

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF STOW, MASSACHUSETTS

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended June 30, 2023



TOWN OF STOW, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Select Board
Town of Stow, Massachusetts

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Stow, Massachusetts, (the "Town") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2023 and the respective changes in financial position, and where applicable, the cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is the responsibility of management and is required by the Governmental Accounting Standards Board, who considers these to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

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

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2024 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Roselli Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts 01801
March 5, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Stow, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$41.2 million (*total net position*).
- The Town's total net position increased by approximately \$4.0 million year-over-year.
- At June 30, 2023, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$16.8 million, which was over \$0.5 million higher than the prior year. This increase was attributed to general fund revenues exceeding expenditures.
- At June 30, 2023, the unassigned fund balance for the general fund exceeded 14.8% of fiscal year 2023 total general fund expenditures and the total general fund balance was approximately 23.4% of that figure.
- The Town's total long-term debt decreased by approximately \$1.3 million to approximately \$18.9 million as the Town did not issue any long-term debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all the Town's assets, liabilities and deferred inflows/outflows of resources, with the end result reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type*

activities). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits, and debt service. The Town reports no business-type activities.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Town can be divided into two categories: governmental funds, and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Nonspendable – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact
- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed – amounts constrained by a government using its highest level of decision-making authority
- Assigned – amounts a government intends to use for a particular purpose
- Unassigned – amounts that are not constrained at all will be reported in the General Fund or in other major funds if negative

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Preservation Fund, ARPA Fund, and the Town Capital Projects Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes in this report.

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information as presented in the table of as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and notes to this schedule.

Government-Wide Financial Analysis

Condensed comparative statements of net position for the two most recent fiscal years were as follows:

	<u>As of June 30</u>	
	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current and other assets	\$ 20,235,347	\$ 19,263,482
Capital assets, net	<u>63,264,416</u>	<u>60,842,531</u>
Total assets	83,499,763	80,106,013
Deferred outflows of resources	<u>3,807,206</u>	<u>3,594,924</u>
<u>Liabilities</u>		
Long-term liabilities	42,139,134	40,499,401
Other liabilities	<u>2,532,682</u>	<u>2,032,980</u>
Total liabilities	44,671,816	42,532,381
Deferred inflows of resources	<u>1,430,708</u>	<u>3,947,850</u>
<u>Net Position</u>		
Net investment in capital assets	43,787,120	40,063,050
Restricted	9,219,697	11,035,170
Unrestricted	<u>(11,802,372)</u>	<u>(13,877,514)</u>
Net Position	<u>\$ 41,204,445</u>	<u>\$ 37,220,706</u>

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$41.2 million (*total net position*). This reflects an increase of approximately \$4.0 million over the prior year due to positive operations.

The largest portion (approximately \$43.8 million) of the Town’s total net position reflects its net investment in capital assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional significant portion of the Town’s total net position (over \$9.2 million) represents resources that are subject to external restrictions on how they may be used.

The Town continues to report a deficit in its unrestricted net position, which is entirely due to the recognition of approximately \$22.6 million in long-term liabilities associated with net pension and other postemployment benefits liabilities. The current year deficit in net position is over \$11.8 million.

Condensed comparative statements of activities for the two most recent fiscal years were as follows:

	<u>Year Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 2,646,272	\$ 2,041,135
Operating grants and contributions	2,644,327	1,298,503
Capital grants and contributions	386,810	472,674
General revenues:		
Property taxes	31,979,967	30,284,269
Excise taxes	1,305,456	1,218,847
Grants and contributions not restricted to specific programs	487,654	508,392
Other	490,675	101,056
Total revenues	<u>39,941,161</u>	<u>35,924,876</u>
<u>Expenses</u>		
General government	4,223,725	4,119,465
Public safety	5,072,165	4,497,365
Education	21,762,208	20,690,155
Public works	2,377,521	2,011,990
Health and human services	793,279	663,009
Culture and recreation	1,060,043	2,885,973
Interest expense	666,901	716,048
Total expenses	<u>35,955,842</u>	<u>35,584,005</u>
Change in net position before transfers	3,985,319	340,871
(Loss) on disposal of capital assets	(1,580)	-
Change in net position	3,983,739	340,871
Net position, beginning of year	<u>37,220,706</u>	<u>36,879,835</u>
Net position, end of year	<u>\$ 41,204,445</u>	<u>\$ 37,220,706</u>

Governmental Activities – The Town’s most significant source of revenues is property taxes, which, during fiscal year 2023 accounted for approximately 80.1% of total revenues. Property tax revenues were consistent year-over-year within statutory increases related to proposition 2 ½ and new growth. Charges for service increased over \$0.6 million due to a settlement of lawsuit over lower village reconstruction project. Operating grants and contributions increased over \$1.3 million due to Stow Acres grant funding and ARPA. No other revenues were greater than 10% of total revenues or were relatively consistent in dollar amount in fiscal years 2023 or 2022.

Education expenses continue to represent the largest expense for the Town. Education expenses represented approximately 60.5% of total 2023 expenses versus 58.1% in the prior year; educational services are provided through a regional school district. In terms of gross dollars, education expenses

were nearly \$1.1 million greater than the prior year. General government expenses totaled over 11.7% of total expenditures in the current year. In terms of gross dollars, general government expenses were consistent with the prior year. Public safety expenses totaled over 14.1% of total expenditures in the current year. In terms of gross dollars, public safety expenses were nearly \$0.6 million greater than the prior year; this is attributed to benefit costs. Culture & recreation expenses totaled over 2.9% of total expenditures in the current year. In terms of gross dollars, culture and recreation expenses were over \$1.8 million lower than the prior year; this is attributed to community preservation spending in the prior year. No other expense categories were greater than 10% or were relatively consistent in dollar amount in fiscal years 2023 or 2022 total expenses.

Governmental Funds Financial Analysis

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

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

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$16.8 million. This represents an increase of over \$0.5 million over the previous year.

General Fund

The General Fund is the chief operating fund of the Town. The total fund balance in the General Fund increased by over \$1.8 million as revenues exceeded forecasts by a substantial amount.

The unassigned fund balance of the General Fund was approximately \$4.9 million, while the total fund balance in the General Fund was over \$7.7 million. A measure of the General Fund’s liquidity that may be useful to compare is unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents over 14.8% of total General Fund expenditures, while the total fund balance represents approximately 23.4% of that same amount.

Community Preservation Fund

The Town reports its Community Preservation Fund as a major fund. This fund receives monies from a 3% surcharge added to real estate tax bills as well as matching state funds; it is intended to be used for open space, historic resource, passive recreation and affordable housing purposes. The total fund balance in the Community Preservation Fund decreased approximately \$1.2 million in fiscal year 2023 as disbursements outpaced receipts.

ARPA Fund

This fund was established in fiscal year 2022 to account for the Town’s expenditures related to the American Rescue Plan Act of 2021. The fund is used to account for financial resources that are restricted, committed or assigned to expenditures related to the ARPA grant.

Capital Projects Fund

The Capital Projects Fund is used to account for the construction of the Town's building and infrastructure projects which exceed 1 year. The Capital Projects Fund expended approximately \$0.6 million in fiscal year 2023, primarily for library renovations. The total fund balance in the Capital Projects Fund increased over \$0.4 million in fiscal year 2023 due to transfers from other funds exceeding capital expenditures. The Town has also funded capital projects from bond anticipation notes, which has resulted in a deficit of approximately \$0.2 million. The Town expects to permanently finance these projects through general obligation bond issuances in the future, which will cure the current deficit in the fund's unassigned fund balance.

Nonmajor Governmental Funds

The Nonmajor Governmental Funds are comprised of the remaining governmental funds not reported in the four previously described major funds. Fund balance decreased approximately \$0.6 million in the current year. The Town reports approximately \$0.4 million as nonspendable (endowment corpus) and over \$2.5 million as restricted.

Fiduciary Funds – The Town's fiduciary fund is comprised of the Town's OPEB trust and private purpose trust funds. The current balance in the OPEB fund is nearly \$1.4 million. The Town's third-party actuary estimates that the OPEB trust fund is approximately 14.1% funded at June 30, 2023.

General Fund Budgetary Highlights

Differences between the original and the final amended budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets for its governmental activities as of June 30, 2023 totaled approximately \$63.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of over \$2.4 million, as capital asset additions exceeded depreciation during the current year.

Additional information on the Town capital assets can be found in notes to this report.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of approximately \$18.9 million. The Town's total long-term debt decreased nearly \$1.3 million during the fiscal year as a result of regular scheduled maturities.

Standard & Poor's Financial Services LLC ("S&P") assigned the Town an AAA credit rating, which signifies that the Town's general obligation bonds are of investment grade, high quality and very low credit risk.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is over \$85.9 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in notes to this report.

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate tax base is made up predominantly of residential taxes, which in 2023 are approximately 94% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2.5% of the previous year's tax levy. The Town typically taxes at or near its levy limit annually.
- The Town maintains "rainy day funds" in the form of stabilization funds, which at June 30, 2023 totaled over \$1.0 million.
- The Town's free cash for its general fund as of July 1, 2023, was certified as approximately \$3.3 million.
- The Town's housing market has been very strong for the past several years. This has been bolstered by mortgage rates at historic lows. Current actions by the Federal Open Market Committee to soften the economy due to inflation have caused mortgage rates to spike during fiscal year 2023. Such trends may have an adverse effect on the housing market into 2024, and the Town is monitoring this.
- Inflation is peaking near 40-year historic highs. This is having adverse impacts on the Town. Wage inflation cannot guarantee that the Town will be able to maintain employees without increasing wages. Energy inflation is causing a spike in energy costs. Price inflation is causing a spike in the price of the delivery and cost of goods and services. The construction building index is nearing historic highs which may cause the estimates of major capital projects to increase, in addition to the financing costs of these projects. The Town continues to monitor this situation.

Each of these factors were considered in preparing the Town's budget for the 2024 fiscal year, which was adopted at Town Meeting in the spring of 2023. The Town set its fiscal year 2024 tax rate on November 16, 2023

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Manager, Stow Town Buildings, 380 Great Road, Stow, MA 01775.

TOWN OF STOW, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2023

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 6,690,899
Investments	11,582,303
Receivables, net of allowance for uncollectibles:	
Property taxes	281,346
Excise taxes	135,940
Departmental and other	1,404,273
Intergovernmental	35,109
Tax foreclosures	105,477
Capital assets, not being depreciated	14,661,667
Capital assets, net of depreciation	48,602,749
Total Assets	83,499,763
Deferred Outflows of Resources:	
Related to net pension liability	2,333,067
Related to net other postemployment benefit liabilities	1,474,139
Total Deferred Outflows of Resources	3,807,206
Liabilities:	
Warrants and accounts payable	499,943
Accrued payroll and withholdings	240,261
Other liabilities	90,807
Unearned revenue	1,135,671
Bond anticipation notes payable	566,000
Noncurrent liabilities:	
Due in one year or less	1,434,864
Due in more than one year	40,704,270
Total Liabilities	44,671,816
Deferred Outflows of Resources:	
Related to net pension liability	263,882
Related to net other postemployment benefit liabilities	1,166,826
Total Deferred Inflows of Resources	1,430,708
Net Position:	
Net investment in capital assets	43,787,120
Restricted for:	
Nonexpendable permanent funds	393,730
Expendable permanent funds	1,358,885
Community preservation funds	6,307,161
Other purposes	1,159,921
Unrestricted	(11,802,372)
Total Net Position	\$ 41,204,445

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
General government	\$ 4,223,725	\$ 437,353	\$ 1,981,752	\$ -	\$ (1,804,620)
Public safety	5,072,165	847,956	285,597	-	(3,938,612)
Education	21,762,208	-	14,961	-	(21,747,247)
Public works	2,377,521	1,041,950	150,737	386,810	(798,024)
Health and human services	793,279	69,021	80,210	-	(644,048)
Culture and recreation	1,060,043	249,992	131,070	-	(678,981)
Interest expense	666,901	-	-	-	(666,901)
Total Governmental Activities	\$ 35,955,842	\$ 2,646,272	\$ 2,644,327	\$ 386,810	(30,278,433)
<u>General Revenues:</u>					
					31,979,967
					487,654
					1,305,456
					101,299
					389,376
					(1,580)
					34,262,172
					3,983,739
<u>Net Position:</u>					
					37,220,706
					\$ 41,204,445

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2023

	General Fund	Community Preservation Fund	ARPA Fund	Town Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 2,924,739	\$ 669,242	\$ 1,281,086	\$ 633,289	\$ 1,182,543	\$ 6,690,899
Investments	4,203,075	5,638,072	-	-	1,741,156	11,582,303
Receivables, net of allowance						
Property taxes	275,490	5,856	-	-	-	281,346
Excise taxes	135,940	-	-	-	-	135,940
Department and other	1,388,368	4,708	-	-	11,197	1,404,273
Intergovernmental	3,160	-	-	-	31,949	35,109
Tax foreclosures	105,477	-	-	-	-	105,477
Total Assets	<u>9,036,249</u>	<u>6,317,878</u>	<u>1,281,086</u>	<u>633,289</u>	<u>2,966,845</u>	<u>20,235,347</u>
Deferred Outflows of Resources						
	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 9,036,249</u>	<u>\$ 6,317,878</u>	<u>\$ 1,281,086</u>	<u>\$ 633,289</u>	<u>\$ 2,966,845</u>	<u>\$ 20,235,347</u>
Liabilities:						
Warrants and accounts payable	\$ 96,473	\$ 29	\$ 144,065	\$ 234,758	\$ 24,618	\$ 499,943
Accrued payroll and withholdings	220,293	124	1,350	-	18,494	240,261
Other liabilities	90,807	-	-	-	-	90,807
Unearned revenue	-	-	1,135,671	-	-	1,135,671
Bond anticipation notes payable	-	-	-	566,000	-	566,000
Total Liabilities	<u>407,573</u>	<u>153</u>	<u>1,281,086</u>	<u>800,758</u>	<u>43,112</u>	<u>2,532,682</u>
Deferred Inflows of Resources:						
Unavailable revenue - property taxes	275,490	10,564	-	-	-	286,054
Unavailable revenue - excise taxes	135,940	-	-	-	-	135,940
Unavailable revenue - other	491,145	-	-	-	11,197	502,342
Total Deferred Inflows of Resources	<u>902,575</u>	<u>10,564</u>	<u>-</u>	<u>-</u>	<u>11,197</u>	<u>924,336</u>
Fund Balances:						
Nonspendable	-	-	-	-	393,730	393,730
Restricted	95,309	6,307,161	-	398,531	2,518,806	9,319,807
Committed	2,722,825	-	-	-	-	2,722,825
Assigned	13,467	-	-	-	-	13,467
Unassigned	4,894,500	-	-	(566,000)	-	4,328,500
Total Fund Balances	<u>7,726,101</u>	<u>6,307,161</u>	<u>-</u>	<u>(167,469)</u>	<u>2,912,536</u>	<u>16,778,329</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 9,036,249</u>	<u>\$ 6,317,878</u>	<u>\$ 1,281,086</u>	<u>\$ 633,289</u>	<u>\$ 2,966,845</u>	<u>\$ 20,235,347</u>

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

Total Governmental Fund Balances		\$ 16,778,329
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		63,264,416
Other long-term assets are not available to pay for current period expenditures and are therefore unavailable within the funds.		924,336
Deferred outflows and inflows of resources to be recognized in future fiscal years are not available resources and, therefore, are not reported in the funds:		
Deferred outflows related to net pension liability	2,333,067	
Deferred inflows related to net pension liability	(263,882)	
Deferred outflows related to other postemployment benefits liability	1,474,139	
Deferred inflows related to other postemployment benefits liability	<u>(1,166,826)</u>	
Net effect of reporting deferred outflows and inflows of resources		2,376,498
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the government funds:		
Bonds and notes payable	(18,911,296)	
Debt premium	(423,663)	
Compensated absences	(215,577)	
Net other postemployment benefits liability	(8,406,262)	
Net pension liability	<u>(14,182,336)</u>	
Net effect of reporting long-term liabilities		<u>(42,139,134)</u>
Net Position of Governmental Activities		<u>\$ 41,204,445</u>

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2023

	General Fund	Community Preservation Fund	ARPA Fund	Town Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Real estate and personal property taxes, net	\$ 31,204,984	\$ 774,010	\$ -	\$ -	\$ -	\$ 31,978,994
Intergovernmental	525,308	425,252	804,693	-	1,620,888	3,376,141
Motor vehicle and other excises	1,307,828	-	-	-	-	1,307,828
License and permits	232,608	-	-	-	39,525	272,133
Departmental and other revenue	1,526,447	-	-	-	870,883	2,397,330
Penalties and interest on taxes	99,364	1,935	-	-	-	101,299
Fines and forfeitures	4,228	-	-	-	-	4,228
Investment income	85,747	175,313	-	-	128,316	389,376
Contributions and donations	-	-	-	-	142,650	142,650
Total Revenues	<u>34,986,514</u>	<u>1,376,510</u>	<u>804,693</u>	<u>-</u>	<u>2,802,262</u>	<u>39,969,979</u>
Expenditures:						
Current:						
General government	2,475,158	2,555,299	434,940	17,241	1,119,414	6,602,052
Public safety	2,766,037	-	139,709	-	572,973	3,478,719
Education	20,681,990	-	14,961	-	-	20,696,951
Public works	1,606,637	-	150,737	70,398	437,754	2,265,526
Health and human services	518,658	-	-	-	34,460	553,118
Culture and recreation	473,737	-	64,346	483,443	343,268	1,364,794
Pensions and other fringes	2,386,988	-	-	-	-	2,386,988
State and county tax assessments	114,832	-	-	-	-	114,832
Debt service:						
Principal	1,291,211	-	-	-	-	1,291,211
Interest expense	714,807	-	-	-	-	714,807
Total Expenditures	<u>33,030,055</u>	<u>2,555,299</u>	<u>804,693</u>	<u>571,082</u>	<u>2,507,869</u>	<u>39,468,998</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,956,459</u>	<u>(1,178,789)</u>	<u>-</u>	<u>(571,082)</u>	<u>294,393</u>	<u>500,981</u>
Other Financing Sources (Uses):						
Transfers in	211,754	-	-	980,588	59,298	1,251,640
Transfers out	(319,651)	-	-	-	(931,989)	(1,251,640)
Total Other Financing Sources (Uses)	<u>(107,897)</u>	<u>-</u>	<u>-</u>	<u>980,588</u>	<u>(872,691)</u>	<u>-</u>
Net Change in Fund Balances	<u>1,848,562</u>	<u>(1,178,789)</u>	<u>-</u>	<u>409,506</u>	<u>(578,298)</u>	<u>500,981</u>
Fund Balances - Beginning of year	<u>5,877,539</u>	<u>7,485,950</u>	<u>-</u>	<u>(576,975)</u>	<u>3,490,834</u>	<u>16,277,348</u>
Fund Balances - End of year	<u>\$ 7,726,101</u>	<u>\$ 6,307,161</u>	<u>\$ -</u>	<u>\$ (167,469)</u>	<u>\$ 2,912,536</u>	<u>\$ 16,778,329</u>

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 500,981**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the net amount of depreciation expense in excess of capital outlay. The amounts are represented here as reconciling items:

Capital outlays	4,528,799	
Disposal of capital assets	(1,580)	
Depreciation expense	<u>(2,105,334)</u>	
Net effect of reporting capital assets		2,421,885

The issuance of long-term debt provides current financial resources to governmental funds, while the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Repayments of bonds and notes	<u>1,291,211</u>	
Net effect of reporting long-term debt		1,291,211

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from unavailable revenue. (28,818)

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

Debt premium	47,906	
Compensated absences	21,705	
Other postemployment benefits	284,672	
Pension benefits	<u>(555,803)</u>	
Net effect of reporting long-term liabilities		<u>(201,520)</u>

Change in Net Position of Governmental Activities **\$ 3,983,739**

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2023**

	<u>Other Postemployment Benefits Trust Fund</u>	<u>Private Purpose Trust Fund</u>
Assets:		
Cash and cash equivalents	\$ 6,860	\$ 19,639
Investments	-	84,928
Mutual funds - equity	914,859	-
Mutual funds - fixed income	452,013	-
	<u>1,373,732</u>	<u>104,567</u>
Total Assets	1,373,732	104,567
 Net Position:		
Restricted for private benefit	-	104,567
Restricted for other postemployment benefits	1,373,732	-
	<u>1,373,732</u>	<u>-</u>
Total Net Position	<u>\$ 1,373,732</u>	<u>\$ 104,567</u>

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Fund
Additions:		
Contributions:		
Employer	\$ 662,761	\$ -
Other	-	120
Total Contributions	<u>662,761</u>	<u>120</u>
Investment income:		
Investment income	<u>87,411</u>	<u>1,357</u>
Net Investment Earnings	<u>87,411</u>	<u>1,357</u>
Total Additions	<u>750,172</u>	<u>1,477</u>
Deductions:		
Health and human services	-	1,500
Benefits paid	<u>427,761</u>	<u>-</u>
Total Deductions	<u>427,761</u>	<u>1,500</u>
Change in Net Position	322,411	(23)
Net Position - Beginning of year	<u>1,051,321</u>	<u>104,590</u>
Net Position - End of year	<u>\$ 1,373,732</u>	<u>\$ 104,567</u>

See accompanying notes to basic financial statements.

TOWN OF STOW, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2023

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

Stow, which is in Middlesex County, is located 21 miles west of Boston. The Town was established as a town in 1683.

The Town is governed by an elected five-member Select Board. The board members serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, rubbish disposal, public education in grades K-12, street maintenance, and parks and recreational facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

Joint Venture –The Nashoba Regional School District (NRSD) is governed by an eleven-member school committee consisting of four elected representatives from the Town. It is considered a joint venture whereby the Town participates with other municipalities to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The Town is indirectly liable for the NRSD debt and other expenditures and is assessed annually for its share of operating and capital costs. For fiscal year ended June 30, 2023, the Town’s assessment totaled \$18,535,962. Separate financial statements may be obtained by writing to the Treasurer of the School at 50 Mechanic Street, Bolton, MA 01740.

Joint Venture –The Minuteman Regional High School (MRHS) is governed by a nine-member school committee consisting of one elected representative from the Town. It is considered a joint venture whereby the Town participates with other municipalities to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The Town is indirectly liable for the NRSD debt and other expenditures and is assessed annually for its share of operating and capital costs. For fiscal year ended June 30, 2023, the Town’s assessment totaled \$2,145,103. Separate financial statements may be obtained by writing to the Treasurer of the School at 758 Marrett Road, Lexington, MA 02421.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The primary government reports no business-type activities on these statements.

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds are reported as separate columns in the fund financial statements. Nonmajor governmental funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

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

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

The Town considers property tax revenues to be available if they are both material and collected within sixty days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

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

The Town reports the following major governmental funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Community Preservation Fund – is a special revenue fund used to account for 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource, passive recreation and affordable housing purposes.

ARPA Fund – is used to account for the Town’s ARPA federal grant program.

Town Capital Projects Fund – is used to account for the purchase or construction of the Town’s capital assets.

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

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

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The government reports the following fiduciary funds:

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of other postemployment benefits for retirees such as health and life insurance.

Private Purpose Trust Fund – is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the Town’s best estimate of what market participants would use in pricing the investment at the measurement date.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent semiannually and are due on November 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to

vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and governmental fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks and similar items), are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	40 years
Machinery and equipment	5-10 years
Vehicles	5-15 years
Infrastructure	40 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities.

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

Compensated Absences – Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state law and executive policies. Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred in the government-wide financial statements. Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations in the governmental fund's financial statements.

Long-Term Debt – Long-term debt is reported as liabilities in the government-wide statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method if material. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are

exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflows of resources in its government-wide financial statements relative to other postemployment and pension-related transactions. The Town expects to recognize the reported deferred outflows of resources relative to these personnel-related transactions over the next five years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports deferred inflows of resources in its government-wide financial statements relative to other postemployment and pension-related transactions and expects to recognize these amounts over the next five years. The Town reports unavailable revenues as deferred inflows of resources in its governmental funds financial statements. These amounts are expected to be recognized as an inflow of resources in the period in which the amounts become available.

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

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

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

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

Community preservation funds represent amounts that can be used for open space, historic resource, passive recreation and affordable housing purposes.

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

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid items) or (b) legally or contractually required to be maintained intact as the corpus of the endowment.

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. The Town has by ordinance authorized the Town Accountant to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Funds – The Town maintains a stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$1,018,256 at June 30, 2023 and is reported as unassigned fund balance in the General Fund.

Capital Stabilization Funds – The Town maintains a capital stabilization fund which may be used for any capital purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$75,859 at June 30, 2023 and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (i) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (ii) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted or committed are included within the classification of those fund balances and not reported, separately. The Town reports \$1,619,527 of articles from Town Meeting votes in the General

Fund as committed and \$13,467 of encumbrances from normal purchasing activity in the general fund as assigned at June 30, 2023. Encumbrances are not reported in any other funds.

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

	General Fund	Community Preservation Fund	Capital Project Funds	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 393,730	\$ 393,730
Restricted:					
General government	-	-	-	829,784	829,784
Public safety	-	-	-	78,212	78,212
Education	-	-	-	-	-
Public works	-	-	-	109,078	109,078
Health and human services	-	-	-	557,375	557,375
Culture and recreation	-	-	398,531	944,357	1,342,888
Community preservation	-	6,307,161	-	-	6,307,161
Debt service	95,309	-	-	-	95,309
Committed:					
General government	486,572	-	-	-	486,572
Public safety	44,203	-	-	-	44,203
Education	23,950	-	-	-	23,950
Public works	975,518	-	-	-	975,518
Health and human services	52,567	-	-	-	52,567
Culture and recreation	21,149	-	-	-	21,149
Pension and fringe benefits	15,568	-	-	-	15,568
Subsequent year expenditures	1,103,298	-	-	-	1,103,298
Assigned:					
General government	7,021	-	-	-	7,021
Public safety	5,664	-	-	-	5,664
Culture and recreation	782	-	-	-	782
Unassigned	4,894,500	-	(566,000)	-	4,328,500
Totals	<u>\$ 7,726,101</u>	<u>\$ 6,307,161</u>	<u>\$ (167,469)</u>	<u>\$ 2,912,536</u>	<u>\$16,778,329</u>

E. Excess of Expenditures Over Appropriations and Deficits

The Town reported a \$566,000 deficit in its Capital Projects fund at June 30, 2023. These deficits will be funded through future grants, bond proceeds or other available funds.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town’s deposits was \$6,717,399 and the banks’ balances totaled \$6,447,292. Of the bank balance, \$6,413,366 was covered by either federal depository insurance or by the depositors’ insurance fund and the remaining balance was uninsured.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town does not have a formal investment policy related to custodial credit risk. The Town’s State Treasurer’s investment pool investments are not subject to custodial credit risk.

Fair Value of Investments – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the Town’s best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2023:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
U.S. Government obligations	\$ 5,426,505	\$ 5,426,505	\$ -	\$ -
Corporate bonds	3,488,095	-	3,488,095	-
Fixed income mutual funds	750,050		750,050	-
Fixed income exchange traded funds	59,861	-	59,891	-
Negotiable certificates of deposit	434,819	-	434,819	-
Total debt securities	10,159,330	5,426,505	4,732,855	-
Equity securities:				
Common stock	1,435,727	1,435,727	-	-
Equity mutual funds	1,439,046		1,439,046	-
Total equity securities	2,874,773	1,435,727	1,439,046	-
Total investments by fair value level	\$ 13,034,103	\$ 6,862,232	\$ 6,171,901	\$ -

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. U.S. governmental obligations, corporate bonds, certificates of deposit and mutual funds classified in Level 2 are valued using matrix pricing based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk – The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

At June 30, 2023, the Town had the following investments and maturities:

Investments	Total	Time Until Maturity (Years)			
		<1	1 - 5	6 - 10 Years	>10
U.S. Government obligations	\$ 5,426,505	\$ 3,668,310	\$ 1,758,195	\$ -	\$ -
Corporate bonds	3,488,095	703,996	2,045,840	738,259	-
Fixed income mutual funds	750,050	275,483	-	474,567	-
Fixed Income EFT	59,861	-	59,861	-	-
Certificates of deposit	958,891	892,102	66,789	-	-
Total Town Investments with Maturities	\$ 10,683,402	\$ 5,539,891	\$ 3,930,685	\$ 1,212,826	\$ -
Other investments:					
Equities	1,435,727				
Equity mutual funds	1,439,046				
Money market mutual funds	140,486				
Total other investments	3,015,259				
Total investments	\$ 13,698,661				

Credit Risk: Investments – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town has not adopted a formal policy related to credit risk for its investments.

At June 30, 2023 the credit quality ratings of investments were as follows:

Bond Ratings	Investments				
	Government Obligations	Corporate Fixed Income	Fixed Income Mutual Funds	Fixed Income EFT	Certificate of Deposit
Aaa	\$ 5,426,505	\$ 319,087	\$ -	\$ -	\$ -
Aa2	-	-	-	-	-
Aa3	-	9,368	-	-	-
A1	-	723,883	-	-	-
A2	-	836,243	-	-	-
A3	-	368,231	-	-	-
Baa1	-	551,106	-	-	-
Baa2	-	680,177	-	-	-
Not rated	-	-	750,050	59,861	434,819
	<u>\$ 5,426,505</u>	<u>\$ 3,488,095</u>	<u>\$ 750,050</u>	<u>\$ 59,861</u>	<u>\$ 434,819</u>

B. Receivables

Receivables as of June 30, 2023 for the Town’s major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 275,490	\$ -	\$ 275,490
Tax liens, deferrals, and foreclosures	334,732	-	334,732
Excise	135,940	-	135,940
Settlement	1,002,700	-	1,002,700
Other	66,841	-	66,841
Community preservation surcharges	5,856	-	5,856
Intergovernmental	35,109	-	35,109
Total	<u>\$ 1,856,668</u>	<u>\$ -</u>	<u>\$ 1,856,668</u>

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

	General Fund	Other Governmental Funds	Total
Receivables type:			
Real estate and personal property taxes	\$ 275,490	\$ -	\$ 275,490
Tax liens and deferrals	275,432	4,708	280,140
Excise	135,940	-	135,940
Other	110,236	11,197	121,433
Community preservation surcharges	-	5,856	5,856
Tax foreclosures	105,477	-	105,477
Total	<u>\$ 902,575</u>	<u>\$ 21,761</u>	<u>\$ 924,336</u>

C. Capital Assets

Capital asset activity in governmental activities for the fiscal year ended June 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 10,125,663	\$ 3,550,035	\$ -	\$ 13,675,698
Construction in progress	5,068,590	550,873	(4,633,494)	985,969
Total capital assets not being depreciated	<u>15,194,253</u>	<u>4,100,908</u>	<u>(4,633,494)</u>	<u>14,661,667</u>
Capital assets being depreciated:				
Buildings and improvements	60,352,842	92,998	(10,536)	60,435,304
Improvements other than buildings	1,692,551	7,000	-	1,699,551
Infrastructure	4,426,001	4,724,773	-	9,150,774
Machinery and equipment	2,270,557	193,731	-	2,464,288
Vehicles	3,195,293	42,883	(33,500)	3,204,676
Total capital assets being depreciated	<u>71,937,244</u>	<u>5,061,385</u>	<u>(44,036)</u>	<u>76,954,593</u>
Less accumulated depreciation for:				
Buildings and improvements	(21,323,819)	(1,480,793)	8,956	(22,795,656)
Improvements other than buildings	(686,658)	(82,739)	-	(769,397)
Infrastructure	(756,925)	(171,283)	-	(928,208)
Machinery and equipment	(1,702,887)	(122,665)	-	(1,825,552)
Vehicles	(1,818,677)	(247,854)	33,500	(2,033,031)
Total accumulated depreciation	<u>(26,288,966)</u>	<u>(2,105,334)</u>	<u>42,456</u>	<u>(28,351,844)</u>
Total capital assets being depreciated, net	<u>45,648,278</u>	<u>2,956,051</u>	<u>(1,580)</u>	<u>48,602,749</u>
Governmental activities capital assets, net	<u>\$ 60,842,531</u>	<u>\$ 7,056,959</u>	<u>\$ (4,635,074)</u>	<u>\$ 63,264,416</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 128,386
Public safety	462,918
Education	1,080,218
Public works	338,410
Culture and recreation	95,402
	<u>\$ 2,105,334</u>

D. Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2023, are as follows:

Transfers Out	Transfers In			Total
	General Fund	Capital Projects Funds	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 260,353	\$ 59,298	\$ 319,651 (1)
Nonmajor Governmental Funds	211,754	720,235	-	931,989 (2)
Total	<u>\$ 211,754</u>	<u>\$ 980,588</u>	<u>\$ 59,298</u>	<u>\$ 1,251,640</u>

- (1) Transfers to capital projects and nonmajor governmental to cover capital improvements and cable access
- (2) Transfers to general fund and capital projects to cover Town operations and capital improvements.

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or grant anticipation notes. In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

Temporary notes activity for the year ended June 30, 2023, was as follows:

Type	Interest Rate	Maturity Date	July 1, 2022	Additions	Retirements	June 30, 2023
Governmental Funds:						
BAN	0.40%	7/8/2022	\$ 348,000	\$ -	\$ (348,000)	\$ -
BAN	0.60%	1/20/2023	375,000	-	(375,000)	-
BAN	2.54%	7/7/2023	-	276,000	-	276,000
BAN	4.62%	1/19/2024	-	290,000	-	290,000
Total Notes Payable			<u>\$ 723,000</u>	<u>\$ 566,000</u>	<u>\$ (723,000)</u>	<u>\$ 566,000</u>

BANs issued and outstanding at year end were used for the following:

Lower Village Improvements	\$ 276,000
PFAS Remediation Expense	290,000
	<u>\$ 566,000</u>

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for within governmental activities. Additionally, the Town incurs various other long-term obligations relative to personnel costs.

The following reflects the current year activity in the Town's long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$20,090,000	\$ -	\$ (1,235,000)	\$18,855,000	\$ 1,280,000
Notes from direct borrowings and placements	112,507	-	(56,211)	56,296	56,296
Debt premium amortization	471,569	-	(47,906)	423,663	44,674
Compensated absences	237,282	-	(21,705)	215,577	53,894
Net OPEB liability	8,235,877	1,999,972	(1,829,587)	8,406,262	-
Net pension liability	11,352,166	4,245,406	(1,415,236)	14,182,336	-
Total Governmental Activities	<u>\$40,499,401</u>	<u>\$ 6,245,378</u>	<u>\$ (4,605,645)</u>	<u>\$42,139,134</u>	<u>\$ 1,434,864</u>

The governmental activities liabilities will be liquidated from the General Fund.

General obligation bonds and notes payable outstanding at June 30, 2023 were as follows:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
Governmental Activities:						
General obligation bonds	2031	2.00 - 4.125%	\$ 5,210,000	\$ -	\$ (525,000)	\$ 4,685,000
General obligation bonds	2034	3.00 - 4.00%	4,470,000	-	(310,000)	4,160,000
General obligation bonds	2044	3.00 - 5.00%	8,380,000	-	(240,000)	8,140,000
General obligation bonds	2035	2.00 - 5.00%	2,030,000	-	(160,000)	1,870,000
MCWT notes (Title V)	2024	0.00%	112,507	-	(56,211)	56,296
Total Governmental Bond and Note Indebtedness			<u>20,202,507</u>	<u>-</u>	<u>(1,291,211)</u>	<u>18,911,296</u>
Total Long-Term Bond and Note Indebtedness - All			<u>\$20,202,507</u>	<u>\$ -</u>	<u>\$ (1,291,211)</u>	<u>\$ 18,911,296</u>

Debt service requirements on long-term debt at June 30, 2023 were as follows:

Year Ending <u>June 30,</u>	Governmental Activities - Total Bond and Note Indebtedness			
	Principal		Interest	
	GO Bonds	Direct	GO Bonds	Direct
2024	\$ 1,280,000	\$ 56,296	\$ 659,088	\$ -
2025	1,300,000	-	606,818	-
2026	1,350,000	-	558,718	-
2027	1,395,000	-	506,118	-
2028	1,440,000	-	449,269	-
2029-2033	6,415,000	-	1,417,325	-
2034-2038	2,800,000	-	641,206	-
2039-2043	2,380,000	-	293,250	-
2044	495,000	-	14,850	-
Total	<u>\$ 18,855,000</u>	<u>\$ 56,296</u>	<u>\$ 5,146,642</u>	<u>\$ -</u>

The following represents authorized and unissued debt as of June 30, 2023:

Randall Library Renovation Project	\$ 6,706,500
Town Building Water System	750,000
Ambulance	436,800
PFAS Remediation	300,000
Highway Truck	265,000
Lower Village Roadway Project	<u>51,000</u>
Total	<u>\$ 8,509,300</u>

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Middlesex County Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Essex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2022, were issued and may be obtained by writing to the Middlesex County Regional Retirement System, 25 Linnell Circle, Billerica, Massachusetts 01865.

Membership – Membership in the System as of December 31, 2022, was as follows:

Active members	9,432
Inactive members entitled to a return of their employee contributions	3,581
Inactive members with a vested right to a deferred or immediate benefit	403
Retirees and beneficiaries currently receiving benefits	6,284
Total	19,700

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

Membership in the System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the System do not participate in the Federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

Fiduciary Net Position – The elements of the System’s basic financial statements (that is, all information about the System’s assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the System’s full financial statements as of and for the year ended December 31, 2022, which can be obtained by contacting the Retirement Board.

The System’s fiduciary net position was determined using the accrual basis of accounting. The System’s accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC.

Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,151,354 to the System in fiscal year 2023, which was the actuarially determined contribution requirement for the fiscal year. The Town’s contributions as a percentage of covered payroll was approximately 28.47% in fiscal year 2023.

Pension Expense – The Town recognized \$1,707,157 in pension expense in the statement of activities in fiscal year 2023.

Net Pension Liability – At June 30, 2023, the Town reported a liability of \$14,182,336 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System’s benefit terms since the actuarial valuation.

The Town’s proportion of the net pension liability is based on a projection of the Town’s long-term share of contributions to the System relative to the projected contributions of all employers. The Town’s proportion was approximately 0.836% at December 31, 2022.

Actuarial Valuation – The measurement of the System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2022. The significant actuarial assumptions used in the January 1, 2022, actuarial valuation included:

Investment Rate of Return	Full prefunding: 7.15% per year, net of investment expenses
Discount Rate	7.15%
Inflation	3.25%
Salary Increases	Varies by length of service with ultimate rates of 4.00% for Group 1, 4.25% for Group 2, and 4.50% for Group 4
Cost of Living Adjustment	3% of first \$16,000 of retirement income
Pre-Retirement Mortality	RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2021.
Post-Retirement Mortality	RP-2014 Blue Collar Healthy Annuitant Mortality projected generationally with Scale MP-2021.
Disabled Mortality	RP-2014 Blue Collar Healthy Annuitant Mortality set forward one year and projected generationally with Scale MP-2021.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 1,140,210	\$ -
Differences between expected and actual experience	104,210	-
Changes of assumptions	244,882	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	843,765	263,882
Total	<u>\$ 2,333,067</u>	<u>\$ 263,882</u>

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

Year Ended June 30,	Amounts
2024	\$ 452,542
2025	452,474
2026	572,794
2027	591,375
Total	<u>\$ 2,069,185</u>

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate.

Based on those assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real returns for each major asset class included in the System’s target allocation as of December 31, 2022, are summarized in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity	20.50%	6.59%
International Equity	12.00%	6.87%
International Emerging Markets	4.50%	8.30%
Core Fixed Income	15.00%	1.53%
High Yield Fixed Income	8.00%	3.54%
Real estate	10.00%	3.44%
Commodities	4.00%	4.01%
Hedge Fund, GTAA, Risk Parity	10.00%	3.06%
Private equity	16.00%	9.49%
Total	<u>100.00%</u>	

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.15% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

Town Proportionate Share of Net Pension Liability			
Current Rate	Decrease 1%	Current	Increase 1%
7.15%	\$ 17,555,783	\$ 14,182,336	\$ 11,342,173

B. Other Postemployment Benefits

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

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

OPEB Plan disclosures that impact the Town’s net OPEB liability using a measurement date of June 30, 2023, are summarized as follows:

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of the July 1, 2021, actuarial valuation date:

Active employees	61
Inactive employees	<u>60</u>
Total	<u><u>121</u></u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employees. Retirees contribute 30% of the calculated contribution for health and dental and 50% for life insurance (individual only) through pension benefit deductions; surviving spouses contribute 50%. The remainder of the cost is funded by general revenues of the Town.

The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis plus additional contributions above that amount which vary annually. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2023, the Town’s average contribution rate was approximately 11.03% of covered payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2023, using an actuarial valuation as of July 1, 2021. The components of the net OPEB liability of the Town at June 30, 2023, were as follows:

Total OPEB Liability	\$ 9,779,994
Plan fiduciary net position	<u>(1,373,732)</u>
Net OPEB liability	<u><u>\$ 8,406,262</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	14.0%

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	5.57%, net of OPEB plan investment expenses, including inflation.
Municipal bond rate	4.13% as of June 30, 2023
Single equivalent discount rate	5.45%, per annum, net of OPEB plan investment expense, including inflation.
Inflation	2.50% annually
Health care trend rate	6.5% for fiscal year 2023, reducing by 1.5% until fiscal year 2024, then reducing by 0.04% per year until 2030 where it will remain at 4.77% until 2037, and further reducing down to 3.63% in fiscal year 2060 and beyond.
Salary increases	3.00% annually
Pre-retirement mortality	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-retirement mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Actuarial cost method	Individual entry age normal

Key Change in Assumptions – Key assumption change for fiscal year 2023 included:

Single equivalent discount rate	Due to GASB 75 standards, the discount rate has been changed from 5.53% to 5.45%
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Discount Rate – The discount rate used to measure the total OPEB liability was 5.45% which was a decrease from the previous year’s rate of 5.53%.

Long Term Expected Rate of Return – The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The expected rate of return of 5.57% was decreased from 5.67% in the previous year.

The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table and are part of the Town's OPEB investment policy:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic equity - large cap	28.75%	4.10%
Domestic equity - small/mid cap	14.50%	4.55%
International equity - developed ma	12.25%	4.64%
International equity - emerging marl	7.00%	5.45%
Domestic fixed income	28.00%	1.05%
International fixed income	6.00%	0.96%
Alternatives	3.00%	5.95%
Real estate	0.00%	6.25%
Cash	0.50%	0.00%
	100.00%	
Real rate of return		3.32%
Inflation assumption		2.50%
Total nominal rate of return		5.82%
Investment expense		-0.25%
Net investment return		5.57%

Sensitivity Analyses – The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

Net OPEB Liability			
Healthcare Trend Rate			
Current	1% Decrease	Current Rate	1% Increase
6.50%	\$ 7,128,476	\$ 8,406,262	\$ 10,027,348
Discount Rate			
Current	1% Decrease	Current Rate	1% Increase
5.45%	\$ 9,869,630	\$ 8,406,262	\$ 7,239,018

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2023:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2022	\$ 9,287,198	\$ 1,051,321	\$ 8,235,877
Changes for the year:			
Service cost	276,232	-	276,232
Interest	517,189	-	517,189
Change in assumptions	127,136		127,136
Net investment income	-	87,411	(87,411)
Employer contributions	-	662,761	(662,761)
Benefit payments withdrawn from trust	-	(427,761)	427,761
Benefit payments	(427,761)	-	(427,761)
Net changes	492,796	322,411	170,385
Balances at June 30, 2023	\$ 9,779,994	\$ 1,373,732	\$ 8,406,262

OPEB Expense/Income and Deferred Outflows/Inflows of Resources Related to OPEB – The Town incurred OPEB income of \$378,089. Deferred outflows of resources and deferred inflows of resources related to OPEB were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 714,403
Change in assumptions	1,391,890	452,423
Net difference between projected and actual earnings on OPEB plan investments	82,249	-
Totals	\$ 1,474,139	\$ 1,166,826

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

Year Ended June 30,	Amounts
2024	\$ (349,111)
2025	317,187
2026	298,074
2027	39,157
2028	2,006
Total	\$ 307,313

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

Investment Policy – The OPEB Plan follows the same investment policies that apply to all other Town Trust funds. Notably it can be invested in accordance with State Statutes that govern Trust investments including PRIM which is an external investment pool managed by the State.

Investment Rate of Return – For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 8.31%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Risk Financing

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

Health Insurance – The Town provides insurance through premium based plans.

D. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2023, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2023.

Grant Compliance – Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

IV. Implementation of New GASB Pronouncements

Current Year Implementations

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement was to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As

amended, the provisions of this Statement became effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town's financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement was to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town's financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement was to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town's financial statements.

Future Implementations –

In June 2022, the GASB issued GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for decision making or assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2023 (fiscal year 2024). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to update the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2023 (fiscal year 2025). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2023, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2024 (fiscal year 2025). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF STOW, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2023

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

Year Ended December 31	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.836%	\$ 14,182,336	\$ 3,984,650	355.92%	52.61%
2021	0.847%	11,352,166	3,828,104	296.55%	61.14%
2020	0.744%	11,389,407	3,689,219	308.72%	53.42%
2019	0.744%	11,909,143	3,539,435	336.47%	49.45%
2018	0.747%	11,645,337	3,736,697	311.65%	46.40%
2017	0.737%	10,459,477	3,575,149	292.56%	49.27%
2016	0.741%	10,493,658	3,375,342	310.89%	45.49%
2015	0.716%	9,234,186	3,198,487	288.70%	46.13%
2014	0.709%	8,519,238	3,075,468	277.01%	47.65%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2023	\$ 1,147,938	\$ 1,151,354	\$ (3,416)	\$ 4,044,420	28.47%
2022	1,077,698	1,077,698	-	3,828,104	28.15%
2021	1,024,938	1,024,938	-	3,689,219	27.78%
2020	957,695	957,695	-	3,539,435	27.06%
2019	881,015	881,015	-	3,736,697	23.58%
2018	826,612	826,612	-	3,575,149	23.12%
2017	748,612	748,612	-	3,375,342	22.18%
2016	702,159	702,159	-	3,198,487	21.95%
2015	685,927	685,927	-	3,075,468	22.30%

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

See accompanying independent auditors' report.

TOWN OF STOW, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2023**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	Year Ended June 30,					
	2023	2022	2021	2020	2019	2018
Total OPEB liability:						
Service cost	\$ 276,232	\$ 174,215	\$ 158,811	\$ 149,043	\$ 226,496	\$ 226,491
Interest	517,189	490,193	479,613	570,459	565,983	330,583
Changes of assumptions	127,136	1,987,378	212,088	(2,262,123)	(236,933)	563,764
Difference in expected and actual experience	-	(820,904)	-	(1,083,445)	(471,538)	-
Benefit payments	(427,761)	(418,777)	(384,497)	(370,619)	(258,000)	(240,000)
Net change in total OPEB liability	492,796	1,412,105	466,015	(2,996,685)	(173,992)	880,838
Total OPEB liability - beginning of year	9,287,198	7,875,093	7,409,078	10,405,763	10,579,755	9,698,917
Total OPEB liability - end of year (a)	<u>\$ 9,779,994</u>	<u>\$ 9,287,198</u>	<u>\$ 7,875,093</u>	<u>\$ 7,409,078</u>	<u>\$ 10,405,763</u>	<u>\$ 10,579,755</u>
Plan fiduciary net position:						
Contributions - employer	\$ 662,761	\$ 653,777	\$ 619,497	\$ 605,619	\$ 358,000	\$ 290,000
Net investment income (loss)	87,411	(169,341)	160,677	15,685	16,539	8,011
Benefit payments	(427,761)	(418,777)	(384,497)	(370,619)	(258,000)	(240,000)
Net change in Plan fiduciary net position	322,411	65,659	395,677	250,685	116,539	58,011
Plan fiduciary net position - beginning of year	1,051,321	985,662	589,985	339,300	222,761	164,750
Plan fiduciary net position - end of year (b)	<u>\$ 1,373,732</u>	<u>\$ 1,051,321</u>	<u>\$ 985,662</u>	<u>\$ 589,985</u>	<u>\$ 339,300</u>	<u>\$ 222,761</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 8,406,262</u>	<u>\$ 8,235,877</u>	<u>\$ 6,889,431</u>	<u>\$ 6,819,093</u>	<u>\$ 10,066,463</u>	<u>\$ 10,356,994</u>
Plan fiduciary net position as a percentage of the total OPEB liability	14.05%	11.32%	12.52%	7.96%	3.26%	2.11%
Covered payroll	\$ 6,008,639	\$ 5,833,630	\$ 5,517,126	\$ 5,356,433	N/A	N/A
Net OPEB liability as a percentage of covered payroll	139.9%	141.2%	124.9%	127.3%	N/A	N/A

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

See accompanying independent auditors' report.

TOWN OF STOW, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN
YEAR ENDED JUNE 30, 2023**

SCHEDULE OF CONTRIBUTIONS

	Year Ended June 30					
	2023	2022	2021	2020	2019	2018
Actuarially-determined contribution	\$ 662,212	\$ 556,038	\$ 506,431	\$ 503,056	\$ 968,568	\$ 716,038
Contributions in relation to the actuarially-determined contribution	(662,761)	(653,777)	(619,497)	(605,619)	(358,000)	(290,000)
Contribution deficiency (excess)	\$ (549)	\$ (97,739)	\$ (113,066)	\$ (102,563)	\$ 610,568	\$ 426,038
Covered payroll	\$ 6,008,639	\$ 5,833,630	\$ 5,517,126	\$ 5,356,433	N/A	N/A
Contribution as a percentage of covered payroll	11.0%	11.2%	11.2%	11.3%	N/A	N/A
Valuation Date	July 1, 2021					
Amortization Period	30 years					
Investment rate of return	5.57%					
Municipal Bond Rate	4.13%					
Single Equivalent Discount Rate	5.45%					
Inflation	2.50%					
Healthcare cost trend rates	6.50%					
Salary increases	3.00%					
Actuarial Cost Method	Individual Entry Age Normal					
Asset Valuation Method	Market Value of Assets as of Reporting Date					

SCHEDULE OF INVESTMENT RETURNS

	Year Ended June 30					
	2023	2022	2021	2020	2019	2018
Annual money-weighted rate of return, net of investment expense	8.3%	-17.2%	26.5%	3.1%	N/A	N/A

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

See accompanying independent auditors' report.

TOWN OF STOW, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 31,010,188	\$ 31,010,188	\$ 31,204,984		\$ 31,204,984	\$ 194,796
Intergovernmental	517,077	517,077	525,308		525,308	8,231
Motor vehicle and other excises	1,033,369	1,033,369	1,307,828		1,307,828	274,459
License and permits	125,000	125,000	232,608		232,608	107,608
Departmental and other revenue	399,400	399,400	1,526,447		1,526,447	1,127,047
Penalties and interest on taxes	45,000	45,000	99,364		99,364	54,364
Fines and forfeitures	3,900	3,900	4,228		4,228	328
Investment income	11,000	11,000	68,825		68,825	57,825
Total Revenues	<u>33,144,934</u>	<u>33,144,934</u>	<u>34,969,592</u>		<u>34,969,592</u>	<u>1,824,658</u>
EXPENDITURES						
General government	3,199,866	3,171,366	2,475,158	\$ 493,593	2,968,751	202,615
Public safety	2,936,445	2,925,445	2,766,037	49,867	2,815,904	109,541
Education	20,724,397	20,724,397	20,681,990	23,950	20,705,940	18,457
Public works	2,641,537	2,679,537	1,606,637	975,518	2,582,155	97,382
Health and human services	597,274	598,774	518,658	52,567	571,225	27,549
Culture and recreation	635,926	532,574	473,737	21,931	495,668	36,906
State and county tax assessments	114,272	114,272	114,832	-	114,832	(560)
Pension and other fringe benefits	2,217,483	2,217,483	2,151,988	15,568	2,167,556	49,927
Debt service	2,063,231	2,063,231	2,006,018	-	2,006,018	57,213
Total Expenditures	<u>35,130,431</u>	<u>35,027,079</u>	<u>32,795,055</u>	<u>\$ 1,632,994</u>	<u>34,428,049</u>	<u>599,030</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	206,101	206,101	206,101		206,101	-
Transfers out	(672,001)	(775,353)	(823,999)		(823,999)	(48,646)
Total Other Financing Sources (Uses)	<u>(465,900)</u>	<u>(569,252)</u>	<u>(617,898)</u>		<u>(617,898)</u>	<u>(48,646)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>\$ (2,451,397)</u>	<u>\$ (2,451,397)</u>	<u>\$ 1,556,639</u>		<u>\$ (76,355)</u>	<u>\$ 2,375,042</u>
Other Budgetary Items:						
Undesignated surplus (free cash)	1,333,500	1,333,500				
Prior year encumbrances	<u>1,117,897</u>	<u>1,117,897</u>				
	<u>\$ -</u>	<u>\$ -</u>				

See accompanying notes to required supplementary information.

TOWN OF STOW, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2023

I. Budgetary Basis of Accounting

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

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. During fiscal year 2023, there were no material changes made to the original budget. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2023, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 34,969,592
Stabilization investment income	\$ -	\$ 16,922	16,922
Revenues on a GAAP basis	<u>\$ -</u>	<u>\$ 16,922</u>	<u>\$ 34,986,514</u>
Expenditures on a budgetary basis			\$ 32,795,055
Other postemployment benefit trust contribution	\$ -	\$ 235,000	235,000
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 33,030,055</u>
Other financing sources (uses) on a budgetary basis			\$ (617,897)
Stabilization transfers	\$ -	\$ 275,000	275,000
Other postemployment benefit trust transfers	\$ -	235,000	235,000
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ 510,000</u>	<u>\$ (107,897)</u>