



# **TOWN OF STOW, MASSACHUSETTS**

Financial Statements  
For the Year Ended June 30, 2019

(With Independent Auditors' Report Thereon)

**Town of Stow, Massachusetts**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Stow, Massachusetts

### Additional Offices:

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Stow, Massachusetts, as of June 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

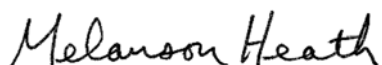
## **Emphasis of Matter**

As discussed in Note 18, in January 2020, possible financial irregularities, including the possible misappropriation of funds, were discovered. The Town, in conjunction with the Commonwealth of Massachusetts, has undertaken a complete review of the situation. As a result, material uncertainties related to the carrying value of assets may exist. The effects of these uncertainties on the basic financial statements are not reasonably determinable.

## **Other Matters**

### *Required Supplementary Information*

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



June 15, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on

balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Town's near-term financing requirements.

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

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows by \$34,766,750 (i.e., net position), a change of \$2,189,030 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$15,086,833, a change of \$11,050,655 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,056,234, a change of \$117,457 in comparison to the prior year.

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>NET POSITION</u>	
	Governmental <u>Activities</u>	
	<u>2019</u>	<u>2018</u>
Current assets	\$ 17,259	\$ 17,022
Capital assets	<u>61,532</u>	<u>61,429</u>
Total assets	78,791	78,451
Deferred outflows of resources	1,507	1,249
Current liabilities	2,803	12,774
Noncurrent liabilities	<u>42,615</u>	<u>33,928</u>
Total liabilities	45,418	46,702
Deferred inflows of resources	114	421
Net investment in capital assets	39,260	36,917
Restricted	3,329	2,546
Unrestricted	<u>(7,823)</u>	<u>(6,886)</u>
Total net position	<u>\$ 34,766</u>	<u>\$ 32,577</u>

As noted earlier, net position may serve over time as a useful indicator of a Town's financial position. At the close of the most recent fiscal year, total net position was \$34,766,750, a change of \$2,189,030 in comparison to the prior year.

The largest portion of net position \$39,260,110 reflects our investment in capital assets (e.g., land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, intangible assets, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$3,329,249 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(7,822,609) primarily resulting from unfunded pension and OPEB liabilities.



# CHANGES IN NET POSITION

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
Revenues:		
Program revenues:		
Charges for services	\$ 849	\$ 1,037
Operating grants and contributions	1,734	987
Capital grants and contributions	616	516
General revenues:		
Property taxes	27,490	26,429
Excises	1,235	1,120
Penalties, interest, and other taxes	111	133
Grants and contributions not restricted to specific programs	527	533
Investment income	440	80
Other	<u>34</u>	<u>110</u>
Total revenues	33,036	30,945
Expenses:		
General government	2,119	3,303
Public safety	4,066	4,182
Education	19,841	18,968
Public works	2,255	2,155
Human services	661	694
Culture and recreation	849	827
Interest on long-term debt	950	702
Intergovernmental	<u>106</u>	<u>105</u>
Total expenses	<u>30,847</u>	<u>30,936</u>
Change in net position	2,189	9
Net position - beginning of year	<u>32,577</u>	<u>32,568</u>
Net position - end of year	<u>\$ 34,766</u>	<u>\$ 32,577</u>

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$2,189,030. Key elements of this change are as follows:

General fund operations (modified accrual basis)	\$ (86,885)
Major community preservation fund (accrual basis)	1,063,809
Nonmajor fund operations (accrual basis)	2,295,893
Depreciation expense in excess of principal debt service	(195,682)
Change in net pension liability and related deferred outflows and inflows of resources	(620,393)
Change in net OPEB liability	290,531
Current year MSBA receipts	(542,576)
Other	<u>(15,667)</u>
Total	<u>\$ 2,189,030</u>

#### **D. FINANCIAL ANALYSIS OF FUNDS**

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$15,086,833, a change of \$11,050,655 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (86,885)
Community preservation fund operating results	756,243
Lower village roadway improvement fund results	(206,878)
Issuance of bonds	9,055,000
Issuance of bond premium	480,000
Mass works state grant results	510,374
Conservation state grant results	273,445
Other	<u>269,356</u>
Total	<u>\$ 11,050,655</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,056,234, while total fund balance was \$5,775,868. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 4,056,234	\$ 3,938,777	\$ 117,457	13.5%
Total fund balance	\$ 5,775,868	\$ 5,862,753	\$ (86,885)	19.2%

The total fund balance of the general fund changed by \$(86,885) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (961,606)
Revenues in excess of budget	116,104
Expenditures less than budget	327,525
Change in encumbrances	(179,967)
Change in stabilization	42,114
Property tax collections exceeding the current year tax levy	702,530
Other	<u>(133,585)</u>
Total	<u>\$ (86,885)</u>

Included in the total general fund balance is the Town's stabilization fund with the following balance:

	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
General stabilization	\$ 1,004,647	\$ 962,534	\$ 42,113

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$88,450. Major reasons for these amendments include:

- \$88,450 appropriated for debt service interest expenditures funded by free cash.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$61,532,110 (net of accumulated depreciation). This investment in capital assets

includes land, construction in progress, land improvements, buildings and building improvements, machinery, equipment and vehicles, intangible assets, and infrastructure.

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

- \$1,774,332 for construction in progress, the majority of which was for the Lower Village project.
- \$54,867 for various machinery, equipment, and vehicles.
- \$64,440 for various road improvements.
- \$46,753 for various building improvements including the Town roof.
- \$4,052 for library books.
- Depreciation expense of \$(1,841,556).

Additional information on capital assets can be found in the Notes to Financial Statements.

**Credit rating.** As of June 30, 2019, the Town's Standard & Poor's credit rating is AAA.

**Long-term debt.** At the end of the current fiscal year, total bonds and loans payable outstanding including unamortized premiums was \$22,540,633, all of which was backed by the full faith and credit of the Town.

Additional information on long-term debt can be found in the Notes to Financial Statements.

## **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 Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Stow, Massachusetts  
Town Accountant  
380 Great Road  
Stow, Massachusetts 01775

**TOWN OF STOW, MASSACHUSETTS**

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental <u>Activities</u>
<b>Assets</b>	
Current:	
Cash and short-term investments	\$ 7,469,681
Investments	7,865,924
Receivables, net of allowance for uncollectibles:	
Property taxes	407,856
Excises	79,431
User fees	35,756
Intergovernmental	549,403
Betterments	45,486
Due from other governments	542,582
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	227,125
Betterments	35,503
Capital assets:	
Land and construction in progress	14,714,958
Other capital assets, net of accumulated depreciation	46,817,152
<b>Deferred Outflows of Resources</b>	
Related to pensions	<u>1,507,296</u>
Total Assets and Deferred Outflows of Resources	80,298,153
<b>Liabilities</b>	
Current:	
Warrants payable	99,057
Accrued liabilities	366,746
Notes payable	492,000
Other current liabilities	83,229
Current portion of long-term liabilities:	
Bonds and loans payable	1,755,208
Compensated absences	6,223
Noncurrent:	
Bonds and loans payable, net of current portion	20,785,425
Net pension liability	11,645,337
Net OPEB liability	10,066,463
Compensated absences	118,243
<b>Deferred Inflows of Resources</b>	
Related to pensions	<u>113,472</u>
Total Liabilities and Deferred Inflows of Resources	45,531,403
<b>Net Position</b>	
Net investment in capital assets	39,260,110
Restricted for:	
Grants and other statutory restrictions	1,332,054
Permanent funds:	
Nonexpendable	393,755
Expendable	1,603,440
Unrestricted	<u>(7,822,609)</u>
Total Net Position	<u>\$ 34,766,750</u>

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

**TOWN OF STOW, MASSACHUSETTS**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for	Operating	Capital	
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
	<u>Expenses</u>				
<b>Governmental Activities</b>					
General government	\$ 2,118,537	\$ 135,851	\$ 1,527,495	\$ -	\$ (455,191)
Public safety	4,066,090	362,092	58,031	-	(3,645,967)
Education	19,841,198	-	5,020	-	(19,836,178)
Public works	2,254,869	24,459	4,875	616,380	(1,609,155)
Health and human services	660,975	63,443	102,878	-	(494,654)
Culture and recreation	849,242	263,317	35,054	-	(550,871)
Interest	950,172	-	-	-	(950,172)
Intergovernmental	105,753	-	-	-	(105,753)
Total Governmental Activities	<u>\$ 30,846,836</u>	<u>\$ 849,162</u>	<u>\$ 1,733,353</u>	<u>\$ 616,380</u>	(27,647,941)
<b>General Revenues</b>					
Property taxes					27,489,739
Excises					1,234,597
Penalties, interest and other taxes					111,399
Grants and contributions not restricted to specific programs					527,334
Investment income					439,916
Miscellaneous					<u>33,986</u>
Total general revenues					<u>29,836,971</u>
Change in Net Position					2,189,030
<b>Net Position</b>					
Beginning of year					<u>32,577,720</u>
End of year					<u>\$ 34,766,750</u>

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

**TOWN OF STOW, MASSACHUSETTS**

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	General Fund	Community Preservation Fund	Lower Village Roadway Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and short-term investments	\$ 5,368,887	\$ 1,274,325	\$ 15,222	\$ 811,247	\$ 7,469,681
Investments	672,009	5,249,589	-	1,944,326	7,865,924
Receivables:					
Property taxes	773,085	9,131	-	-	782,216
Excises	115,629	-	-	-	115,629
Betterments	-	-	-	80,989	80,989
User fees	47,675	-	-	-	47,675
Intergovernmental	542,582	-	-	549,403	1,091,985
Total Assets	\$ <u>7,519,867</u>	\$ <u>6,533,045</u>	\$ <u>15,222</u>	\$ <u>3,385,965</u>	\$ <u>17,454,099</u>
<b>Liabilities</b>					
Warrants payable	\$ 82,379	\$ -	\$ -	\$ 16,678	\$ 99,057
Accrued liabilities	142,848	512	-	23,957	167,317
Notes payable	-	-	492,000	-	492,000
Other liabilities	83,230	-	-	-	83,230
Total Liabilities	308,457	512	492,000	40,635	841,604
<b>Deferred Inflows of Resources</b>					
Unavailable revenues	1,435,542	9,131	-	80,989	1,525,662
<b>Fund Balances</b>					
Nonspendable	75,729	-	-	393,755	469,484
Restricted	159,055	6,523,402	-	2,946,315	9,628,772
Committed	406,069	-	-	-	406,069
Assigned	1,078,781	-	-	-	1,078,781
Unassigned	4,056,234	-	(476,778)	(75,729)	3,503,727
Total Fund Balances	5,775,868	6,523,402	(476,778)	3,264,341	15,086,833
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>7,519,867</u>	\$ <u>6,533,045</u>	\$ <u>15,222</u>	\$ <u>3,385,965</u>	\$ <u>17,454,099</u>

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

**TOWN OF STOW, MASSACHUSETTS**

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

**JUNE 30, 2019**

<b>Total governmental fund balances</b>	<b>\$ 15,086,833</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	61,532,110
Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,330,311
Long-term liabilities, including bonds and loans payable, net pension liability, net OPEB liability, and accrued compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds and loans payable	(22,540,633)
Net pension liability and related deferred outflows and inflows of resources	(10,251,513)
Net OPEB liability	(10,066,463)
Compensated absences	(124,466)
Other	<u>(199,429)</u>
<b>Net position of governmental activities</b>	<b>\$ <u>34,766,750</u></b>

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



**TOWN OF STOW, MASSACHUSETTS**

**GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>Lower Village Roadway Improvement Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Property taxes	\$ 26,910,815	\$ 625,420	\$ -	\$ -	\$ 27,536,235
Excises	1,215,660	-	-	-	1,215,660
Penalties, interest and other taxes	100,445	2,038	-	-	102,483
Charges for services	332,901	-	-	333,055	665,956
Intergovernmental	1,136,549	179,076	-	1,889,655	3,205,280
Licenses and permits	128,069	-	-	-	128,069
Fines and forfeitures	8,281	-	-	-	8,281
Investment income	88,053	276,563	-	75,301	439,917
Miscellaneous	26,472	-	-	310,989	337,461
	<u>29,947,245</u>	<u>1,083,097</u>	<u>-</u>	<u>2,609,000</u>	<u>33,639,342</u>
Total Revenues	29,947,245	1,083,097	-	2,609,000	33,639,342
<b>Expenditures</b>					
Current:					
General government	2,033,229	326,854	206,878	533,343	3,100,304
Public safety	2,450,202	-	-	119,537	2,569,739
Education	18,778,216	-	-	23,035	18,801,251
Public works	1,280,438	-	-	485,343	1,765,781
Health and human services	438,039	-	-	43,703	481,742
Culture and recreation	369,260	-	-	276,920	646,180
Employee benefits	2,186,048	-	-	-	2,186,048
Debt service	2,466,889	-	-	-	2,466,889
Intergovernmental	105,753	-	-	-	105,753
	<u>30,108,074</u>	<u>326,854</u>	<u>206,878</u>	<u>1,481,881</u>	<u>32,123,687</u>
Total Expenditures	30,108,074	326,854	206,878	1,481,881	32,123,687
Excess (deficiency) of revenues over expenditures	(160,829)	756,243	(206,878)	1,127,119	1,515,655
<b>Other Financing Sources (Uses)</b>					
Issuance of bonds	-	-	-	9,055,000	9,055,000
Bond premiums	-	-	-	480,000	480,000
Transfers in	233,573	-	-	159,629	393,202
Transfers out	(159,629)	-	-	(233,573)	(393,202)
	<u>73,944</u>	<u>-</u>	<u>-</u>	<u>9,461,056</u>	<u>9,535,000</u>
Total Other Financing Sources (Uses)	73,944	-	-	9,461,056	9,535,000
Change in fund balance	(86,885)	756,243	(206,878)	10,588,175	11,050,655
Fund Balance, at Beginning of Year, as reclassified	<u>5,862,753</u>	<u>5,767,159</u>	<u>(269,900)</u>	<u>(7,323,834)</u>	<u>4,036,178</u>
Fund Balance, at End of Year	\$ <u>5,775,868</u>	\$ <u>6,523,402</u>	\$ <u>(476,778)</u>	\$ <u>3,264,341</u>	\$ <u>15,086,833</u>

The accompanying notes are an integral part of these 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**

FOR THE YEAR ENDED JUNE 30, 2019

**Net changes in fund balances - total governmental funds** \$ 11,050,655

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

Capital outlay	1,944,444
Depreciation	(1,841,556)

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

Issuance of debt	(9,055,000)
Repayments of debt	1,645,874
Other	(480,000)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (657,587)

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

Net pension liability and related deferred outflows and inflows of resources	(620,393)
Net OPEB liability	290,531
Compensated absences	(12,893)
Other differences.	<u>(75,045)</u>

**Change in net position of governmental activities** \$ 2,189,030

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

**TOWN OF STOW, MASSACHUSETTS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues</b>				
Property taxes	\$ 26,208,285	\$ 26,208,285	\$ 26,208,285	\$ -
Motor vehicle excise	1,175,000	1,175,000	1,215,660	40,660
Penalties, interest and other taxes	125,000	125,000	192,507	67,507
Charges for services	299,500	299,500	332,901	33,401
Intergovernmental	1,046,213	1,046,213	1,044,487	(1,726)
Licenses and permits	210,000	210,000	128,069	(81,931)
Fines and forfeitures	6,500	6,500	8,281	1,781
Investment income	16,000	16,000	45,939	29,939
Miscellaneous	-	-	26,473	26,473
<b>Total Revenues</b>	<b>29,086,498</b>	<b>29,086,498</b>	<b>29,202,602</b>	<b>116,104</b>
<b>Expenditures</b>				
General government	2,044,159	1,977,732	1,882,269	95,463
Public safety	2,500,396	2,500,396	2,410,692	89,704
Education	18,765,039	18,790,923	18,744,426	46,497
Public works	1,280,052	1,298,952	1,251,506	47,446
Health and human services	419,024	439,224	430,853	8,371
Culture and recreation	393,082	393,082	371,707	21,375
Employee benefits	2,101,281	2,102,724	2,095,057	7,667
Debt service	2,479,441	2,567,891	2,556,889	11,002
Intergovernmental	105,753	105,753	105,753	-
<b>Total Expenditures</b>	<b>30,088,227</b>	<b>30,176,677</b>	<b>29,849,152</b>	<b>327,525</b>
Excess (deficiency) of revenues over expenditures	(1,001,729)	(1,090,179)	(646,550)	443,629
<b>Other Financing Sources/(Uses)</b>				
Transfers in	233,573	233,573	233,573	-
Transfers out	(105,000)	(105,000)	(105,000)	-
Use of free cash:				
Operating budget	269,500	357,950	357,950	-
Capital budget	503,656	503,656	503,656	-
OPEB trust fund contribution	50,000	50,000	50,000	-
Use of overlay surplus	50,000	50,000	50,000	-
<b>Total Other Financing Sources/(Uses)</b>	<b>1,001,729</b>	<b>1,090,179</b>	<b>1,090,179</b>	<b>-</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,090,179	\$ 443,629

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

**TOWN OF STOW, MASSACHUSETTS**

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	OPEB <u>Trust Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b>Assets</b>			
Cash and short-term investments	\$ 783	\$ 34,222	\$ 73,395
Investments:			
Equities	246,133	-	-
Mutual funds	<u>92,384</u>	<u>-</u>	<u>-</u>
Total investments	338,517	-	-
Accountants receivable	<u>-</u>	<u>-</u>	<u>44,204</u>
Total Assets	339,300	34,222	117,599
 <b>Liabilities</b>			
Deposits held in escrow	-	-	108,235
Other liabilities	<u>-</u>	<u>-</u>	<u>9,364</u>
Total Liabilities	<u>-</u>	<u>-</u>	\$ <u><u>117,599</u></u>
 <b>Net Position</b>			
Restricted for OPEB purposes	339,300	-	
Restricted for other purposes	<u>-</u>	<u>34,222</u>	
Total Net Position	\$ <u><u>339,300</u></u>	\$ <u><u>34,222</u></u>	

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

**TOWN OF STOW, MASSACHUSETTS**

**FIDUCIARY FUNDS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

**FOR THE YEAR ENDED JUNE 30, 2019**

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Contributions:		
Employers	\$ <u>358,000</u>	\$ <u>-</u>
Total contributions	358,000	-
Investment Income:		
Interest	10,843	7
Increase (decrease) in fair value of investments	<u>5,696</u>	<u>-</u>
Net investment income	<u>16,539</u>	<u>7</u>
Total additions	374,539	7
<b>Deductions</b>		
Benefit payments to plan members, beneficiaries and other systems	258,000	-
Other	<u>-</u>	<u>1,500</u>
Total deductions	<u>258,000</u>	<u>1,500</u>
Net increase (decrease)	116,539	(1,493)
<b>Net position restricted for other purposes</b>		
Beginning of year	<u>222,761</u>	<u>35,715</u>
End of year	\$ <u><u>339,300</u></u>	\$ <u><u>34,222</u></u>

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

## TOWN OF STOW, MASSACHUSETTS

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

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

##### A. Reporting Entity

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

##### Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint ventures 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.

##### *Nashoba Regional School District (NRSD)*

The NRSD is governed by a 10-member school committee consisting of two elected representatives from the Town. 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, 2019, the Town's assessment totaled \$17,938,215. Separate financial statements may be obtained by writing to the Treasurer of the NRSD at 50 Mechanic Street, Bolton, Massachusetts 01740.

##### *Minuteman Regional High School (MRHS)*

The MRHS is governed by a 17-member school committee consisting of 1 elected representative from the Town. The Town is indirectly liable for the MRHS debt and

expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2019, the Town's assessment totaled \$727,258. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, Massachusetts 02421-7313.

**B. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

**Fund Financial Statements**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

**Government-Wide Financial Statements**

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

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

#### Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* is used to account for revenues and expenditures related to the levy of a 3% property tax surcharge that is authorized by the Community Preservation Act. This fund was established by the Town for the purpose of acquiring open land for conservation, developing affordable housing, and preserving historical property.
- The *Lower Village Roadway Improvement Fund* is a capital project fund used to account for the accumulation of resources to make roadway safety improvements to a portion of Route 117 in the Lower Village.

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

The Town reports the following fiduciary funds:

- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *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.



- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

*D. Cash and Short-Term Investments*

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

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

*E. Investments*

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

Investments for the General Fund, Community Preservation Fund and Town Trust Funds consist of bank certificates of deposit, mutual funds, corporate bonds, corporate equities, and U.S. Treasury/Agency securities. All investments are carried at fair value except certificates of deposit which are reported at cost.

*F. Property Tax Limitations*

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5% (excluding new growth) unless an override or debt exemption is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$2,210,245.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, infrastructure, and intangible assets, are reported in the government-wide financial statements. Capital assets

are defined by the Town as assets with an initial individual cost that exceeds \$5,000, depending on the asset's category, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 30
Buildings and improvements	7 - 40
Machinery and equipment	5 - 10
Vehicles	5 - 15
Library books	10
Infrastructure	40

#### *H. Compensated Absences*

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

#### *I. Long-Term Obligations*

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

#### *J. Fund Equity*

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

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use

or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

K. *Use of Estimates*

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

## 2. **Stewardship, Compliance, and Accountability**

A. *Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the reserve fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

**B. Budgetary Basis**

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

**C. Budget/GAAP Reconciliation**

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

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

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	Other Financing <u>Sources/(Uses)</u>
Revenues/expenditures/other financing sources/uses) (GAAP basis)	\$ 29,947,245	\$ 30,108,074	\$ 73,944
Remove effect of combining stabilization and general fund	(42,113)	-	-
Adjust tax revenue to accrual basis	(702,530)	-	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(597,317)	-
Add end-of-year appropriation carryforwards to expenditures	-	417,350	-
To record use of free cash	-	-	911,606
To record use of overlay surplus	-	-	50,000
Reclassification of transfers	-	54,629	54,629
Other	-	(133,584)	-
Budgetary basis	<u>\$ 29,202,602</u>	<u>\$ 29,849,152</u>	<u>\$ 1,090,179</u>

**D. Deficit Fund Equity**

Certain individual funds reflected deficit balances as of June 30, 2019.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and grant revenues.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding 60% of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding 10 percent of the capital and surplus of such bank or trust company." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2019, \$2,379,814 of the Town's bank balance of \$7,637,873 was exposed to custodial credit risk as uninsured and/or uncollateralized.

**4. Investments**

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

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposits	\$ 2,522,770
Corporate bonds	1,161,210
Corporate equities	1,709,949
Equity mutual funds	857,654
Federal agency securities	<u>1,952,858</u>
Total investments	<u>\$ 8,204,441</u>

**A. Credit Risk**

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

Presented below is the actual rating as of year-end for each investment type of the Town:

Investment Type	Amount	Exempt From Disclosure	Rating as of Year End					
			AAA	Aa3	A2	A1	Baa1	Unrated
Certificates of deposit	\$ 2,522,770	\$ 2,522,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	1,161,210	-	-	34,885	140,180	145,589	55,606	784,950
Corporate equities	1,709,949	1,709,949	-	-	-	-	-	-
Equity mutual funds	857,654	857,654	-	-	-	-	-	-
Federal agency securities	1,952,858	-	1,128,169	-	-	-	-	824,689
Total	\$ 8,204,441	\$ 5,090,373	\$ 1,128,169	\$ 34,885	\$ 140,180	\$ 145,589	\$ 55,606	\$ 1,609,639

#### **B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's policy on custodial credit risk involves reviewing the financial institution's financial statements and the background of the Advisor. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

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

#### **C. Concentration of Credit Risk**

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

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

#### **D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's policy on interest rate risk is managing the duration in the account.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Investment Maturities (in Years)</u>		
			<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Certificates of deposits	\$ 2,522,770	\$ -	\$ 693,822	\$ 1,828,948	\$ -
Corporate bonds	1,161,210	-	265,137	823,925	72,148
Corporate equities	1,709,949	1,709,949	-	-	-
Equity mutual funds	857,654	857,654	-	-	-
Federal agency securities	1,952,858	-	434,572	1,518,286	-
Total	<u>\$ 8,204,441</u>	<u>\$ 2,567,603</u>	<u>\$ 1,393,531</u>	<u>\$ 4,171,159</u>	<u>\$ 72,148</u>

**E. Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy for foreign currency risk is to limit investments in any instrument exposed to foreign currency risk.

**F. Fair Value**

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

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

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

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

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

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Investment Type</u>	<u>Amount</u>			
Investments by fair value level:				
Corporate bonds	\$ 1,161,210	\$ -	\$ 1,161,210	\$ -
Corporate equities	1,709,949	1,709,949	-	-
Equity mutual funds	857,654	857,654	-	-
Federal agency securities	<u>1,952,858</u>	-	1,952,858	-
Total	<u>\$ 5,681,671</u>			

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

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

## 5. **Property Taxes and Excises Receivables**

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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



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

Property tax and excise receivables at June 30, 2019 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes	\$ 163,783	\$ (19,807)	\$ 143,976	\$ -
Personal property taxes	141,954	(127,058)	14,896	-
Community preservation act	3,324	(370)	2,954	-
Tax liens	351,005	-	123,880	227,125
Deferred taxes	16,673	-	16,673	-
Other	105,477	-	105,477	-
Total property taxes	<u>\$ 782,216</u>	<u>\$ (147,235)</u>	<u>\$ 407,856</u>	<u>\$ 227,125</u>
Motor vehicle excise	<u>\$ 115,629</u>	<u>\$ (36,198)</u>	<u>\$ 79,431</u>	
Total excises	<u>\$ 115,629</u>	<u>\$ (36,198)</u>	<u>\$ 79,431</u>	

## 6. User Fee and Betterment Receivables

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

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Well betterment	\$ 80,989	\$ -	\$ 80,989
Ambulance	<u>47,675</u>	<u>(11,919)</u>	<u>35,756</u>
Total	<u>\$ 128,664</u>	<u>\$ (11,919)</u>	<u>\$ 116,745</u>

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019.

## 8. Interfund Fund Accounts

### Transfers

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

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 233,573	\$ 159,629
Nonmajor Funds:		
Special Revenue Funds:	64,629	233,573
Capital Project Funds:	90,000	-
Expendable Trust Funds	5,000	-
Subtotal Nonmajor Funds	<u>159,629</u>	<u>233,573</u>
Total Governmental Funds	<u>393,202</u>	<u>393,202</u>
Grand Total	<u>\$ 393,202</u>	<u>\$ 393,202</u>

Of the transfers into the general fund \$171,926 was transferred from the Verizon PEG support special revenue fund to fund general fund appropriations for related activities. Additionally, \$55,874 was transferred from the MWPAT loan repayment special revenue fund for related debt payments. Of the transfers out of the general fund \$90,000 was transferred to capital project funds for bond anticipatory notes paydowns.

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, being depreciated:				
Land improvements	\$ 1,228	\$ -	\$ -	\$ 1,228
Buildings and building improvements	58,956	47	-	59,003
Machinery, equipment, and furnishings	1,898	11	-	1,909
Vehicles	2,560	44	(39)	2,565
Library books	200	4	-	204
Infrastructure	<u>3,074</u>	<u>64</u>	<u>-</u>	<u>3,138</u>
Total capital assets, being depreciated	67,916	170	(39)	68,047
Less accumulated depreciation for:				
Land improvements	(405)	(60)	-	(465)
Buildings and building improvements	(15,456)	(1,415)	-	(16,871)
Machinery, equipment, and furnishings	(1,452)	(76)	-	(1,528)
Vehicles	(1,547)	(205)	39	(1,713)
Library books	(169)	(7)	-	(176)
Infrastructure	<u>(398)</u>	<u>(79)</u>	<u>-</u>	<u>(477)</u>
Total accumulated depreciation	<u>(19,427)</u>	<u>(1,842)</u>	<u>39</u>	<u>(21,230)</u>
Total capital assets, being depreciated, net	48,489	(1,672)	-	46,817
Capital assets, not being depreciated:				
Land	9,847	-	-	9,847
Intangible assets	2,242	-	-	2,242
Construction in progress	<u>851</u>	<u>1,775</u>	<u>-</u>	<u>2,626</u>
Total capital assets, not being depreciated	<u>12,940</u>	<u>1,775</u>	<u>-</u>	<u>14,715</u>
Governmental activities capital assets, net	<u>\$ 61,429</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ 61,532</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

<b>Governmental Activities</b>	
General government	\$ 76
Public safety	426
Education	1,058
Public works	206
Culture and recreation	<u>76</u>
Total governmental activities	<u>\$ 1,842</u>

## 10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pension, in accordance with GASB Statement No. 68, is more fully discussed in the corresponding pension note.

## 11. Warrants Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019.

## 12. Notes Payable

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/19</u>
Lower Village	1.89%	07/10/18	07/10/19	\$ 492,000
Total				<u>\$ 492,000</u>

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

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Rollover</u>	<u>Bonded</u>	<u>Premium Paydown</u>	<u>Paydown</u>	<u>Balance End of Year</u>
School Building	\$ 500,000	\$ -	\$ (470,000)	\$ (30,000)	\$ -	\$ -
Fire Station/Community Center	8,940,000	-	(8,338,000)	(437,000)	(165,000)	-
Land Acquisition	265,000	-	(247,000)	(13,000)	(5,000)	-
Lower Village	492,000	(492,000)	-	-	-	-
Lower Village	-	492,000	-	-	-	492,000
Total	<u>\$ 10,197,000</u>	<u>\$ -</u>	<u>\$ (9,055,000)</u>	<u>\$ (480,000)</u>	<u>\$ (170,000)</u>	<u>\$ 492,000</u>

## 13. Long-Term Debt

### A. General Obligation Bonds

The Town issues general obligation bonds and loans payable to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and loans payable have been issued for governmental activities. General obligation bonds and loans payable currently outstanding are as follows:

<u>Governmental Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/19</u>
Refunding 2005	02/01/20	3.50 - 4.75	\$ 715,000
General obligation bonds 2011	05/01/31	2.00 - 4.12	6,670,000
General obligation bonds 2014	05/15/34	3.00 - 4.00	5,340,000
General obligation bonds 2019	04/15/44	3.00 - 5.00	<u>9,055,000</u>
Subtotal bonds			21,780,000
MWPAT	01/15/25	0.00	<u>280,633</u>
Subtotal loans payable (direct borrowings)			<u>280,633</u>
Total Governmental Activities			<u>\$ 22,060,633</u>

**B. Future Debt Service**

The annual payments to retire all general obligation and loans payable long-term debt outstanding as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>Bonds</u>			<u>Loans Payable (Direct Borrowings)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,680,000	\$ 785,863	\$ 2,465,863	\$ 55,958	\$ -	\$ 55,958
2021	1,000,000	732,188	1,732,188	56,042	-	56,042
2022	1,040,000	692,838	1,732,838	56,126	-	56,126
2023	1,075,000	650,213	1,725,213	56,211	-	56,211
2024	1,120,000	606,125	1,726,125	56,296	-	56,296
2025 - 2029	6,140,000	2,328,331	8,468,331	-	-	-
2030 - 2034	5,170,000	1,140,506	6,310,506	-	-	-
Thereafter	<u>4,555,000</u>	<u>780,600</u>	<u>5,335,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 21,780,000</u>	<u>\$ 7,716,664</u>	<u>\$ 29,496,664</u>	<u>\$ 280,633</u>	<u>\$ -</u>	<u>\$ 280,633</u>

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
<b>Governmental Activities</b>						
Bonds payable	\$ 14,315	\$ 9,055	\$ (1,590)	\$ 21,780	\$ (1,680)	\$ 20,100
Loans payable	337	-	(56)	281	(56)	225
Unamortized premium	<u>-</u>	<u>480</u>	<u>-</u>	<u>480</u>	<u>(19)</u>	<u>461</u>
Subtotal	14,652	9,535	(1,646)	22,541	(1,755)	20,786
Net pension liability	10,459	1,186	-	11,645	-	11,645
Net OPEB liability	10,357	-	(291)	10,066	-	10,066
Compensated absences	<u>111</u>	<u>16</u>	<u>(3)</u>	<u>124</u>	<u>(6)</u>	<u>118</u>
Totals	<u>\$ 35,579</u>	<u>\$ 10,737</u>	<u>\$ (1,940)</u>	<u>\$ 44,376</u>	<u>\$ (1,761)</u>	<u>\$ 42,615</u>

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

General obligation bonds and loans payable, issued by the Town for various municipal projects are approved by Town Meeting and repaid with revenues recorded in the general fund.

**E. Authorized and Unissued Debt**

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2019, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Center School Construction	\$ 18,756,870
Fire Station/Community Center	430,000
Fire Pumper Truck	625,000
Town Building HVAC	850,000
Lower Village Road Construction	<u>1,000,000</u>
Total	<u>\$ 21,661,870</u>

**14. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension will be recognized as expense in future years and is more fully described in the corresponding pension note. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

**15. Governmental Funds - Balances**

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

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

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting and capital project and expendable trust funds funded by general fund appropriations.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.

Unassigned – Represents amounts that are available to spend in future periods and general stabilization fund and deficit funds.

Following is a breakdown of the Town's fund balance as of June 30, 2019:

	General Fund	Community Preservation Fund	Lower Village Roadway Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 393,755	\$ 393,755
Fire station deficit	<u>75,729</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,729</u>
Total Nonspendable	75,729	-	-	393,755	469,484
<b>Restricted</b>					
Community preservation funds	-	6,523,402	-	-	6,523,402
Special revenue funds:					
Gifts	-	-	-	505,246	505,246
Grants	-	-	-	108,783	108,783
Revolving	-	-	-	206,168	206,168
Receipts reserved	-	-	-	439,498	439,498
Other	-	-	-	72,359	72,359
Capital project funds	-	-	-	10,821	10,821
Expendable Trust Funds:					
Library trust	-	-	-	712,564	712,564
Hale school	-	-	-	554,253	554,253
Affordable housing trust	-	-	-	148,753	148,753
other	-	-	-	187,870	187,870
Reserved for excluded debt	<u>159,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,055</u>
Total Restricted	159,055	6,523,402	-	2,946,315	9,628,772
<b>Committed</b>					
Article carryforwards	<u>406,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>406,069</u>
Total Committed	406,069	-	-	-	406,069
<b>Assigned</b>					
Encumbrances	11,281	-	-	-	11,281
Reserved for expenditures:					
Capital expenditures	762,500	-	-	-	762,500
OPEB trust contributions	235,000	-	-	-	235,000
Operating expenditures	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Total Assigned	1,078,781	-	-	-	1,078,781
<b>Unassigned</b>					
General fund	3,051,587	-	-	-	3,051,587
General stabilization fund	1,004,647	-	-	-	1,004,647
Lower village deficit	-	-	(476,778)	-	(476,778)
Fire station deficit	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,729)</u>	<u>(75,729)</u>
Total Unassigned	<u>4,056,234</u>	<u>-</u>	<u>(476,778)</u>	<u>(75,729)</u>	<u>3,503,727</u>
Total Fund Balances	<u>\$ 5,775,868</u>	<u>\$ 6,523,402</u>	<u>\$ (476,778)</u>	<u>\$ 3,264,341</u>	<u>\$ 15,086,833</u>

## 16. Middlesex County Retirement System

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



A. Plan Description

Substantially all employees of the Town are members of the Middlesex County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports, which are publicly available at the System's administrative offices at 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865. Reports are also available on the System's website at [www.middlesexretirement.org](http://www.middlesexretirement.org).

Participant Contributions

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

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

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

Participant Retirement Benefits

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who

retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

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

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

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

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

#### Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member,

provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

#### Participant Refunds

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

#### Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2019 was \$881,015, which was equal to its annual required contribution.

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

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

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

At June 30, 2019, the Town reported a liability of \$11,645,337 for its proportionate share of the System's total net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The Town's proportion of the net pension liability was based on an actuarially determined projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2018, the Town's proportion was 0.746751%.

For the year ended June 30, 2019, the Town recognized total pension expense of \$1,501,408. In addition, the Town reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ 23,826	\$ (40,591)
Changes of assumptions	723,735	-
Net difference between projected and actual earnings on pension plan investments	519,075	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>240,660</u>	<u>(72,881)</u>
Total	<u>\$ 1,507,296</u>	<u>\$ (113,472)</u>

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

Year ended June 30:

2020	\$ 553,036
2021	421,995
2022	195,421
2023	<u>223,372</u>
Total	<u>\$ 1,393,824</u>

*D. Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to a measurement date of December 31, 2018:

COLA	3% of the first \$14,000
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
Investment rate of return	7.50%

Mortality rates were based on the following:

Pre-Retirement: The RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017.

Healthy Retiree: The RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017.

Disabled Retiree: The RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017.

*E. Target Allocations*

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	17.00%	7.62%
International developed markets equity	14.90%	7.80%
International emerging markets equity	6.00%	9.31%
Core fixed income	13.00%	4.00%
Value-added fixed income	8.10%	7.58%
Private equity	12.10%	11.15%
Real estate	9.40%	6.59%
Timberland	4.10%	7.00%
Hedge funds/PCS	14.20%	6.83%
Liquidating portfolios	0.30%	0.00%
Overlay	<u>0.90%</u>	0.00%
Total	<u><u>100.00%</u></u>	

*F. Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member contributions at the current contribution rate and employer contributions at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>(6.50%)</u>	<u>(7.50%)</u>	<u>(8.50%)</u>
\$ 14,126,316	\$ 11,645,337	\$ 9,553,508

#### H. Pension Plan Fiduciary Net Position

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

### **17. Other Post-Employment Benefits (GASB 74 and GASB 75)**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2013, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

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

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

#### A. General Information about the OPEB Plan

##### Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Fallon Health, Harvard Pilgrim Health Care, and Tufts Health Plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

##### Benefits Provided

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

### Funding Policy

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

### Plan Membership

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

Inactive employees or beneficiaries	
currently receiving benefit payments	45
Active employees	<u>54</u>
Total	<u>99</u>

### *B. Investments*

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

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

### *C. Actuarial Assumptions and Other Inputs*

The Town has elected to use the alternative measurement method instead of obtaining an actuarial valuation. GASB 75 allows employers with less than 100 total plan members to apply a simplified alternative measurement method instead of obtaining actuarial valuations. The alternative method includes the same broad measurement steps as an actuarial valuation; however, it permits simplification of certain assumptions to make the method useable by nonspecialist.

The net OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	2.00%
Investment rate of return	7.50%
Municipal bond rate	3.50%
Discount rate	5.50%
Retirees' share of benefit-related costs	30% for health and 50% for life insurance
Participation rate	100%



Mortality rates were based on the RP2000 Mortality Table for males and females projected 18 years; this assumption does not include a margin for future improvements in longevity.

Because of the minimal plan investment balance, disclosures related to long-term expected rate of return were not applicable.

*D. Discount Rate*

The discount rate used to measure the net OPEB liability was 5.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used based on a combination of the investment rate of return of 7.50% and municipal bond rate of 3.50% as of June 30, 2019.

*E. Net OPEB Liability*

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

Total OPEB liability	\$ 10,405,763
Plan fiduciary net position	<u>339,300</u>
Net OPEB liability	<u>\$ 10,066,463</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.26%

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

*F. Changes in the Net OPEB Liability*

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 10,579,755	\$ 222,761	\$ 10,356,994
Changes for the year:			
Service cost	226,496	-	226,496
Interest	565,983	-	565,983
Contributions - employer	-	358,000	(358,000)
Net investment income	-	16,539	(16,539)
Differences between expected and actual experience	(471,538)	-	(471,538)
Changes in assumptions or other inputs	(236,933)	-	(236,933)
Benefit payments	(258,000)	(258,000)	-
Net Changes	(173,992)	116,539	(290,531)
Balances, end of year	\$ 10,405,763	\$ 339,300	\$ 10,066,463

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

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

1% <u>Decrease</u>	Current Discount <u>Rate</u>	1% <u>Increase</u>
\$ 11,462,930	\$ 10,066,463	\$ 9,120,288

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

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

	Current Healthcare Cost Trend	
1% <u>Decrease</u>	<u>Rates</u>	1% <u>Increase</u>
\$ 8,978,597	\$ 10,066,463	\$ 11,646,100

## 18. Subsequent Events

### Debt

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Short Term Debt:				
Bond anticipation note	\$ 492,000	2.16%	07/10/19	07/10/20
Long Term Debt:				
General obligation bond	\$ 2,350,000	2.00 - 5.00%	09/19/19	09/15/34

### COVID-19

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

### Other

in January 2020, possible financial irregularities, including the possible misappropriation of funds, were discovered. The Town, in conjunction with the Commonwealth of Massachusetts, has undertaken a complete review of the situation. As a result, material uncertainties related to the carrying value of assets may exist. The effects of these uncertainties on the basic financial statements are not reasonably determinable.

## 19. Commitments and Contingencies

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Encumbrances – At year-end, the Town's general fund has \$11,281 in encumbrances that will be honored in the next fiscal year.

## 20. Beginning Net Position Restatement and Beginning Fund Balance Reclassification

The beginning (July 1, 2018) fund balance of the Town has been reclassified as follows:

	Community Center/Fire Station Fund	Lower Village Roadway Improvement Fund	Nonmajor Governmental Funds
As previously reported	\$ (8,940,000)	\$ -	\$ 1,346,266
Reclassification of prior year major funds	<u>8,940,000</u>	<u>(269,900)</u>	<u>(8,670,100)</u>
As reclassified	<u>\$ -</u>	<u>\$ (269,900)</u>	<u>\$ (7,323,834)</u>

## 21. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year ending June 30, 2020. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported, and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Town beginning with its fiscal year ending June 30, 2021. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

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

JUNE 30, 2019  
(Unaudited)

Middlesex County Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	December 31, 2018	0.746751%	\$11,645,337	\$ 3,736,697	311.65%	46.40%
June 30, 2018	December 31, 2017	0.737006%	\$10,459,477	\$ 3,575,149	292.56%	49.27%
June 30, 2017	December 31, 2016	0.740619%	\$10,493,658	\$ 3,375,342	310.89%	45.49%
June 30, 2016	December 31, 2015	0.715818%	\$9,234,186	\$ 3,198,487	288.70%	46.13%
June 30, 2015	December 31, 2014	0.709159%	\$8,519,238	\$ 3,075,468	277.01%	47.65%

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

See Independent Auditors' Report.

**TOWN OF STOW, MASSACHUSETTS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)**

JUNE 30, 2019  
(Unaudited)

Middlesex County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	December 31, 2018	\$ 881,015	\$ 881,015	\$ -	\$ 3,736,697	23.58%
June 30, 2018	December 31, 2017	\$ 826,612	\$ 826,612	\$ -	\$ 3,575,149	23.12%
June 30, 2017	December 31, 2016	\$ 748,612	\$ 748,612	\$ -	\$ 3,375,342	22.18%
June 30, 2016	December 31, 2015	\$ 702,159	\$ 702,159	\$ -	\$ 3,198,487	21.95%
June 30, 2015	December 31, 2014	\$ 685,927	\$ 685,927	\$ -	\$ 3,075,468	22.30%

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See Independent Auditors' Report.

**TOWN OF STOW, MASSACHUSETTS**  
**OTHER POST-EMPLOYMENT BENEFITS (OPEB)**  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 226,496	\$ 226,491
Interest on unfunded liability - time value of \$	565,983	330,583
Differences between expected and actual experience	(471,538)	-
Changes of assumptions	(236,933)	563,764
Benefit payments, including refunds of member contributions	<u>(258,000)</u>	<u>(240,000)</u>
Net change in total OPEB liability	(173,992)	880,838
Total OPEB liability - beginning	<u>10,579,755</u>	<u>9,698,917</u>
Total OPEB liability - ending (a)	10,405,763	10,579,755
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	358,000	290,000
Net investment income	16,539	8,011
Benefit payments, including refunds of member contributions	<u>(258,000)</u>	<u>(240,000)</u>
Net change in plan fiduciary net position	116,539	58,011
Plan fiduciary net position - beginning	<u>222,761</u>	<u>164,750</u>
Plan fiduciary net position - ending (b)	<u>339,300</u>	<u>222,761</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 10,066,463</u>	<u>\$ 10,356,994</u>

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

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

See Independent Auditors' Report.

**TOWN OF STOW, MASSACHUSETTS**  
**OTHER POST-EMPLOYMENT BENEFITS (OPEB)**  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>
<b>Schedule of Net OPEB Liability</b>		
Total OPEB liability	\$ 10,405,763	\$ 10,579,755
Plan fiduciary net position	<u>339,300</u>	<u>222,761</u>
Net OPEB liability (asset)	<u>\$ 10,066,463</u>	<u>\$ 10,356,994</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.26%	2.11%

	<u>2019</u>	<u>2018</u>
<b>Schedule of Contributions</b>		
Actuarially determined contribution	\$ 968,568	\$ 716,038
Contributions in relation to the actuarially determined contribution	<u>358,000</u>	<u>290,000</u>
Contribution deficiency (excess)	<u>\$ 610,568</u>	<u>\$ 426,038</u>

	<u>2019</u>	<u>2018</u>
<b>Schedule of Investment Returns</b>		
Annual money weighted rate of return, net of investment expense	Unavailable	Unavailable

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

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

See Independent Auditors' Report.