

**TOWN OF ROYALSTON, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2018

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**Additional Offices:**

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

## INDEPENDENT AUDITORS' REPORT

To the Select Board  
Town of Royalston, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Town of Royalston, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise a portion of 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. These 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' judgement, including the assessment of the risk 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 adverse audit opinion on the governmental and business-type activities and unmodified audit opinions on the major funds and the aggregate remaining fund information.

### **Summary of Opinions**

<b><i>Opinion Unit</i></b>	<b><i>Type of Opinion</i></b>
Governmental Activities	Adverse
Business-Type Activities	Adverse
General Fund	Unmodified
Chapter 90 Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### **Basis for Adverse Opinion on Governmental and Business-Type Activities**

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental and business-type activities and has presented the Broadband Enterprise Fund on a modified accrual basis. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statement and the reporting of the Broadband Enterprise Fund on the accrual basis of accounting. The amounts that would be reported in government-wide financial statements for the Town's governmental and business-type activities have not been determined.

### **Adverse Opinion on Governmental and Business-Type Activities**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Governmental and Business-Type Activities paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Town of Royalston, Massachusetts, as of June 30, 2018 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

## **Unmodified Opinion on General Fund, Chapter 90 Fund and Aggregate Remaining Fund Information**

In our opinion, the financial statements referred to above present fairly, in all material aspects, the respective financial position of the general and Chapter 90 funds and the aggregate remaining fund information of the Town of Royalston, Massachusetts, as of June 30, 2018, and the respective changes in financial position, 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.

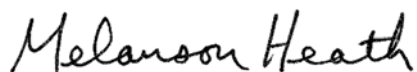
### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension Schedules appearing on pages 28 to 29 be presented to supplement the basic financial statement. 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.

The Town has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

We have applied certain limited procedures to the other required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Melanson Heath".

November 6, 2019

## TOWN OF ROYALSTON, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Chapter 90 Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 1,039,014	\$ -	\$ 537,170	\$ 1,576,184
Receivables:				
Property taxes	822,024	-	895	822,919
Excises	63,266	-	-	63,266
User fees	36,599	-	-	36,599
Intergovernmental	-	3,250	-	3,250
Loans	-	-	8,261	8,261
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	\$ 1,960,903	\$ 3,250	\$ 546,326	\$ 2,510,479
<b>LIABILITIES</b>				
Warrants payable	\$ 42,403	\$ 3,250	\$ 11,541	\$ 57,194
Accrued payroll and withholdings	51,503	-	-	51,503
Other liabilities	143	-	-	143
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL LIABILITIES	94,049	3,250	11,541	108,840
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	921,892	-	9,156	931,048
<b>FUND BALANCES</b>				
Nonspendable	-	-	139,030	139,030
Restricted	-	-	252,318	252,318
Committed	526,240	-	134,281	660,521
Assigned	5,625	-	-	5,625
Unassigned	413,097	-	-	413,097
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	944,962	-	525,629	1,470,591
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,960,903	\$ 3,250	\$ 546,326	\$ 2,510,479

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

TOWN OF ROYALSTON, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Chapter 90 Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 1,723,945	\$ -	\$ 18,872	\$ 1,742,817
Excises	179,020	-	-	179,020
Penalties, interest and other taxes	46,313	-	-	46,313
Charges for services	118,765	-	41,839	160,604
Intergovernmental	266,524	567,940	218,511	1,052,975
Licenses and permits	9,708	-	-	9,708
Fines and forfeitures	5,065	-	-	5,065
Investment income	5,923	-	1,235	7,158
Miscellaneous	6,000	-	1,302	7,302
Total Revenues	<u>2,361,263</u>	<u>567,940</u>	<u>281,759</u>	<u>3,210,962</u>
<b>Expenditures:</b>				
Current:				
General government	235,108	-	93,635	328,743
Public safety	304,372	-	30,619	334,991
Education	659,003	-	-	659,003
Public works	883,479	484,845	220,156	1,588,480
Health and human services	82,404	-	12,373	94,777
Culture and recreation	62,654	-	18,361	81,015
Employee benefits	168,918	-	-	168,918
Debt service	52,770	-	-	52,770
Intergovernmental	12,833	-	-	12,833
Total Expenditures	<u>2,461,541</u>	<u>484,845</u>	<u>375,144</u>	<u>3,321,530</u>
Excess (deficiency) of revenues over expenditures	(100,278)	83,095	(93,385)	(110,568)
<b>Other Financing Sources (Uses):</b>				
Issuance of bonds	-	-	218,000	218,000
Issuance of capital lease	94,130	-	-	94,130
Transfers in	26,290	-	6,195	32,485
Transfers out	-	-	(32,349)	(32,349)
Total Other Financing Sources (Uses)	<u>120,420</u>	<u>-</u>	<u>191,846</u>	<u>312,266</u>
Change in fund balance	20,142	83,095	98,461	201,698
Fund Equity at Beginning of Year	<u>924,820</u>	<u>(83,095)</u>	<u>427,168</u>	<u>1,268,893</u>
Fund Equity at End of Year	<u>\$ 944,962</u>	<u>\$ -</u>	<u>\$ 525,629</u>	<u>\$ 1,470,591</u>

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

## TOWN OF ROYALSTON, MASSACHUSETTS

## GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
<b>Revenues and Transfers In:</b>				
Property taxes	\$ 1,701,010	\$ 1,701,010	\$ 1,701,010	\$ -
Excises	160,000	160,000	179,020	19,020
Penalties, interest and other taxes	54,000	54,000	46,313	(7,687)
Charges for services	114,901	114,901	118,765	3,864
Intergovernmental	265,474	265,474	266,524	1,050
Licenses and permits	15,000	15,000	9,708	(5,292)
Fines and forfeitures	1,000	1,000	5,065	4,065
Investment income	3,000	3,000	3,087	87
Miscellaneous	-	-	6,000	6,000
Transfers in	34,890	161,414	161,414	-
Total Revenues and Transfers In	2,349,275	2,475,799	2,496,906	21,107
<b>Expenditures and Transfers Out:</b>				
General government	250,411	250,411	218,102	32,309
Public safety	322,596	322,596	301,261	21,335
Education	659,435	659,435	659,003	432
Public works	682,497	803,021	782,054	20,967
Health and human services	92,761	92,761	82,354	10,407
Culture and recreation	61,422	67,422	67,123	299
Employee benefits	186,550	186,550	168,918	17,632
Debt service	80,770	80,770	80,770	-
Intergovernmental	12,833	12,833	12,833	-
Transfers out	-	541,742	547,619	(5,877)
Total Expenditures and Transfers Out	2,349,275	3,017,541	2,920,037	97,504
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	-	(541,742)	(423,131)	118,611
<b>Other Financing Uses:</b>				
Use of free cash:				
Transfer to general stabilization	-	190,000	-	(190,000)
Transfer to capital stabilization	-	351,742	-	(351,742)
Total Other Financing Uses	-	541,742	-	(541,742)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (423,131)	\$ (423,131)

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



TOWN OF ROYALSTON, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2018

	Business- Type Activities Enterprise Fund
	<u>Broadband Fund</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ <u>560,000</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>560,000</u></b>
<b>NET POSITION</b>	
Unrestricted	\$ <u>560,000</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>560,000</u></b>

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

TOWN OF ROYALSTON, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2018

	Business- Type Activities Enterprise Fund
	<u>Broadband Fund</u>
<b>Nonoperating Revenues:</b>	
Intergovernmental revenue	\$ <u>560,136</u>
Total Nonoperating Revenues / Net Income Before Transfers	560,136
<b>Transfers:</b>	
Transfers out	<u>(136)</u>
Change in net position	560,000
Net Position at Beginning of Year	<u>-</u>
Net Position at End of Year	<u><u>\$ 560,000</u></u>

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

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018

	Business- Type Activities Enterprise Fund
	<u>Broadband Fund</u>
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Intergovernmental revenue	\$ 560,000
Net Cash Provided by Capital and Related Financing Activities	560,000
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>	
Intergovernmental revenue	136
Transfers out	<u>(136)</u>
Net Cash Provided by / (Used for) Noncapital Financing Activities	<u>-</u>
Net Change in Cash and Short-Term Investments	560,000
Cash and Short Term Investments, Beginning of Year	<u>-</u>
Cash and Short Term Investments, End of Year	<u><u>\$ 560,000</u></u>

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

TOWN OF ROYALSTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Agency Funds
<b><u>ASSETS</u></b>	
Cash and short term investments	\$ <u>32,277</u>
Total Assets	\$ <u><u>32,277</u></u>
<b><u>LIABILITIES</u></b>	
Warrants payable	\$ 5,845
Other liabilities	<u>26,432</u>
Total Liabilities	\$ <u><u>32,277</u></u>

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

## Town of Royalston, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Royalston (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

##### A. Reporting Entity

The Town is a municipal corporation governed by an elected Select Board. 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 2018, 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 have not been presented.

###### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental 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 have not been presented.

###### 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.

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 *Chapter 90 fund* accounts for operations related to the Town's Chapter 90 (highway grant) funds received from the State.

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 fund:

- The *broadband enterprise fund* accounts for operations of the Town's broadband network and supporting infrastructure.

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 reported the following fiduciary fund:

- 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 funds and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand 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 are included under investment income.

*E. Property Tax Limitations*

Legislation known as "Proposition 2 ½" limits 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 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$28,795.

*F. Other Post-Employment Benefits*

The Town does not provide health or life insurance benefits to retired employees.

*G. 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.

#### *H. 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. Departures from Generally Accepted Accounting Principles**

The significant departures of the financial statements from generally accepted accounting principles are as follows:

- Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Town's governmental and business-type activities have not been determined.
- The broadband enterprise fund is presented on the modified accrual basis of accounting, instead of the accrual basis.
- Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.



### **3. 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.

#### ***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 and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 2,361,263	\$ 2,461,541
Other financing sources/uses (GAAP basis)	120,420	-
Subtotal (GAAP basis)	2,481,683	2,461,541
Remove the effect of adding the Town's Stabilization funds per GASB 54	132,288	547,619
Adjust tax revenue to accrual basis	(22,935)	-
Reverse beginning of year appropriation carry-forwards from expenditures	-	(193,016)
Add end of year appropriation carryforwards to expenditures	-	198,023
Reverse the effect of non-budgeted capital lease issuance	(94,130)	(94,130)
Budgetary basis	<u>\$ 2,496,906</u>	<u>\$ 2,920,037</u>

#### **4. 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. Massachusetts General Law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent 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, 2018, none of the Town's bank balance of \$2,174,696 was exposed to custodial credit risk as uninsured, and/or uncollateralized.

#### **5. 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 semiannual 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 calculate 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.

Taxes and excise receivables at June 30, 2018 consists of the following:

Receivables:

Real estate taxes	\$ 279,089
Personal property taxes	35,540
Community preservation act	895
Tax liens	<u>507,395</u>
Total property taxes	<u>\$ 822,919</u>
Motor vehicle excise	<u>\$ 63,266</u>

**6. User Fee Receivables**

Receivables for user charges at June 30, 2018 consists of sewer fees of \$36,599.

**7. Intergovernmental Receivables**

The balance reported in the governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

**8. Loan Receivables**

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

**9. Warrants Payable**

Warrants payable represents 2018 expenditures paid by July 15, 2018.

## 10. Capital Lease Obligations

The Town is the lessee of public safety and public works equipment under capital leases expiring in various years through 2022. Future minimum lease payments under the capital leases consist of the following as of June 30, 2018:

	<u>Fiscal Year</u>	
	2019	\$ 86,171
	2020	86,170
	2021	86,170
	2022	<u>20,875</u>
Total payments		279,386
Less amounts representing interest		<u>(23,216)</u>
Present Value of Minimum Lease Payments		<u>\$ 256,170</u>

## 11. Long-Term Debt

### A. General Obligation Bonds

The Town issues general obligation notes and USDA loans to provide funds for the acquisition and construction of major capital facilities. This debt has been issued for governmental activities. General obligation debt currently outstanding is as follows:

<u>Governmental Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2018</u>
Department equipment - 10 wheel sander	12/28/22	3.2	218,000
Sewer bond	02/23/52	1.875	<u>\$ 1,083,278</u>
Total Governmental Activities			<u>\$ 1,301,278</u>

### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 75,461	\$ 27,287	\$ 102,748
2020	75,461	25,295	100,756
2021	75,461	23,303	98,764
2022	75,461	21,309	96,770
2023	75,461	19,317	94,778
2024 - 2028	159,306	80,648	239,954
2029 - 2033	159,306	65,714	225,020
Thereafter	605,361	116,506	721,867
Total	<u>\$ 1,301,278</u>	<u>\$ 379,379</u>	<u>\$ 1,680,657</u>

### **C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	<u>Total Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance June 30, 2018</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion June 30, 2018</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 1,115,139	\$ -	\$ (31,861)	\$ 1,083,278	\$ (31,861)	\$ 1,051,417
Notes payable	-	218,000	-	218,000	(43,600)	174,400
Subtotal	1,115,139	218,000	(31,861)	1,301,278	(75,461)	1,225,817
Net pension liability	855,495	-	(93,817)	761,678	-	761,678
Capital lease	239,805	94,130	(77,765)	256,170	(86,171)	169,999
Totals	<u>\$ 2,210,439</u>	<u>\$ 312,130</u>	<u>\$ (203,443)</u>	<u>\$ 2,319,126</u>	<u>\$ (161,632)</u>	<u>\$ 2,157,494</u>

## **12. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

*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.

## **13. 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:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 26,290	\$ -
Nonmajor funds:		
Special revenue funds	136	26,290
Trust funds	<u>6,059</u>	<u>6,059</u>
Subtotal Nonmajor funds	6,195	32,349
<u>Business-Type Funds:</u>		
Broadband fund	<u>-</u>	<u>136</u>
Grand Total	<u>\$ 32,485</u>	<u>\$ 32,485</u>

#### 14. **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 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, 2018:

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, capital project funds funded by bond issuances, 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 general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, stabilization funds restricted for specific purposes and 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.

Unassigned – Represents amounts that are available to be spent in future periods and the general stabilization fund.

Following is a breakdown of the Town's fund balances at June 30, 2018:

	General <u>Fund</u>	Chapter 90 <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 139,030	\$ 139,030
Total Nonspendable	-	-	139,030	139,030
Restricted				
Bonded projects	-	-	13,346	13,346
Special revenue funds	-	-	155,016	155,016
Expendable permanent funds	-	-	83,956	83,956
Total Restricted	-	-	252,318	252,318
Committed				
Special article balances	192,398	-	-	192,398
Capital stabilization fund*	333,842	-	-	333,842
Community preservation fund	-	-	134,281	134,281
Total Committed	526,240	-	134,281	660,521
Assigned				
Encumbrances	5,625	-	-	5,625
Total Assigned	5,625	-	-	5,625
Unassigned				
General fund	229,691	-	-	229,691
General stabilization fund*	183,406	-	-	183,406
Total Unassigned	413,097	-	-	413,097
Total Fund Balance	\$ 944,962	\$ -	\$ 525,629	\$ 1,470,591

\* 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.

## 15. **Worcester Regional 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 are members of the Worcester Regional 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 Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, MA 01501 or from the System's website at: [www.worcesterregionalretirement.org](http://www.worcesterregionalretirement.org).

### Participant Retirement Benefits

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.

If a participant was a member prior to April 1, 2012, 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.

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.

#### Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

#### 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.

### 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, 2018 was \$47,264, 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, 2018, had the Town issued government-wide financial statements, the Town would have reported a liability of \$761,678 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2018, the Town's proportion was 0.093%.

For the year ended June 30, 2018, had the Town reported this liability in the accompanying financial statements, the Town's pension expense would have been \$98,727. In addition, the Town would have reported deferred outflows and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ 5,067	\$ -
Changes of assumptions	72,586	-
Net difference between projected and actual earnings on pension plan investments	-	(23,749)
Changes in proportion and differences between contributions share of contributions and proportionate share of contributions	62,200	-
Total	<u>\$ 139,853</u>	<u>\$ (23,749)</u>

Amounts reported as deferred outflows of resources and deferred (inflows) of resources related to be pensions would be amortized as pension expense as follows:

Year ended June 30:

2019	\$ 47,165
2020	47,083
2021	37,265
2022	(6,408)
2023	(9,001)
Total	<u>\$ 116,104</u>

#### D. Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
<u>Actuarial assumptions:</u>	
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Projected salary increases	Group 1: 4.25% - 6%, based on service Group 4: 4.75% - 7%, based on service
Remaining amortization period	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Inflation	3% per year
Post-retirement COLA	3.00% on the first \$16,000

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

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2015.

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>
Global equity	40.00%	4.91%
Fixed income	22.00%	2.04%
Private equity	11.00%	6.50%
Real estate	10.00%	3.70%
Timber/natural resources	4.00%	3.25%
Hedge funds	13.00%	3.40%
Total	<u>100.00%</u>	

#### E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed 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.

**F. 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 7.75%, 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 one percentage-point lower or one percentage-point higher than the current rate:

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$928,318	\$761,678	\$620,944

**G. Pension Plan Fiduciary Net Position**

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

**16. Subsequent Events**

**Debt**

Subsequent to June 30, 2018, the Town entered into the following additional capital lease agreements:

	<u>Amount</u>	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>
2018 Ford Interceptor	\$30,202	6.95%	07/05/18	07/05/21
John Deere Loader	\$154,999	3.75%	09/24/18	09/24/23

**17. Commitments and Contingencies**

Outstanding legal issues – There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims 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.

TOWN OF ROYALSTON, MASSACHUSETTS  
SCHEDULE OF PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY (GASB 68)  
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

**Worcester 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 Employee 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, 2018	December 31, 2017	0.09%	\$761,678	\$238,569	319.27%	46.40%
June 30, 2017	December 31, 2016	0.10%	\$855,495	\$216,239	395.62%	42.00%
June 30, 2016	December 31, 2015	0.10%	\$721,056	\$253,001	285.00%	44.52%
June 30, 2015	December 31, 2014	0.01%	\$381,458	\$243,270	156.80%	47.94%

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

See Independent Auditors' Report.

TOWN OF ROYALSTON, MASSACHUSETTS  
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018  
(Unaudited)

**Worcester County Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$47,264	\$47,264	-	\$238,569	19.81%
June 30, 2017	December 31, 2016	\$49,613	\$49,613	-	\$216,239	22.94%
June 30, 2016	December 31, 2015	\$45,699	\$45,699	-	\$253,001	18.06%
June 30, 2015	December 31, 2014	\$25,333	\$25,333	-	\$243,270	10.41%

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

See Independent Auditors' Report.