



DEDHAM-WESTWOOD WATER DISTRICT

Financial Statements and Supplementary Information
For the Year Ended December 31, 2019

(With Independent Auditors' Report Thereon)

Dedham-Westwood Water District

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Dedham-Westwood Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the Dedham-Westwood Water District (the District) as of and for the year ended December 31, 2019, which collectively comprise the District's financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The District'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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

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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 financial position of the business-type activities and the aggregate remaining fund information of the Dedham-Westwood Water District, at December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 17, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Melanson

July 10, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Dedham-Westwood Water District's (the District) annual financial report, District management offers readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2019.

The District provides water supply services to approximately 13,000 active customers and about 43,000 people, through metered sales in the communities of Dedham and Westwood. The District is responsible for operating and maintaining the water supply system, providing ongoing capital improvements, and for providing the highest quality water product at the lowest possible price.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the District include (1) the Comparative Statements of Net Position, (2) the Comparative Statements of Revenues, Expenses and Changes in Fund Net Position, (3) the Comparative Statements of Cash Flows, (4) the Comparative Statements of Fiduciary Net Position, (5) the Comparative Statements of Changes in Fiduciary Net Position, and (6) Notes to Financial Statements. In addition, various pension and other post-employment benefit (OPEB) schedules are included in the financial statements as Required Supplementary Information.

The Comparative Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows of resources 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. At December 31, 2019, it indicates the District's net worth as \$65,762,913 which comprises \$58,572,101 invested in capital assets and \$7,190,812 unrestricted.

The Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position summarizes operating and non-operating revenues and expenses for the year, reveals the net income earned for the year, and determines the net change in assets for the year. That change combined with the previous year-end net position total reconciles to the net position total at the end of the current year. As discussed in more detail below, the District's net income for calendar year 2019 was \$1,651,262.

The Comparative Statement of Cash Flows reports cash and cash equivalents activity for the year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year. A review of the District's Statement of Cash Flows indicates that the cash receipts from operating activities adequately covered District operating expenditures in 2019.

The Comparative Statements of Fiduciary Net Position and Changes in Fiduciary Net Position represent the net position and changes in net position of the District's Other Post-Employment Benefit (OPEB) irrevocable trust fund.

The District's financial statements are prepared using proprietary fund (enterprise fund) and fiduciary fund accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting are used. Revenue is recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows.

B. FINANCIAL HIGHLIGHTS

As of the close of the current year, the District's net position is \$65,762,913. Net position increased by \$1,651,262 in comparison to the prior year. The increase in net position is primarily attributable to non-operating contribution revenues.

Operating revenues were \$9,559,644 for the District in 2019, a 2.16% decrease from 2018. Usage and miscellaneous/access fee revenues in 2019 were down by \$(62,556) and \$(148,230) respectively, year over year.

Operating expenses were \$9,617,830 in 2019, an increase of 13.57% from 2018, primarily caused by an increase in purchased water costs of \$853,758, due primarily to the planned shutdown of the Bridge Street Treatment Plant during renovations.

The operating loss of \$(58,186) was primarily attributable to increased water purchases.

The District's Comparative Statement of Cash Flows identifies the sources and uses of cash activity for the year. In 2019, District cash and cash equivalents decreased by \$(1,030,496) from 2018, primarily due to capital asset construction and acquisitions.

In 2019 the District continued to fund an irrevocable trust fund for its Other Post-Employment Benefits (OPEB), with additional funding of \$65,000.

C. FINANCIAL ANALYSIS

The following is a summary of condensed financial data for the current and prior years (in thousands).

SUMMARY OF NET POSITION

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 13,710	\$ 18,274
Capital assets	<u>69,753</u>	<u>63,395</u>
Total assets	83,463	81,669
Deferred outflows of resources	<u>1,688</u>	<u>1,643</u>
Total assets and deferred outflows of resources	85,151	83,312
Current liabilities	3,824	11,558
Noncurrent liabilities	<u>15,309</u>	<u>6,943</u>
Total liabilities	19,133	18,501
Deferred inflows of resources	<u>256</u>	<u>699</u>
Total liabilities and deferred inflows of resources	19,388	19,200
Net investment in capital assets	58,572	55,326
Unrestricted	<u>7,191</u>	<u>8,786</u>
Total net position	<u>\$ 65,763</u>	<u>\$ 64,112</u>

SUMMARY OF CHANGES IN NET POSITION

	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 9,560	\$ 9,771
Contributions revenue	1,444	50
Interest income	240	215
Lease revenue	<u>126</u>	<u>124</u>
Total revenue	11,370	10,160
Operating expense	9,618	8,469
Interest on long-term debt	<u>101</u>	<u>77</u>
Total expenses	<u>9,719</u>	<u>8,546</u>
Change in net income	1,651	1,614
Net position - beginning of year	<u>64,112</u>	<u>62,498</u>
Net position - end of year	<u>\$ 65,763</u>	<u>\$ 64,112</u>

As noted earlier, net position may serve over time as a useful indicator of a governmental entity's financial position. At the close of 2019, total net position was \$65,762,913, an increase of \$1,651,262 in comparison to the prior year.

The largest portion of net position \$58,572,101, reflects the District's investment in capital assets (e.g., land, treatment plants, equipment, and infrastructure), less any related debt used to acquire those assets that remains outstanding. These capital assets are used to provide services to customers; 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.

The remaining balance of unrestricted net position \$7,190,812 may be used to meet the District's ongoing obligations to customers and creditors.

D. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District continues to adequately prepare for and respond to infrastructure funding needs throughout the water system. Total investment in capital assets at year-end 2019 amounted to \$69,752,703 (net of accumulated depreciation), a change of \$6,358,081 from the prior year. In 2019, the District's capital asset additions totaled \$8,414,738, including donated capital (pipe and hydrants) totaling \$1,443,945. Capital asset additions in 2019 included plant improvements at the Bridge Street facilities, well redevelopments, and ongoing pipeline projects throughout the System.

Debt Plan

The District's long-term debt obligations are a reflection of long-term capital budgets designed to prudently address the infrastructure needs of the District in priority order. In 2019, capital expenditures (net of donated capital) totaled \$7.48 million. The District is currently planning to fund capital spending of more than \$12 million between 2020 and 2021. The District plans to fund the projects with general obligation bonds, Commonwealth of Massachusetts low interest loans, and cash on hand.

The District continues to maintain its underlying debt rating (Moody's) of Aa2 for its general obligation debt.

As of December 31, 2019, the District has four series of general obligation bonds outstanding totaling \$10,838,500 (exclusive of premiums). Maturities by issue are as follows:

Series D through 2021	\$ 102,100
Series G through 2020	395,000
Series H through 2024	1,500,000
MA Clean Water Trust bond	<u>8,841,400</u>
Total	<u>\$ 10,838,500</u>

E. OTHER POSTEMPLOYMENT BENEFITS (OPEB) GASB STATEMENTS 74 AND 75

On May 13, 2014, the Board established an Irrevocable OPEB Trust. In opting to serve as trustees ex officio, the Board has authorized Rockland Trust to serve as financial advisors to the Board in managing the OPEB irrevocable trust account. During 2019, the District continued to fund the irrevocable trust account with an additional funding of \$65,000. As of December 31, 2019, the District has just six OPEB-eligible retirees.

Beginning in 2017, the District implemented the Governmental Accounting Standards Board (GASB) Statement 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, and in 2018 implemented GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 74 applies when a trust fund has been established to fund future OPEB costs, and GASB 75 applies whenever OPEB benefits are offered. GASB has taken the position that OPEB is a form of compensation and the liability/expense should be recognized while the employee provides service to the District. GASB Statements 74 and 75 require the full net OPEB asset and related expenses to be presented on District's accrual basis financial statements.

Additional information regarding OPEB costs can be found in Notes to Financial Statements, Note 7.

F. NET PENSION LIABILITY GASB STATEMENT 68

Governmental Accounting Standards Board Statement 68 (GASB 68) was implemented by the District in 2015 (see Note 15). GASB 68 relates to the accounting and financial reporting for pensions, an amendment of GASB Statement No. 27 with respect to the employee's retirement funds. The District joined the Norfolk County Retirement System in July 2006. The accounting and disclosure for the District's proportionate share of the Norfolk County Retirement System is actuarially derived and reported in the District's financial statements. The December 31, 2019 net pension liability is \$5,544,059.

G. MASSACHUSETTS CLEAN WATER INTERIM LOAN NOTE AND BOND

In 2017 the District was awarded an interest-free interim loan note for \$8,841,400 through the Massachusetts Clean Water Trust, to be used for upgrades to the Bridge Street Treatment Plant. In 2019, the interim loan note was replaced (bonded) with a 2% 20-year bond payable to the Massachusetts Clean Water Trust. As of December 31, 2019, the District has drawn down \$8,716,797, leaving a note receivable balance of \$124,603 to be drawn down as expenses are incurred.

REQUESTS FOR INFORMATION

This information is designed to provide a general overview of the District's finances for all those with an interest in those finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Dedham-Westwood Water District
50 Elm Street
Dedham, MA 02027-9137

DEDHAM-WESTWOOD WATER DISTRICT

BUSINESS-TYPE PROPRIETARY FUND
COMPARATIVE STATEMENTS OF NET POSITION

DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current:		
Cash	\$ 12,167,115	\$ 13,197,611
User fees	1,114,103	1,049,650
Other current assets	243,769	284,948
Clean water loan note receivable	124,603	3,710,342
Total current assets	13,649,590	18,242,551
Noncurrent:		
Bond issue costs	35,575	31,418
Net OPEB asset	25,019	-
Capital assets:		
Land and construction in progress	4,965,891	1,799,332
Other capital assets, net of accumulated depreciation	64,786,812	61,595,290
Total capital assets	69,752,703	63,394,622
Total noncurrent assets	69,813,297	63,426,040
Deferred Outflows of Resources		
Related to pensions	1,688,076	1,572,337
Related to OPEB	-	70,602
Total Assets and Deferred Outflows of Resources	85,150,963	83,311,530
Liabilities		
Current:		
Accounts payable	579,287	924,999
Accrued expenses	1,889,812	763,505
Clean water loan note payable	-	8,841,400
Current portion of long-term liabilities:		
Bonds payable	1,131,532	969,190
Compensated absences	173,992	58,247
Other current liabilities	49,181	1,200
Total current liabilities	3,823,804	11,558,541
Noncurrent:		
Bonds payable, net of current portion	9,764,471	2,043,041
Net pension liability	5,544,059	4,699,984
Net OPEB liability	-	199,722
Total noncurrent liabilities	15,308,530	6,942,747
Deferred Inflows of Resources		
Related to pensions	132,338	698,591
Related to OPEB	123,378	-
Total Liabilities and Deferred Inflows of Resources	19,388,050	19,199,879
Net Position		
Net investment in capital assets	58,572,101	55,325,414
Unrestricted	7,190,812	8,786,237
Total Net Position	\$ 65,762,913	\$ 64,111,651

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

DEDHAM-WESTWOOD WATER DISTRICT
BUSINESS-TYPE PROPRIETARY FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
User charges	\$ 9,320,112	\$ 9,382,668
Miscellaneous	<u>239,532</u>	<u>387,762</u>
Total Operating Revenues	9,559,644	9,770,430
Operating Expenses		
Direct labor	2,682,847	2,662,779
Depreciation	2,009,089	1,898,612
Purchased water	1,037,799	184,041
Other operating costs	1,093,707	924,915
Pension expense	711,673	607,115
Fuel and power	503,188	593,223
Repairs and maintenance	588,892	450,720
Health care	421,944	421,024
Other employee benefits	90,962	230,748
General insurance	190,382	167,213
Chemicals	92,658	142,373
Transportation, heat, electric	61,822	77,151
Payroll tax	52,586	52,545
Temporary help	49,748	34,765
Water conservation	<u>30,533</u>	<u>21,525</u>
Total Operating Expenses	<u>9,617,830</u>	<u>8,468,749</u>
Operating Income (Loss)	(58,186)	1,301,681
Nonoperating Revenues (Expenses)		
Contributions revenue	1,443,945	50,082
Interest income	239,894	214,898
Lease revenue	126,590	123,708
Interest on long-term debt	<u>(100,981)</u>	<u>(77,180)</u>
Total Nonoperating Revenues (Expenses), Net	<u>1,709,448</u>	<u>311,508</u>
Net Income	1,651,262	1,613,189
Net Position at Beginning of Year	<u>64,111,651</u>	<u>62,498,462</u>
Net Position at End of Year	<u>\$ 65,762,913</u>	<u>\$ 64,111,651</u>

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

DEDHAM-WESTWOOD WATER DISTRICT

BUSINESS-TYPE PROPRIETARY FUND
COMPARATIVE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 9,584,351	\$ 9,702,189
Payments to vendors and employees	<u>(6,581,079)</u>	<u>(5,906,546)</u>
Net Cash Provided By Operating Activities	3,003,272	3,795,643
Cash Flows From Capital and Related Financing Activities		
Contribution revenue	1,443,945	50,082
Clean water loan note proceeds	3,585,739	4,124,048
Acquisition and construction of capital assets, net of disposition	(8,367,170)	(7,510,793)
Principal payments on bonds	(941,050)	(946,050)
Amortization of debt related costs	(20,735)	(16,459)
Interest on long-term debt	(100,981)	(77,180)
Other	<u>-</u>	<u>(10,890)</u>
Net Cash (Used For) Capital and Related Financing Activities	(4,400,252)	(4,387,242)
Cash Flows From Investing Activities		
Lease revenue	126,590	123,708
Investment income	<u>239,894</u>	<u>214,898</u>
Net Cash Provided By Investing Activities	366,484	338,606
Net Change in Cash and Cash Equivalents	(1,030,496)	(252,993)
Cash and Cash Equivalents, Beginning of Year	<u>13,197,611</u>	<u>13,450,604</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,167,115</u>	<u>\$ 13,197,611</u>
Reconciliation of Operating Income to Net Cash		
Operating income (loss)	\$ (58,186)	\$ 1,301,681
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	2,009,089	1,898,612
Changes in assets and liabilities:		
User fees	(64,453)	(15,189)
Other current assets	41,179	(39,917)
Net OPEB asset	(224,741)	110,678
Deferred outflows - related to pensions	(115,739)	(542,488)
Deferred outflows - related to OPEB	70,602	(70,602)
Accounts payable	(345,712)	353,172
Accrued expenses	1,126,307	246,866
Other current liabilities	47,981	(13,135)
Compensated absences	115,745	12,165
Net pension liability	844,075	169,872
Deferred inflows - related to pensions	(566,253)	383,928
Deferred inflows - related to OPEB	<u>123,378</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 3,003,272</u>	<u>\$ 3,795,643</u>

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

DEDHAM-WESTWOOD WATER DISTRICT

FIDUCIARY FUNDS

COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION

DECEMBER 31, 2019 AND 2018

	Other Post-Employment Benefits Trust Fund	
	<u>2019</u>	<u>2018</u>
Assets		
Investments		
Equity mutual funds	\$ 575,104	\$ 417,990
Fixed income mutual funds	<u>447,692</u>	<u>333,050</u>
Total investments	1,022,796	751,040
Accounts receivable	<u>65,000</u>	<u>125,000</u>
Total assets	<u>\$ 1,087,796</u>	<u>\$ 876,040</u>
Net Position		
Restricted for OPEB purposes	<u>\$ 1,087,796</u>	<u>\$ 876,040</u>

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

DEDHAM-WESTWOOD WATER DISTRICT

FIDUCIARY FUNDS

COMPARATIVE STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Other Post-Employment Benefits Trust Fund	
	<u>2019</u>	<u>2018</u>
Additions		
Contributions	\$ 81,809	\$ 160,870
Investment income (loss)	146,756	(37,028)
Total Additions	228,565	123,842
Deductions		
Benefit payments	16,809	35,870
Total Deductions	16,809	35,870
Net Increase	211,756	87,972
Net Position Restricted for OPEB Purposes		
Beginning of Year	876,040	788,068
End of Year	\$ 1,087,796	\$ 876,040

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

DEDHAM-WESTWOOD WATER DISTRICT

Notes to Financial Statements

1. Reporting Entity

The Dedham-Westwood Water District (the District) is a government instrumentality created by Chapter 193 of the Acts of 1985 of the Commonwealth of Massachusetts (the Enabling Act) for the purpose of supplying the Towns of Dedham and Westwood, Massachusetts, with water and providing water treatment works and facilities. Pursuant to the Enabling Act, the District was organized on July 24, 1985. The Enabling Act requires that a six-member Board of Water Commissioners exercise the management and control of the District. The Boards of Selectmen from the Towns of Dedham and Westwood each select three residents from their respective towns to serve as water commissioners.

2. Summary of Significant Accounting Policies

The accounting policies of the District conform to Generally Accepted Accounting Principles in the United States of America (GAAP) as applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies followed by the District:

A. *Basis of Presentation*

The operations of the District are accounted for as an enterprise fund. The District's financial statements are reported on an accrual basis of accounting as specified by the GASB requirements for an enterprise fund. The accrual basis of accounting recognizes revenues when earned and recognizes expenses when the related liability is incurred, regardless of when the related cash flow takes place.

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2018.

B. *Operating Revenues and Expenses*

Operating revenue consists of billings for metered water supplied to residential, commercial, and industrial entities; water system access fees; public authorities; and other water related services. The District bills users of the system on a cycle basis and unbilled revenue is accrued for as of December 31, 2019. The District maintains an ongoing capacity to collect on its customer receivables via the strength of its non-payment shutoff policy. Therefore, District customer accounts deemed

uncollectible are typically negligible on an annual basis. All other revenue is considered nonoperating.

Operating expenses include costs to provide water services.

C. Inventories

Inventories are valued at cost using the weighted average cost method and are included in Other Current Assets (Note 6).

D. Capital Assets

Capital assets are stated at historical cost and donated assets are recorded at fair value at the date of donation. Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Major betterments or renewals are capitalized and depreciated over their estimated useful lives. The District capitalizes interest costs as part of constructing transmission and distribution facilities.

Estimated useful lives used in computing depreciation are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	5 - 60 years
Machinery, equipment, and furnishings	5 - 25 years
Infrastructure	5 - 75 years

E. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred. A liability for these amounts is reported in the Financial Statements.

F. 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. The remaining net position is reported as unrestricted.

G. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows/inflows and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Unrestricted Net Position

Included in the unrestricted net position of \$7,190,812 at December 31, 2019 is a board-designated stabilization fund of \$1,800,000.

I. Investments

Investments are reported at fair value.

The District 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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

3. Cash

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the District's 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." As of December 31, 2019, none of the District's bank balance of \$12,453,787* was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the District's name.

*The difference between the carrying amount of \$12,167,115 and the bank balance of \$12,453,787 represents reconciling items such as deposits in transit and outstanding checks, which have not been processed by the bank at December 31, 2019.

4. Investments - OPEB Trust Fund

The following is a summary of the OPEB Trust Fund's investments as of December 31, 2019:

<u>Investment Type</u>	<u>Amount</u>
Equity mutual funds	\$ 575,104
Fixed income mutual funds	<u>447,692</u>
Total investments	<u>\$ 1,022,796</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. State law employs the prudent person

rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The OPEB Trust Fund does not have formal investment policies related to credit risk.

Presented below (in thousands) is the actual rating as of year-end for each investment type of the OPEB Trust Fund. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>						
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BAA</u>	<u>BA</u>	<u>B</u>	<u>Unrated</u>
Fixed income mutual funds	\$ 448	\$ 21	\$ 22	\$ 82	\$ 244	\$ 14	\$ 36	\$ 29
Total	\$ 448	\$ 21	\$ 22	\$ 82	\$ 244	\$ 14	\$ 36	\$ 29

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 does not have formal investment policies related to custodial credit risk.

As of December 31, 2019, \$575,104 of the OPEB Trust Fund's investments were subject to custodial credit risk exposure because the related securities are uninsured and held by the OPEB Trust Fund's brokerage firm, which is also the counterparty to these securities as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty's Trust or Agent</u>
Equity mutual funds	\$ 575	\$ 575
Total	\$ 575	\$ 575

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 does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 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 does not have formal investment policies 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 OPEB Trust Fund's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>	
		<u>1-5</u>	<u>6-10</u>
Fixed income mutual funds	\$ <u>448</u>	\$ <u>154</u>	\$ <u>294</u>
Total	\$ <u>448</u>	\$ <u>154</u>	\$ <u>294</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 OPEB Trust Fund does not have formal investment policies related 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 December 31, 2019 (in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Equity mutual funds	\$ 575	\$ 575	\$ -	\$ -
Fixed income mutual funds	<u>448</u>	-	448	-
Total	<u>\$ 1,023</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. User Fees Receivable

User fees receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Customer Accounts:		
Billed	\$ 880,702	\$ 845,308
Unbilled	<u>233,401</u>	<u>204,342</u>
Total receivables	<u>\$ 1,114,103</u>	<u>\$ 1,049,650</u>

Management evaluates the collectability of receivables and has determined an allowance is not required.

6. Other Current Assets

Other current assets for the District consist of the following:

	<u>2019</u>	<u>2018</u>
Inventory	\$ 113,756	\$ 110,552
Prepaid expenses	82,678	141,361
Miscellaneous accounts receivable	47,135	32,835
Other	<u>200</u>	<u>200</u>
Total	<u>\$ 243,769</u>	<u>\$ 284,948</u>

7. 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 May 2014, the District 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 assets, 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 December 31, 2019.

A. *General Information about the OPEB Plan*

Plan Description

The District provides post-employment healthcare benefits for retired employees through the District's plan. The District provides health insurance coverage through Tufts Medicare Preferred Supplement PDP Plan and Tufts Medicare Preferred HMD plans. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Funding Policy

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

Plan Membership

At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	6
Active employees	<u>14</u>
Total	<u><u>20</u></u>

B. *Investments*

The OPEB trust fund assets consist of equity mutual funds and fixed income.

Rate of return. For the year ended December 31, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 17.77%. 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 asset was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
Salary increases	3.0%, average, including inflation
Investment rate of return	6.0%, net of OPEB plan investment expense
Discount rate	6.0%
Healthcare cost trend rates	Non-Medicare: 7.0% decreasing by 0.25% for 10 years to an ultimate level of 4.5% per year. Medicare: 6.0% for 6 years, then decreasing by 0.25% to an ultimate level of 4.5% per year.

Pre-Retirement mortality rates were based on the RP-2014 Employee Mortality Table projected generationally with Scale MP-2019. Post-Retirement mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2019.

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 by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2019 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	37.00%	6.16%
International equity- developed market	4.00%	6.69%
International equity- emerging market	2.00%	9.47%
Core fixed income	38.00%	1.89%
High yield fixed income	6.00%	4.00%
Real estate	5.00%	4.58%
Hedge fund, GTAA, risk parity	7.00%	3.68%
Cash	1.00%	3.16%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the net OPEB asset was 6.0%. 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 Asset

The components of the net OPEB asset, measured as of December 31, 2019, were as follows:

Total OPEB liability	\$ 1,062,777
Plan fiduciary net position	<u>1,087,796</u>
Net OPEB (asset) liability	<u><u>\$ (25,019)</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	102.35%

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

G. Changes in the Net OPEB Asset

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances, beginning of year	\$ 1,075,762	\$ 876,040	\$ 199,722
Changes for the year:			
Service cost	52,902	-	52,902
Interest	72,817	-	72,817
Contributions - employer	-	81,809	(81,809)
Net investment income	-	146,756	(146,756)
Differences between expected and actual experience	(33,253)	-	(33,253)
Changes in assumptions or other inputs	(88,642)	-	(88,642)
Benefit payments	<u>(16,809)</u>	<u>(16,809)</u>	<u>-</u>
Net Changes	<u>(12,985)</u>	<u>211,756</u>	<u>(224,741)</u>
Balances, end of year	<u><u>\$ 1,062,777</u></u>	<u><u>\$ 1,087,796</u></u>	<u><u>\$ (25,019)</u></u>

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

The following presents the net OPEB (asset) liability, as well as what the net OPEB (asset) 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 discount rate:

1% Decrease <u>(5.0%)</u>	Current Discount Rate <u>(6.0%)</u>	1% Increase <u>(7.0%)</u>
\$ 139,957	\$ (25,019)	\$ (160,119)

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

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

1% <u>Decrease</u>	Current Healthcare Cost Trend Rates <u> </u>	1% <u>Increase</u>
\$ (182,937)	\$ (25,019)	\$ 172,716

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

For the year ended December 31, 2019, the District recognized an OPEB expense of \$34,086. At December 31, 2019, the District reported deferred (inflows) of resources related to OPEB from the following sources:

	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ (28,500)
Change in assumptions	(75,978)
Net difference between projected and actual earnings on OPEB Trust investments	<u>(18,900)</u>
Total	<u>\$ (123,378)</u>

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

<u>Year Ended June 30:</u>	
2020	\$ (17,726)
2021	(17,726)
2022	(17,724)
2023	(35,376)
2024	(17,413)
Thereafter	<u>(17,413)</u>
Total	\$ <u><u>(123,378)</u></u>

8. Capital Assets

The following is a summary of the 2019 activity in capital assets (in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 22,604	\$ -	\$ -	\$ 22,604
Machinery, equipment, and furnishings	16,883	766	(38)	17,611
Infrastructure	<u>57,784</u>	<u>4,482</u>	<u>(172)</u>	<u>62,094</u>
Total capital assets, being depreciated	97,271	5,248	(210)	102,309
Less accumulated depreciation for:				
Buildings and improvements	(8,185)	(462)	-	(8,647)
Machinery, equipment, and furnishings	(12,218)	(627)	38	(12,807)
Infrastructure	<u>(15,272)</u>	<u>(920)</u>	<u>124</u>	<u>(16,068)</u>
Total accumulated depreciation	<u>(35,675)</u>	<u>(2,009)</u>	<u>162</u>	<u>(37,522)</u>
Total capital assets, being depreciated, net	61,596	3,239	(48)	64,787
Capital assets, not being depreciated:				
Land	1,799	-	-	1,799
Construction in progress	<u>-</u>	<u>3,167</u>	<u>-</u>	<u>3,167</u>
Total capital assets, not being depreciated	<u>1,799</u>	<u>3,167</u>	<u>-</u>	<u>4,966</u>
Governmental activities capital assets, net	\$ <u><u>63,395</u></u>	\$ <u><u>6,406</u></u>	\$ <u><u>(48)</u></u>	\$ <u><u>69,753</u></u>

Included in the current year additions is \$1,443,945 of donated assets including water mains and hydrants for various capital projects.

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the District 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, in accordance with GASB Statement No. 68, is more fully discussed in the corresponding pension note.

10. Accounts Payable

Accounts payable represents amounts due to vendors for goods and services provided as of year-end, which were paid in the subsequent year.

11. Accrued Expenses

Accrued expenses for the District consist of the following:

	<u>2019</u>	<u>2018</u>
Contract retainage	\$ 440,667	\$ 325,937
Accrued purchased water - MWRA	1,126,949	257,225
Accrued payroll	122,555	136,625
Accrued interest	5,736	9,113
Other	<u>193,905</u>	<u>34,605</u>
Total	<u>\$ 1,889,812</u>	<u>\$ 763,505</u>

12. Clean Water Loan Note Payable

In 2017 the District was awarded an interest-free Massachusetts Clean Water Interim Loan Note for \$8,841,400, to be used for upgrades to the Bridge Street Treatment Plant. During 2019, the Clean Water Loan Note Payable was bonded converted to long-term debt. As of December 31, 2019, the District has drawn down \$8,716,797, leaving a loan note receivable balance of \$124,603 to be drawn down as expenses are incurred.

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

<u>Purpose</u>	Balance Beginning of Year	New Issues	Bonding	Balance End of Year
Clean Water Loan Note Payable	\$ 8,841,400	\$ -	\$ (8,841,400)	\$ -
Total	<u>\$ 8,841,400</u>	<u>\$ -</u>	<u>\$ (8,841,400)</u>	<u>\$ -</u>

13. Bonds Payable

A. General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds (exclusive of premium) currently outstanding are as follows:

<u>General Obligation Bonds:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 12/31/19</u>
General obligation series G	2020	2.00 - 3.25%	\$ 395,000
General obligation series D	2021	0.00%	102,100
General obligation series H	2024	2.00 - 2.50%	1,500,000
MA Clean Water Trust bond	2040	2.00%	<u>8,841,400</u>
Total General Obligation Bonds			<u>\$ 10,838,500</u>

B. Future Debt Service

The annual payments, which are made semi-annually, to retire all general obligation long-term debt outstanding as of December 31, 2019 are as follows:

Business-Type Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,103,694	\$ 173,278	\$ 1,276,972
2021	716,466	195,925	912,391
2022	673,358	182,617	855,975
2023	681,473	169,150	850,623
2024	689,763	154,770	844,533
2025-2029	2,079,625	615,978	2,695,603
2030-2034	2,315,653	398,777	2,714,430
2035-2039	<u>2,578,468</u>	<u>156,925</u>	<u>2,735,393</u>
Total	<u>\$ 10,838,500</u>	<u>\$ 2,047,420</u>	<u>\$ 12,885,920</u>

C. Changes in General Long-Term Liabilities

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Business-Type Activities						
General obligation bonds	\$ 2,938,150	\$ 8,841,400	\$ (941,050)	\$ 10,838,500	\$ (1,103,694)	\$ 9,734,806
Bond premium	74,081	-	(16,578)	57,503	(27,838)	29,665
Subtotal	3,012,231	8,841,400	(957,628)	10,896,003	(1,131,532)	9,764,471
Net pension liability	4,699,984	844,075	-	5,544,059	-	5,544,059
Net OPEB (asset) liability	199,722	-	(224,741)	(25,019)	-	(25,019)
Other:						
Compensated absence	58,247	173,992	(58,247)	173,992	(173,992)	-
Totals	\$ 7,970,184	\$ 9,859,467	\$ (1,240,616)	\$ 16,589,035	\$ (1,305,524)	\$ 15,283,511

D. Refundings

On August 18, 2010, the District sold \$4,090,000 general obligation bonds. \$1,040,000 of this issue was to current refund the outstanding balance of the \$2,545,000 General Obligation Bonds of the District originally dated October 15, 2000 and maturing October 15, 2011 through 2020. The refunding bonds were dated September 1, 2010 and will mature on September 1, 2020. The balance outstanding as of December 31, 2019 was \$90,000.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the District 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 will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes.

15. Retirement System

The District 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 District are members of the Norfolk County 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 480 Neponset Street, Building #15, Canton, Massachusetts 02021.

Participant 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 four 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 District 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, 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 District’s contribution to the System for the year ended December 31, 2019 was \$595,803.

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 the System’s fiduciary net position have been determined on the same basis as they are reported by the 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 December 31, 2019, the District reported a liability of \$5,544,059 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 District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the

projected contributions of all participating employers, actuarially determined. At December 31, 2019, the District's proportion was 0.8517%, which was an increase of 0.0018% from its proportion measured as of December 31, 2018.

For the year ended December 31, 2019, the District recognized pension expense of \$711,673. In addition, the District reported deferred outflows of resources and deferred (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	\$ 301,621	\$ -
Changes of assumptions	163,937	(89,979)
Net difference between projected and actual investment earnings	672,928	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(42,359)
Contributions subsequent to the measurement date	<u>549,590</u>	<u>-</u>
Total	<u>\$ 1,688,076</u>	<u>\$ (132,338)</u>

The amount reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net pension liability in the year ending December 31, 2020.

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

Year ended December 31:	
2020	\$ 890,181
2021	280,836
2022	166,581
2023	<u>218,140</u>
Total	<u>\$ 1,555,738</u>

D. Actuarial Assumptions

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

Inflation	4%
Salary increases	3.5%-5.5%
Cost of living increases	3% of the first \$17,000
Investment rate of return	7.75%

It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2016, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward 5 years for males and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward 3 years for males, and 6 years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward 6 years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward 2 years. Generational adjusting is based on Scale MP-2016.

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	32.00%	8.10%
Fixed income	19.00%	3.20%
International equity	17.50%	8.20%
Real estate	9.00%	7.30%
Hedge funds	9.00%	7.40%
Private equity	8.50%	10.50%
Real assets	5.00%	10.40%
Total	<u>100.00%</u>	

F. 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.

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

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District'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 <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
\$ 6,952,736	\$ 5,544,059	\$ 4,346,475

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.

16. Lease Revenue

The District has entered into operating leases with certain cellular telecommunication companies whereby these companies use District property for cellular towers. The District currently has three active cellular leases with Sprint (\$64,076), Verizon (\$32,835), and AT&T (\$29,679), each with annual escalators of 3%. Although the lease agreements are cancellable by either party, the District anticipates these revenues to continue in the future.

17. Subsequent Event - COVID-19

The COVID-19 outbreak in the United States has resulted in economic uncertainties. There is considerable uncertainty around the duration and scope of the pandemic. The extent of the impact of COVID-19 on the District's operational and financial performance

will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees, and vendors all of which are uncertain. The extent to which COVID-19 may impact the financial condition or results of operations of the District is uncertain.

The District has developed a COVID-19 policy, approved by the Board of Water Commissioners and the Union, compliant with state and federal regulations.

18. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the District beginning with its fiscal year ending December 31, 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 District beginning with its fiscal year ending December 31, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

DEDHAM-WESTWOOD WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

DECEMBER 31, 2019
(Unaudited)

Norfolk 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>
December 31, 2019	December 31, 2018	0.8517%	\$5,544,059	\$ 2,281,564	242.99%	58.3%
December 31, 2018	December 31, 2017	0.8499%	\$4,699,984	\$ 2,204,410	213.21%	63.5%
December 31, 2017	December 31, 2016	0.8678%	\$4,530,112	\$ 2,419,805	187.21%	61.6%
December 31, 2016	December 31, 2015	0.8678%	\$4,714,223	\$ 2,363,328	199.47%	58.6%
December 31, 2015	December 31, 2014	0.8631%	\$4,476,445	\$ 2,129,557	210.21%	60.1%

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

See Independent Auditors' Report.

DEDHAM-WESTWOOD WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

DECEMBER 31, 2019
 (Unaudited)

Norfolk County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2019	December 31, 2018	\$ 595,803	\$ (595,803)	\$ -	\$ 2,281,564	26.11%
December 31, 2018	December 31, 2017	\$ 544,023	\$ (544,023)	\$ -	\$ 2,204,410	24.68%
December 31, 2017	December 31, 2016	\$ 484,009	\$ (484,009)	\$ -	\$ 2,419,805	20.00%
December 31, 2016	December 31, 2015	\$ 438,887	\$ (438,887)	\$ -	\$ 2,363,328	18.57%
December 31, 2015	December 31, 2014	\$ 407,481	\$ (407,481)	\$ -	\$ 2,129,557	19.13%

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

See Independent Auditors' Report.

DEDHAM-WESTWOOD WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN THE NET OPEB (ASSET) LIABILITY (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 52,902	\$ 58,897	\$ 65,584
Interest on unfunded liability - time value of \$	72,817	66,769	60,944
Differences between expected and actual experience	(33,253)	-	-
Changes of assumptions	(88,642)	-	-
Benefit payments, including refunds of member contributions	<u>(16,809)</u>	<u>(35,870)</u>	<u>(24,767)</u>
Net Change in Total OPEB Liability	(12,985)	89,796	101,761
Total OPEB Liability - Beginning	<u>1,075,762</u>	<u>985,966</u>	<u>884,205</u>
Total OPEB Liability - Ending (a)	1,062,777	1,075,762	985,966
Plan Fiduciary Net Position			
Contributions - employer	81,809	160,870	149,767
Net investment income	146,756	(37,028)	54,348
Benefit payments, including refunds of member contributions	<u>(16,809)</u>	<u>(35,870)</u>	<u>(24,767)</u>
Net Change in Plan Fiduciary Net Position	211,756	87,972	179,348
Plan Fiduciary Net Position - Beginning	<u>876,040</u>	<u>788,068</u>	<u>608,720</u>
Plan Fiduciary Net Position - Ending (b)	<u>1,087,796</u>	<u>876,040</u>	<u>788,068</u>
Net OPEB (Asset) Liability - Ending (a-b)	<u>\$ (25,019)</u>	<u>\$ 199,722</u>	<u>\$ 197,898</u>

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

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

See Independent Auditors' Report.

DEDHAM-WESTWOOD WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF NET OPEB (ASSET) LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB (Asset) Liability			
Total OPEB liability	\$ 1,062,777	\$ 1,075,762	\$ 985,966
Plan fiduciary net position	<u>(1,087,796)</u>	<u>(876,040)</u>	<u>(788,068)</u>
Net OPEB (Asset) Liability	<u>\$ (25,019)</u>	<u>\$ 199,722</u>	<u>\$ 197,898</u>
 Plan fiduciary net position as a percentage of the total OPEB asset/liability	 -102.35%	 -81.43%	 -79.93%

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Contributions			
Actuarially determined contribution	\$ 103,968	\$ 132,595	\$ 142,358
Contributions in relation to the actuarially determined contribution	<u>(81,809)</u>	<u>(160,870)</u>	<u>(149,767)</u>
Contribution Deficiency (Excess)	<u>\$ 22,159</u>	<u>\$ (28,275)</u>	<u>\$ (7,409)</u>

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns			
Annual money weighted rate of return, net of investment expense	17.77%	(5.27)%	5.34%

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

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

See Independent Auditors' Report.