845,910)
Total Unassigned	747,851	-	-	(845,910)	-	(98,059)
Total Fund Balance	\$ 1,087,500	\$ 1,504,923	\$ 431,706	\$ (845,910)	\$ 1,026,347	\$ 3,204,566

* Massachusetts General Law Ch. 40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund, along with any additions to or appropriations from the fund, requires a two-thirds vote of the legislative body.

19. Hampshire County Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampshire Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 99 Industrial Avenue, Northampton, MA 01060.

Participants Contributions

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

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

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

Participant Retirement Benefits

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

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

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

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

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree’s beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, $\frac{2}{3}$ of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town’s contribution to the System for the year ended June 30, 2019 was \$745,799, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System’s fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to Pensions

At June 30, 2019, the Town reported a liability of \$7,114,341 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. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the Town’s proportion was 3.30%.

For the year ended June 30, 2019, the Town recognized pension expense of \$898,880. In addition, the Town reported deferred outflows of resources and (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ (69,222)
Net difference between projected and actual earnings on pension plan investments	578,568	-
Changes of assumptions	225,722	(232,745)
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>145,771</u>	<u>-</u>
Total	<u>\$ 950,061</u>	<u>\$ (301,967)</u>

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

Year ended June 30	
2020	\$ 225,034
2021	94,075
2022	72,280
2023	218,501
Thereafter	<u>38,204</u>
Total	\$ <u>648,094</u>

D. Actuarial Assumptions

The total pension liability in the latest actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.45%
Salary increases	4.25% - 4.75%
Inflation	3.00%
Post-retirement cost-of-living adjustment	3% of first \$13,000

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

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2017.

E. Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	20.50%	4.82%
International Equities	16.50%	5.00%
Emerging Markets Equity	8.00%	6.50%
Domestic Fixed Income	10.00%	1.25%
Emerging Fixed Income	6.00%	4.00%
Global Fixed Income	3.00%	-0.25%
Opportunistic Fixed Income	9.00%	2.75%
Private Debt	3.00%	5.36%
Private Equity	10.00%	8.40%
Real Estate	12.00%	3.50%
Cash	<u>2.00%</u>	0.25%
Total	<u>100.00%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate (in thousands):

1% Decrease	Current Discount Rate	1% Increase
<u>(6.45%)</u>	<u>(7.45%)</u>	<u>(8.45%)</u>
\$9,090,822	\$7,114,341	\$5,442,056

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

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

A. Plan Description

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

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

B. Benefits Provided

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

Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 years of service.

Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

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

C. Contributions

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

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

D. Actuarial Assumptions

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

- (a) 7.35% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 White Collar Employee table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

- Disability – assumed to be in accordance with the RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

E. Target Allocations

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.0%	5.0%
Portfolio completion strategies	13.0%	3.7%
Core fixed income	12.0%	0.9%
Private equity	12.0%	6.6%
Real estate	10.0%	3.8%
Value added fixed income	10.0%	3.8%
Timber/natural resources	<u>4.0%</u>	3.4%
Total	<u>100.0%</u>	

F. Discount Rate

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

G. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate (in thousands):

1% Decrease to (6.35%)	Current Discount Rate (7.35%)	1% Increase to (8.35%)
\$29,482,300	\$23,711,289	\$18,771,300

H. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

I. Town Proportions

In fiscal year 2018 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was approximately \$10.5 million based on a proportionate share of 0.044%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$582,000 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of \$1.1 million as both a revenue and expense in the governmental activities.

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2013, the Town established a single-employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

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

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

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through the Hampshire County Group Insurance Trust. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Funding Policy

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

Plan Membership

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

Inactive employees or beneficiaries	
currently receiving benefit payments	72
Active employees	<u>123</u>
Total	<u>195</u>

B. Investments

The OPEB trust fund assets consist of corporate equities and mutual funds.

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions

The net OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	4.5%
Salary increases	unavailable
Investment rate of return	7%, net of OPEB plan investment expense
Municipal bond rate	not applicable
Discount rate	7%
Healthcare cost trend rates	4.50% for 2019
Retirees' share of benefit-related costs	50%
Participation rate	70% of future retirees

Mortality rates were based on the RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2018.

D. Target Allocations

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

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	5.05%
International Equity	5.80%
Domestic Fixed Income	2.47%
International Fixed Income	2.40%
Alternative Investments	4.80%

E. Discount Rate

The discount rate used to measure the net OPEB liability was 7%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

F. Net OPEB Liability

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

Total OPEB liability	\$ 6,388,986
Plan fiduciary net position	<u>(226,388)</u>
Net OPEB Liability	<u>\$ 6,162,598</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 3.54%

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognized benefit payments when due and payable.

G. Changes in the Net OPEB Liability

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

	<u>Increase (Decrease)</u>		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
Balance, Beginning of Year	\$ 6,205,964	\$ 181,769	\$ 6,024,195
Changes for the year:			
Service cost	167,601	-	167,601
Interest	250,291	-	250,291
Contributions - employer	-	242,109	(242,109)
Net investment income	-	14,092	(14,092)
Benefit payments	<u>(234,870)</u>	<u>(211,582)</u>	<u>(23,288)</u>
Net Changes	<u>183,022</u>	<u>44,619</u>	<u>138,403</u>
Balance, End of Year	<u>\$ 6,388,986</u>	<u>\$ 226,388</u>	<u>\$ 6,162,598</u>

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

	Current Discount Rate	
1% Decrease <u>(6.00%)</u>	<u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
\$7,054,328	\$6,162,598	\$5,432,628

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

	Current Healthcare Cost Trend Rates	
1% Decrease <u>(3.50%)</u>	<u>(4.50%)</u>	1% Increase <u>(5.50%)</u>
\$5,160,155	\$6,162,598	\$7,580,023

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

For the year ended June 30, 2019, the Town recognized an OPEB expense of \$161,216. At June 30, 2019, the Town reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ 715,941	\$ -
Change in assumptions	-	(1,784,332)
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(6,893)</u>
Total	\$ <u>715,941</u>	\$ <u>(1,791,225)</u>

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

Year ended June 30	
2020	\$ (248,800)
2021	(248,800)
2022	(248,275)
2023	(247,985)
2024	<u>(81,424)</u>
Total	\$ <u>(1,075,284)</u>

22. Subsequent Events

Debt

Subsequent to June 30, 2019 the Town has incurred the following additional debt:

<u>Purpose</u>	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
DWP-18-12 Interim Note	\$ 1,700,000	0.00%	09/15/19	n/a
MCWT Septic Loan	<u>150,000</u>	0.00%	10/24/19	01/15/40
	\$ <u>1,850,000</u>			

COVID-19

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. The disruption is expected to be temporary, but there is considerable uncertainty around the duration and scope. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our residents served by the Town, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

23. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the

grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Self-Insurance - The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of June 30, 2019 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$275,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2019, according to the Trust’s audited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.3 million, the Trust was in a surplus position of approximately \$24.6 million.

Encumbrances – At year-end the Town’s general fund has \$27,565 in encumbrances that will be honored in the next fiscal year.

24. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2019, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Capital Project Fund	Nonmajor Governmental Funds
Fund Balance, Beginning of Year, as previously reported	\$ -	\$ 671,193
Reclassify major funds in accordance with GASB 34	<u>(224,703)</u>	<u>224,703</u>
Fund Balance, Beginning of Year, as reclassified	\$ <u>(224,703)</u>	\$ <u>895,896</u>

25. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year ending June 30, 2021. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Town beginning with its fiscal year ending June 30, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

TOWN OF SOUTHAMPTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2019

(Unaudited)

(Amounts express in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	December 31, 2018	3.30%	\$7,114	\$2,835	250.93%	58.91%
June 30, 2018	December 31, 2017	3.16%	\$5,877	\$2,486	236.40%	63.12%
June 30, 2017	December 31, 2016	3.12%	\$6,860	\$2,361	290.55%	55.61%
June 30, 2016	December 31, 2015	3.26%	\$6,778	\$2,766	245.05%	55.29%
June 30, 2015	December 31, 2014	3.28%	\$6,128	\$2,638	232.30%	58.07%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	June 30, 2018	0.04%	-	\$10,503	\$10,503	\$2,988	-	54.84%
June 30, 2018	June 30, 2017	0.05%	-	\$10,386	\$10,386	\$3,296	-	54.25%
June 30, 2017	June 30, 2016	0.05%	-	\$10,345	\$10,345	\$3,044	-	52.73%
June 30, 2016	June 30, 2015	0.04%	-	\$9,208	\$9,208	\$2,849	-	55.38%
June 30, 2015	June 30, 2014	0.05%	-	\$7,700	\$7,700	\$2,970	-	61.64%

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
 JUNE 30, 2019
 (Unaudited)
 (Amounts expressed in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the Contractually Required Contribution	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	December 31, 2018	\$745	\$745	-	\$2,835	26.28%
June 30, 2018	December 31, 2017	\$675	\$675	-	\$2,486	27.15%
June 30, 2017	December 31, 2016	\$615	\$615	-	\$2,361	26.05%
June 30, 2016	December 31, 2015	\$608	\$608	-	\$2,766	21.98%
June 30, 2015	December 31, 2014	\$573	\$573	-	\$2,638	21.72%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	Contributions in Relation to the Contractually Required Contribution	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	June 30, 2018	\$582	\$582	-	\$2,988	19.48%
June 30, 2018	June 30, 2017	\$561	\$561	-	\$3,296	17.02%
June 30, 2017	June 30, 2016	\$520	\$520	-	\$3,044	17.08%
June 30, 2016	June 30, 2015	\$459	\$459	-	\$2,849	16.11%
June 30, 2015	June 30, 2014	\$454	\$454	-	\$2,970	15.29%

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)
(Unaudited)
(Amounts expressed in thousands)

	For the year ended June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 168	\$ 160	\$ 259
Interest on unfunded liability - time value of money	250	303	294
Experience (gain) and loss	-	1,047	-
Change in assumptions	-	(2,608)	-
Benefit payments	<u>(235)</u>	<u>(225)</u>	<u>(217)</u>
Net Change in Total OPEB Liability	183	(1,323)	336
Total OPEB Liability - Beginning	<u>6,206</u>	<u>7,529</u>	<u>7,193</u>
Total OPEB Liability - Ending (a)	6,389	6,206	7,529
Plan Fiduciary Net Position			
Contributions - employer	242	245	245
Net investment income	14	8	6
Benefit payments	<u>(212)</u>	<u>(203)</u>	<u>(195)</u>
Net Change in Plan Fiduciary Net Position	44	50	56
Plan Fiduciary Net Position - Beginning	<u>182</u>	<u>132</u>	<u>76</u>
Plan Fiduciary Net Position - Ending (b)	<u>226</u>	<u>182</u>	<u>\$ 132</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 6,163</u>	<u>\$ 6,024</u>	<u>\$ 7,397</u>

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

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

See Independent Auditors' Report.

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

(Unaudited)

(Amounts expressed in thousands)

	For the year ended June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability			
Total OPEB liability	\$ 6,390	\$ 6,206	\$ 7,529
Plan fiduciary net position	<u>(226)</u>	<u>(182)</u>	<u>(132)</u>
Net OPEB Liability	<u>\$ 6,164</u>	<u>\$ 6,024</u>	<u>\$ 7,397</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.54%	2.93%	1.75%
Schedule of Contributions	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution *	\$ 242	\$ 245	\$ 245
Contributions in relation to the actuarially determined contribution	<u>(242)</u>	<u>(245)</u>	<u>(245)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Schedule of Investment Returns	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	unavailable	unavailable	unavailable

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

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

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

See Independent Auditors' Report.

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

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

Independent Auditors' Report

To the Select Board
Town of Southamptton, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 16, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material*

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

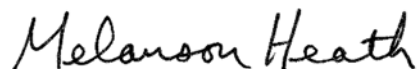
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



April 16, 2020