



TOWN OF STOW, MASSACHUSETTS

Financial Statements
For the Year Ended June 30, 2020

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Stow, Massachusetts

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, 2020, 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.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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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, 2020, 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 19, 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 and continues a 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 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.

Andover, Massachusetts
March 23, 2021

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, 2020.

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 required 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.

Required Supplementary Information (Other Than MD&A)

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.

Financial Highlights

- As of the close of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows by \$36,181,557 (i.e., net position), a change of \$1,414,807 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$16,274,856, a change of \$1,188,023 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,364,647, a change of \$(691,587) in comparison to the prior year.

Government-Wide Financial Analysis

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

NET POSITION (in thousands)

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Current assets	\$ 17,841	\$ 17,259
Noncurrent assets	<u>63,503</u>	<u>61,532</u>
Total assets	81,344	78,791
Deferred outflows of resources	1,259	1,507
Current liabilities	2,408	2,803
Noncurrent liabilities	<u>40,924</u>	<u>42,615</u>
Total liabilities	43,332	45,418
Deferred inflows of resources	3,089	114
Net investment in capital assets	41,015	39,260
Restricted	3,158	3,329
Unrestricted	<u>(7,991)</u>	<u>(7,823)</u>
Total net position	\$ <u><u>36,182</u></u>	\$ <u><u>34,766</u></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 \$36,181,557, a change of \$1,414,807 in comparison to the prior year.

The largest portion of net position \$41,014,876 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 \$3,157,429 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 \$(7,990,748) primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION (in thousands)

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Charges for services	\$ 596	\$ 849
Operating grants and contributions	737	1,734
Capital grants and contributions	182	616
General revenues:		
Property taxes	28,638	27,490
Excises	1,161	1,235
Penalties, interest, and other taxes	181	111
Grants and contributions not restricted to specific programs	453	527
Investment income	335	440
Other	<u>27</u>	<u>34</u>
Total revenues	32,310	33,036
Expenses:		
General government	2,690	2,119
Public safety	4,205	4,066
Education	19,897	19,841
Public works	1,822	2,255
Human services	660	661
Culture and recreation	747	849
Interest on long-term debt	762	950
Intergovernmental	<u>111</u>	<u>106</u>
Total expenses	<u>30,894</u>	<u>30,847</u>
Change in net position	1,416	2,189
Net position - beginning of year	<u>34,766</u>	<u>32,577</u>
Net position - end of year	<u>\$ 36,182</u>	<u>\$ 34,766</u>

Governmental Activities

Governmental activities for the year resulted in a change in net position of \$1,414,807. Key elements of this change are as follows:

Major community preservation fund revenues	\$ 1,092,954
General fund transfers to lower village roadway improvement fund	1,023,500
Change in net pension liability and related deferred outflows and (inflows) of resources	(822,487)
Other	<u>120,840</u>
Total	<u>\$ 1,414,807</u>

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 \$16,274,856, a change of \$1,188,023 in comparison to the prior year. Key elements of this change are as follows:

General fund results	\$ (589,283)
Community preservation fund results	846,713
Lower village roadway improvement fund results	345,245
Nonmajor funds operating results	<u>585,348</u>
Total	<u>\$ 1,188,023</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 \$3,364,647, while total fund balance was \$5,186,585. Unassigned fund balance in the general fund decreased by \$691,587 in fiscal year 2020. The decrease was primarily due to a \$436,000 transfer from the stabilization fund to the Lower Village Roadway Improvement Fund, \$681,268 use of free cash during the fiscal year 2021 budgeting process (primarily for OPEB Trust contributions and capital expenditures), softened by positive turnback's of \$486,615 on the Town's fiscal year 2020 budget vs. actual. 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>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 3,364,647	\$ 4,056,234	\$ (691,587)	11.0%
Total fund balance	\$ 5,186,585	\$ 5,775,868	\$ (589,283)	17.0%

The total fund balance of the general fund changed by \$(589,283) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (1,417,338)
Revenues in excess of budget	51,658
Expenditures less than budget	453,002
Change in encumbrances and carryforwards	509,713
Change in stabilization	(411,807)
Other	<u>225,489</u>
Total	<u>\$ (589,283)</u>

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

	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>
General stabilization	\$ 592,840	\$ 1,004,647	\$ (411,807)

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$349,838. Major reasons for these amendments include:

- \$60,000 appropriated for Town Building elevator repair funded by free cash.
- \$15,000 appropriated for the removal and replacement of water service to the former Fire Station funded by free cash.
- \$150,000 appropriated for installing an upgraded water filtration system at Town Building funded by free cash.
- \$57,000 appropriated for installing an upgraded water filtration system at Hale and Center Schools funded by Free Cash.
- \$34,500 appropriated for roadway improvements along Route 117 funded by free cash.

- \$30,000 appropriated for appraisal and legal services associated with Box Mill Road Bridge reconstruction funded by free cash.
- \$3,338 appropriated for overtime back pay to ten police officers due to incorrect payroll calculations funded by free cash.

Capital Asset and Debt Administration

Capital Assets

Total investment in capital assets for governmental activities at year end amounted to \$63,273,490 (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:

- \$1,767,382 for construction in progress, the majority of which was for the Lower Village project.
- \$354,234 for various machinery, equipment, and vehicles.
- \$198,299 for various road improvements.
- \$296,670 for land improvements to the park facility on 323 Great road.
- \$1,156,331 for various building improvements including a new HVAC for the Town Building.
- \$3,778 for library books.
- Depreciation expense of \$(1,893,995).

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

Credit Rating

As of June 30, 2020, 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 \$23,260,425, 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, 2020

	Governmental <u>Activities</u>
Assets	
Current:	
Cash and short-term investments	\$ 9,443,856
Investments	7,657,894
Receivables, net of allowance for uncollectibles:	
Property taxes	545,089
Excises	96,744
User fees	22,301
Intergovernmental	30,597
Betterments	<u>44,350</u>
Total Current Assets	17,840,831
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	229,194
Capital assets:	
Land and construction in progress	16,341,021
Other capital assets, net of accumulated depreciation	<u>46,932,469</u>
Total Noncurrent Assets	<u>63,502,684</u>
Total Assets	81,343,515
Deferred Outflows of Resources	
Related to pensions	1,248,084
Related to OPEB	<u>11,254</u>
Total Deferred Outflows of Resources	1,259,338
	(continued)

TOWN OF STOW, MASSACHUSETTS

Statement of Net Position

June 30, 2020

(continued)

Governmental
Activities

Liabilities

Current:

Warrants payable	205,117
Accrued liabilities	377,960
Notes payable	492,000
Other current liabilities	79,446
Current portion of long-term liabilities:	
Bonds and loans payable	1,243,626
Compensated absences	<u>9,436</u>

Total Current Liabilities	2,407,585
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Noncurrent:

Bonds and loans payable, net of current portion	22,016,799
Net pension liability	11,909,143
Net OPEB liability	6,819,093
Compensated absences	<u>179,281</u>

Total Noncurrent Liabilities	<u>40,924,316</u>
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Total Liabilities	43,331,901
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Deferred Inflows of Resources

Related to pensions	412,941
Related to OPEB	<u>2,676,454</u>

Total Deferred Inflows of Resources	3,089,395
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Net Position

Net investment in capital assets	41,014,876
Restricted for:	
Grants and other statutory restrictions	1,168,519
Permanent funds:	
Nonexpendable	399,932
Expendable	1,588,978
Unrestricted	<u>(7,990,748)</u>

Total Net Position	<u>\$ 36,181,557</u>
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The accompanying notes are an integral part of these financial statements.

Statement of Activities
For the Year Ended June 30, 2020

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

TOWN OF STOW, MASSACHUSETTS

Governmental Funds
Balance Sheet
June 30, 2020

	<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>
Assets					
Cash and short-term investments	\$ 5,002,786	\$ 2,475,376	\$ 407,009	\$ 1,558,685	\$ 9,443,856
Investments	496,972	4,895,026	-	2,265,896	7,657,894
Receivables:					
Property taxes	850,723	13,346	-	-	864,069
Excises	140,330	-	-	-	140,330
Betterments	-	-	-	44,350	44,350
User fees	29,735	-	-	-	29,735
Intergovernmental	-	-	-	30,597	30,597
Total Assets	\$ <u>6,520,546</u>	\$ <u>7,383,748</u>	\$ <u>407,009</u>	\$ <u>3,899,528</u>	\$ <u>18,210,831</u>
Liabilities					
Warrants payable	\$ 154,663	\$ 47	\$ 46,542	\$ 3,865	\$ 205,117
Accrued liabilities	190,492	240	-	1,624	192,356
Notes payable	-	-	492,000	-	492,000
Other liabilities	<u>79,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,446</u>
Total Liabilities	424,601	287	538,542	5,489	968,919
Deferred Inflows of Resources					
Unavailable revenues	909,360	13,346	-	44,350	967,056
Fund Balances					
Nonspendable	-	-	-	399,932	399,932
Restricted	140,219	7,370,115	-	3,449,757	10,960,091
Committed	979,121	-	-	-	979,121
Assigned	702,598	-	-	-	702,598
Unassigned	<u>3,364,647</u>	<u>-</u>	<u>(131,533)</u>	<u>-</u>	<u>3,233,114</u>
Total Fund Balances	<u>5,186,585</u>	<u>7,370,115</u>	<u>(131,533)</u>	<u>3,849,689</u>	<u>16,274,856</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>6,520,546</u>	\$ <u>7,383,748</u>	\$ <u>407,009</u>	\$ <u>3,899,528</u>	\$ <u>18,210,831</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, 2020

Total governmental fund balances	\$ 16,274,856
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	63,273,490
Revenues are reported on the accrual basis of accounting and are not deferred until collection.	826,250
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	(23,260,425)
Net pension liability	(11,909,143)
Net OPEB liability	(6,819,093)
Compensated absences	(188,717)
Deferred outflows and inflows of resources related to pensions to be recognized in pension expense in future periods	835,143
Deferred outflows and inflows of resources related to OPEB to be recognized in pension expense in future periods	(2,665,200)
Other	(185,604)
Net position of governmental activities	\$ <u>36,181,557</u>

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, 2020

	<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>
Revenues					
Property taxes	\$ 27,911,474	\$ 654,800	\$ -	\$ -	\$ 28,566,274
Excises	1,143,550	-	-	-	1,143,550
Penalties, interest and other taxes	170,652	641	-	-	171,293
Charges for services	292,080	-	-	182,933	475,013
Intergovernmental	1,044,436	230,274	-	465,427	1,740,137
Licenses and permits	105,458	-	-	-	105,458
Fines and forfeitures	8,153	-	-	-	8,153
Investment income	72,533	207,239	-	55,800	335,572
Miscellaneous	<u>27,774</u>	<u>-</u>	<u>-</u>	<u>240,804</u>	<u>268,578</u>
Total Revenues	30,776,110	1,092,954	-	944,964	32,814,028
Expenditures					
Current:					
General government	1,871,393	246,241	1,678,255	988,707	4,784,596
Public safety	2,454,989	-	-	77,272	2,532,261
Education	18,991,332	-	-	23,440	19,014,772
Public works	1,322,588	-	-	192,940	1,515,528
Health and human services	429,928	-	-	34,007	463,935
Culture and recreation	407,156	-	-	327,635	734,791
Employee benefits	2,412,923	-	-	-	2,412,923
Debt service	2,531,119	-	-	-	2,531,119
Intergovernmental	<u>111,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,080</u>
Total Expenditures	<u>30,532,508</u>	<u>246,241</u>	<u>1,678,255</u>	<u>1,644,001</u>	<u>34,101,005</u>
Excess (deficiency) of revenues over expenditures	243,602	846,713	(1,678,255)	(699,037)	(1,286,977)
Other Financing Sources (Uses)					
Issuance of bonds	-	-	949,000	1,401,000	2,350,000
Bond premiums	-	-	51,000	74,000	125,000
Transfers in	352,276	-	1,023,500	161,661	1,537,437
Transfers out	<u>(1,185,161)</u>	<u>-</u>	<u>-</u>	<u>(352,276)</u>	<u>(1,537,437)</u>
Total Other Financing Sources (Uses)	<u>(832,885)</u>	<u>-</u>	<u>2,023,500</u>	<u>1,284,385</u>	<u>2,475,000</u>
Change in fund balance	(589,283)	846,713	345,245	585,348	1,188,023
Fund Balance, at Beginning 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>
Fund Balance, at End of Year	\$ <u>5,186,585</u>	\$ <u>7,370,115</u>	\$ <u>(131,533)</u>	\$ <u>3,849,689</u>	\$ <u>16,274,856</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, 2020

Net changes in fund balances - total governmental funds	\$ 1,188,023
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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	3,635,375
Depreciation	(1,893,995)

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	(2,350,000)
Repayments of debt	1,735,958
Other	(105,750)

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.

	(504,061)
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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, net of related deferred outflows and inflows of resources	(822,487)
Net OPEB liability, net of related deferred outflows and inflows of resources	582,170
Compensated absences	(64,251)

Other differences.	<u>13,825</u>
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Change in net position of governmental activities	\$ <u><u>1,414,807</u></u>
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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, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues				
Property taxes	\$ 27,757,931	\$ 27,757,931	\$ 27,848,035	\$ 90,104
Motor vehicle excise	1,200,000	1,200,000	1,143,550	(56,450)
Penalties, interest and other taxes	140,000	140,000	170,652	30,652
Charges for services	305,518	305,518	292,080	(13,438)
Intergovernmental	1,046,015	1,046,015	1,044,436	(1,579)
Licenses and permits	125,000	125,000	105,458	(19,542)
Fines and forfeitures	6,000	6,000	8,153	2,153
Investment income	35,000	35,000	48,340	13,340
Miscellaneous	<u>20,482</u>	<u>20,482</u>	<u>26,900</u>	<u>6,418</u>
Total Revenues	30,635,946	30,635,946	30,687,604	51,658
Expenditures				
General government	2,387,907	2,651,695	2,518,208	133,487
Public safety	2,580,092	2,618,906	2,470,391	148,515
Education	18,978,948	19,035,948	19,023,187	12,761
Public works	1,611,541	1,635,764	1,572,383	63,381
Health and human services	488,548	499,886	484,577	15,309
Culture and recreation	541,939	541,939	522,520	19,419
Employee benefits	2,230,097	2,230,097	2,198,078	32,019
Debt service	2,683,891	2,558,262	2,531,119	27,143
Intergovernmental	<u>112,048</u>	<u>112,048</u>	<u>111,080</u>	<u>968</u>
Total Expenditures	<u>31,615,011</u>	<u>31,884,545</u>	<u>31,431,543</u>	<u>453,002</u>
Excess (deficiency) of revenues over expenditures	(979,065)	(1,248,599)	(743,939)	504,660
Other Financing Sources/(Uses)				
Transfers in	291,464	291,464	352,276	60,812
Transfers out	(825,000)	(905,304)	(984,161)	(78,857)
Use of free cash:				
Operating budget	70,000	103,338	103,338	-
Capital budget	587,500	904,000	904,000	-
OPEB trust fund contribution	235,000	235,000	235,000	-
Use of overlay surplus	175,000	175,000	175,000	-
Use of committed fund balance	479,456	479,456	479,456	-
Use of assigned fund balance	11,281	11,281	11,281	-
Other use	<u>(45,636)</u>	<u>(45,636)</u>	<u>(45,636)</u>	<u>-</u>
Total Other Financing Sources/(Uses)	<u>979,065</u>	<u>1,248,599</u>	<u>1,230,554</u>	<u>(18,045)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>486,615</u>	\$ <u>486,615</u>

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

TOWN OF STOW, MASSACHUSETTS

Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2020

	OPEB <u>Trust Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
Assets			
Cash and short-term investments	\$ 4,863	\$ 33,017	\$ 52,367
Investments:			
Equities	402,656	-	-
Mutual funds	<u>184,466</u>	<u>-</u>	<u>-</u>
Total investments	587,122	-	-
Accounts receivable	<u>-</u>	<u>-</u>	<u>63,342</u>
Total Assets	591,985	33,017	<u><u>\$ 115,709</u></u>
Liabilities			
Deposits held in escrow	-	-	108,788
Other liabilities	<u>2,000</u>	<u>-</u>	<u>6,921</u>
Total Liabilities	<u>2,000</u>	<u>-</u>	<u><u>\$ 115,709</u></u>
Net Position			
Restricted for OPEB purposes	589,985	-	
Restricted for other purposes	<u>-</u>	<u>33,017</u>	
Total Net Position	<u><u>\$ 589,985</u></u>	<u><u>\$ 33,017</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, 2020

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Additions		
Contributions:		
Employers	\$ <u>605,619</u>	\$ <u>-</u>
Total contributions	605,619	-
Investment Income:		
Interest	10,849	295
Increase (decrease) in fair value of investments	<u>4,836</u>	<u>-</u>
Net investment income	<u>15,685</u>	<u>295</u>
Total additions	621,304	295
Deductions		
Benefit payments to plan members, beneficiaries and other systems	370,619	-
Other	<u>-</u>	<u>1,500</u>
Total deductions	<u>370,619</u>	<u>1,500</u>
Net increase (decrease)	250,685	(1,205)
Net position restricted for other purposes		
Beginning of year	<u>339,300</u>	<u>34,222</u>
End of year	\$ <u><u>589,985</u></u>	\$ <u><u>33,017</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:

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 2020, 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, 2020, 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, 2020, 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.

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.

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.

Cash and 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. Generally, 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".

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.

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 2020 tax levy reflected an excess capacity of \$2,145,263.

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

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.

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.

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.

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

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.

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.

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)	\$ 30,776,110	\$ 30,532,508	\$ (832,885)
Remove effect of combining stabilization and general fund	(24,193)	-	436,000
To record use of assigned fund balance	-	-	479,456
To record use of committed fund balance	-	-	11,281
Add end-of-year appropriation carryforwards to expenditures	-	1,000,450	-
To record use of free cash	-	-	1,242,338
To record use of overlay surplus	-	-	175,000
Reclassification of transfers	-	(235,000)	(235,000)
Record raising of prior year's snow and ice deficit	-	-	(45,636)
Other	<u>(64,313)</u>	<u>133,585</u>	<u>-</u>
Budgetary basis	\$ <u>30,687,604</u>	\$ <u>31,431,543</u>	\$ <u>1,230,554</u>

Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2020.

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, 2020, \$1,838,288 of the Town's bank balance of \$17,730,631 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, 2020:

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposits	\$ 1,979,160
Corporate bonds	2,019,217
Corporate equities	1,544,048
Equity mutual funds	540,454
Federal agency securities	1,730,153
Fixed income mutual funds	<u>431,984</u>
Total investments	<u>\$ 8,245,016</u>

Credit Risk – Fixed Domestic Securities

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:

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>								
			<u>AAA</u>	<u>Aa3</u>	<u>Aa2</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>	<u>Baa2</u>	<u>Unrated</u>
Corporate bonds	\$ 2,019,217	\$ -	\$ -	\$ 57,567	\$ 10,459	\$ 203,121	\$ 511,778	\$ 43,271	\$ 260,026	\$ 339,000	\$ 593,995
Federal agency securities	1,730,153	-	1,730,153	-	-	-	-	-	-	-	-
Fixed income mutual funds	<u>431,984</u>	-	-	-	-	-	-	-	-	-	<u>431,984</u>
Total	<u>\$ 4,181,354</u>	<u>\$ -</u>	<u>\$ 1,730,153</u>	<u>\$ 57,567</u>	<u>\$ 10,459</u>	<u>\$ 203,121</u>	<u>\$ 511,778</u>	<u>\$ 43,271</u>	<u>\$ 260,026</u>	<u>\$ 339,000</u>	<u>\$ 1,025,979</u>

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, 2020, none of the Town's investments were subject to custodial credit risk.

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, 2020, the Town does not have an investment in one issuer greater than 5% of total investments.

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>
Corporate bonds	\$ 2,019,217	\$ -	\$ 580,907	\$ 1,382,811	\$ 55,499
Federal agency securities	1,730,153	-	509,971	1,149,932	70,250
Fixed income mutual funds	<u>431,984</u>	<u>-</u>	<u>247,518</u>	<u>184,466</u>	<u>-</u>
Total	<u>\$ 4,181,354</u>	<u>\$ -</u>	<u>\$ 1,338,396</u>	<u>\$ 2,717,209</u>	<u>\$ 125,749</u>

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.

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, 2020:

		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	\$ 2,019,217	\$ -	\$ 2,019,217	\$ -
Corporate equities	1,544,048	1,544,048	-	-
Equity mutual funds	540,454	540,454	-	-
Federal agency securities	1,730,153	-	1,730,153	-
Fixed income mutual funds	<u>431,984</u>	431,984	-	-
Total	<u>\$ 6,265,856</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 and personal property taxes are based on market values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also, by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the accrual and modified accrual basis of accounting on the government-wide and fund basis statements accordingly.

The Town bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the Town's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid generally occurs annually. The Town ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2 ½" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½% of the total assessed value of all taxable property within the Town. Secondly, the tax levy cannot increase by more than 2 1/2 % of the prior year's levy plus the taxes on property newly added to the tax rolls.

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, 2020 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes	\$ 369,477	\$ (195,263)	\$ 174,214	\$ -
Personal property taxes	149,591	-	149,591	-
Community preservation act	13,346	-	13,346	-
Tax liens	309,586	-	80,392	229,194
Deferred taxes	22,069	-	22,069	-
Other	-	-	105,477	-
Total property taxes	<u>\$ 864,069</u>	<u>\$ (195,263)</u>	<u>\$ 545,089</u>	<u>\$ 229,194</u>
Motor vehicle excise	<u>\$ 140,330</u>	<u>\$ (43,586)</u>	<u>\$ 96,744</u>	
Total excises	<u>\$ 140,330</u>	<u>\$ (43,586)</u>	<u>\$ 96,744</u>	

6. User Fee and Betterment Receivables

Receivables for user charges and betterments at June 30, 2020 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Well betterment	\$ 44,350	\$ -	\$ 44,350
Ambulance	<u>29,735</u>	<u>(7,434)</u>	<u>22,301</u>
Total	<u>\$ 74,085</u>	<u>\$ (7,434)</u>	<u>\$ 66,651</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2020.

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	\$ 352,276	\$ 1,185,161
Nonmajor Funds:		
Special Revenue Funds:	78,857	352,276
Capital Project Funds:	80,304	-
Expendable Trust Funds	<u>2,500</u>	<u>-</u>
Subtotal Nonmajor Funds	<u>161,661</u>	<u>352,276</u>
Major Funds:		
Lower Village Improvements	<u>1,023,500</u>	<u>-</u>
Subtotal Major Funds	<u>1,023,500</u>	<u>-</u>
Total Governmental Funds	<u>1,537,437</u>	<u>1,537,437</u>
Grand Total	\$ <u>1,537,437</u>	\$ <u>1,537,437</u>

Of the transfers into the general fund \$207,352 was transferred from the Verizon PEG support special revenue fund to fund general fund appropriations for related activities. Additionally, \$55,958 was transferred from the MWPAT loan repayment special revenue fund for related debt payments. Of the transfers out of the general fund \$1,023,500 was transferred to major capital project funds for the completing the design work on the Lower Village road reconstruction project.

9. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, being depreciated:				
Land improvements	\$ 1,228	\$ 297	\$ -	\$ 1,525
Buildings and building improvements	59,003	1,156	-	60,159
Machinery, equipment, and furnishings	1,909	307	(89)	2,127
Vehicles	2,565	47	(40)	2,572
Library books	204	4	(43)	165
Infrastructure	<u>3,138</u>	<u>198</u>	<u>-</u>	<u>3,336</u>
Total capital assets, being depreciated	68,047	2,009	(172)	69,884
Less accumulated depreciation for:				
Land improvements	(465)	(67)	-	(532)
Buildings and building improvements	(16,871)	(1,446)	-	(18,317)
Machinery, equipment, and furnishings	(1,528)	(92)	89	(1,531)
Vehicles	(1,713)	(201)	40	(1,874)
Library books	(176)	(6)	43	(139)
Infrastructure	<u>(477)</u>	<u>(82)</u>	<u>-</u>	<u>(559)</u>
Total accumulated depreciation	<u>(21,230)</u>	<u>(1,894)</u>	<u>172</u>	<u>(22,952)</u>
Capital assets, being depreciated, net	46,817	115	-	46,932
Capital assets, not being depreciated:				
Land	9,847	-	-	9,847
Intangible assets	2,242	-	-	2,242
Construction in progress	<u>2,626</u>	<u>1,767</u>	<u>(141)</u>	<u>4,252</u>
Total capital assets, not being depreciated	<u>14,715</u>	<u>1,767</u>	<u>(141)</u>	<u>16,341</u>
Governmental activities capital assets, net	<u>\$ 61,532</u>	<u>\$ 1,882</u>	<u>\$ (141)</u>	<u>\$ 63,273</u>

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

Governmental Activities	
General government	\$ 109
Public safety	422
Education	1,065
Public works	215
Culture and recreation	<u>83</u>
Total governmental activities	<u>\$ 1,894</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 Statements No. 68 and 75, is more fully discussed in the corresponding pension note.

11. Warrants Payable

Warrants payable represent 2020 expenditures paid by July 15, 2020.

12. Notes Payable

The Town had the following note outstanding at June 30, 2020:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/20</u>
Lower Village	2.16%	07/10/19	07/10/20	\$ <u>492,000</u>

The following summarizes activity in notes payable during fiscal year 2020:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Lower Village	\$ <u>492,000</u>	\$ <u>492,000</u>	\$ <u>(492,000)</u>	\$ <u>492,000</u>

13. Long-Term Debt

General Obligation Bonds and Loans

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 6/30/20</u>
General obligation bonds 2011	05/01/31	2.00 - 4.12	\$ 6,205,000
General obligation bonds 2014	05/15/34	3.00 - 4.00	5,060,000
General obligation bonds 2019	04/15/44	3.00 - 5.00	8,835,000
General obligation bonds 2020	09/15/34	2.13-5.00%	<u>2,350,000</u>
Subtotal bonds			22,450,000
MWPAT - direct borrowing	01/15/25	0.00	<u>224,675</u>
Total Governmental Activities			<u><u>\$ 22,674,675</u></u>

Future Debt Service

The annual payments to retire all general obligation and loans payable long-term debt outstanding as of June 30, 2020 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>
2021	\$ 1,160,000	\$ 846,933	\$ 2,006,933	\$ 56,042	\$ -	\$ 56,042
2022	1,200,000	761,800	1,961,800	56,126	-	56,126
2023	1,235,000	711,175	1,946,175	56,211	-	56,211
2024	1,280,000	659,088	1,939,088	56,296	-	56,296
2025	1,300,000	606,819	1,906,819	-	-	-
2026	1,350,000	558,719	1,908,719	-	-	-
2027	1,395,000	506,119	1,901,119	-	-	-
2028	1,440,000	449,269	1,889,269	-	-	-
2029	1,455,000	390,619	1,845,619	-	-	-
2030	1,510,000	332,975	1,842,975	-	-	-
2031 - 2035	4,975,000	999,388	5,974,388	-	-	-
Thereafter	<u>4,150,000</u>	<u>643,950</u>	<u>4,793,950</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 22,450,000</u>	<u>\$ 7,466,854</u>	<u>\$ 29,916,854</u>	<u>\$ 224,675</u>	<u>\$ -</u>	<u>\$ 224,675</u>

Changes in General Long-Term Liabilities

During the year ended June 30, 2020, the following changes occurred in long-term liabilities (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Governmental Activities						
Bonds payable	\$ 21,780	\$ 2,350	\$ (1,680)	\$ 22,450	\$ (1,160)	\$ 21,290
Loans payable - direct borrowing	281	-	(56)	225	(56)	169
Unamortized premium	480	125	(19)	586	(28)	558
Subtotal	22,541	2,475	(1,755)	23,261	(1,244)	22,017
Net pension liability	11,645	264	-	11,909	-	11,909
Net OPEB liability	10,066	-	(3,247)	6,819	-	6,819
Compensated absences	124	64	-	188	(9)	179
Totals	\$ 44,376	\$ 2,803	\$ (5,002)	\$ 42,177	\$ (1,253)	\$ 40,924

Long-Term Debt Supporting Governmental 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. Compensated absences, net pension liability, and other post-employment benefits will be liquidated by the general fund.

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, 2020, 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	31,000
Town Building HVAC	43,000
Lower Village Road Construction	51,000
Total	\$ 19,311,870

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 and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

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, 2020:

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, 2020:

	General Fund	Community Preservation Fund	Lower Village Roadway Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 399,932	\$ 399,932
Restricted					
Community preservation	-	7,370,115	-	-	7,370,115
Special revenue funds:					
Gifts	-	-	-	66,972	66,972
Grants	-	-	-	93,984	93,984
Revolving	-	-	-	73,843	73,843
Receipts reserved	-	-	-	861,216	861,216
Other	-	-	-	72,505	72,505
Capital project funds	-	-	-	692,260	692,260
Expendable Trust Funds:					
Library trust	-	-	-	702,360	702,360
Hale school	-	-	-	553,497	553,497
Affordable housing trust	-	-	-	139,850	139,850
Other	-	-	-	193,270	193,270
Restricted for excluded debt	140,219	-	-	-	140,219
Total Restricted	140,219	7,370,115	-	3,449,757	10,960,091
Committed					
Article carryforwards	979,121	-	-	-	979,121
Assigned					
Encumbrances	21,330	-	-	-	21,330
Next year's expenditures:					
Capital expenditures	440,835	-	-	-	440,835
OPEB trust contributions	235,000	-	-	-	235,000
Operating expenditures	5,433	-	-	-	5,433
Total Assigned	702,598	-	-	-	702,598
Unassigned					
General fund	2,771,807	-	-	-	2,771,807
General stabilization fund	592,840	-	-	-	592,840
Lower village deficit	-	-	(131,533)	-	(131,533)
Total Unassigned	3,364,647	-	(131,533)	-	3,233,114
Total Fund Balances	\$ 5,186,585	\$ 7,370,115	\$ (131,533)	\$ 3,849,689	\$ 16,274,856

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.

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.

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 member's 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, 2020 was \$957,695, which was equal to its annual required contribution.

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.

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

At June 30, 2020, the Town reported a liability of \$11,909,143 for its proportionate share of the System’s total net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. 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 June 30, 2020, the Town’s proportion was 0.744295%, which was a decrease of 0.002456% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the Town recognized total pension expense of \$1,780,182. 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	\$ 289,775	\$ (26,971)
Changes of assumptions	820,136	-
Net difference between projected and actual earnings on pension plan investments	-	(309,041)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>138,173</u>	<u>(76,929)</u>
Total	<u>\$ 1,248,084</u>	<u>\$ (412,941)</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:

2021	\$ 420,012
2022	194,011
2023	221,915
2024	<u>(795)</u>
Total	<u>\$ 835,143</u>

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, 2019:

COLA	3% of the first \$16,000
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	7.30% previously 7.50%
Inflation	2.00%
Wage inflation	3.25%

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.

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	21.00%	6.15%
International developed markets equity	13.00%	6.78%
International emerging markets equity	5.00%	8.65%
Core fixed income	15.00%	1.11%
High-yield fixed income	8.00%	3.51%
Real estate	10.00%	4.33%
Commodities	4.00%	4.13%
Hedge funds, GTAA, Risk Parity	11.00%	3.19%
Private equity	<u>13.00%</u>	9.99%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.30%. 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.

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 7.30%, 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 <u>(6.30%)</u>	Current Discount Rate (7.30%)	1% Increase <u>(8.30%)</u>
\$14,635,393	\$11,909,143	\$9,615,073

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 a single employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

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

All the following OPEB disclosures are based on a measurement date of June 30, 2020.

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, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	62
Active employees	<u>52</u>
Total	<u><u>114</u></u>

Investments

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

Rate of return. For the year ended June 30, 2020, 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.

Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00% annually
Investment rate of return	6.54%
Municipal bond rate	2.66%
Discount rate	6.50%
Retirees' share of benefit-related costs	30% for health and 50% for life insurance
Participation rate	80%

Mortality rates for pre-retirement were based on the RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females. Both Post and Disability Retirement were based on RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females.

Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (Expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2020 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 - large cap	23.00%	4.80%
Domestic equity - small/mid cap	16.00%	5.29%
International equity - developed market	13.00%	5.45%
International equity - emerging market	7.00%	6.42%
Domestic fixed income	28.00%	2.05%
International fixed income	5.00%	3.00%
Alternatives	7.00%	6.50%
Real Estate	0.00%	6.25%
Cash & cash equivalents	1.00%	0.00%
Total	<u>100.00%</u>	

Contributions

In addition to the implicit subsidy contribution, the Town contributes the amounts provided annually by the budget.

Discount Rate

The discount rate used to measure the net OPEB liability was 6.50%. 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 6.54% and municipal bond rate of 2.66% as of June 30, 2020.

Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2020, were as follows:

Total OPEB liability	\$ 7,409,078
Plan fiduciary net position	<u>589,985</u>
Net OPEB liability	<u>\$ 6,819,093</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.96%

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.

Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB	Plan	Net OPEB
	Liability	Fiduciary	Liability
	(a)	Net Position	(a) - (b)
Balances, beginning of year	\$ 10,405,763	\$ 339,300	\$ 10,066,463
Changes for the year:			
Service cost	149,043	-	149,043
Interest	570,459	-	570,459
Contributions - employer	-	605,619	(605,619)
Net investment income	-	15,685	(15,685)
Differences between expected and actual experience	(1,083,445)	-	(1,083,445)
Changes in assumptions or other inputs	(2,262,123)	-	(2,262,123)
Benefit payments	<u>(370,619)</u>	<u>(370,619)</u>	<u>-</u>
Net Changes	<u>(2,996,685)</u>	<u>250,685</u>	<u>(3,247,370)</u>
Balances, end of year	\$ <u><u>7,409,078</u></u>	\$ <u><u>589,985</u></u>	\$ <u><u>6,819,093</u></u>

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%	Current	1%
<u>Decrease</u>	<u>Discount</u>	<u>Increase</u>
<u>Rate</u>		
\$ 7,750,041	\$ 6,819,093	\$ 5,986,714

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:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$6,087,626	\$ 6,819,093	\$ 7,713,614

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

For the year ended June 30, 2020 the Town recognized OPEB expense of \$23,449. At June 30, 2020 the Town reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ -	\$ (866,756)
Change in assumptions	-	(1,809,698)
Net difference between projected and actual OPEB investment earnings	<u>11,254</u>	<u>-</u>
Total	\$ <u>11,254</u>	\$ <u>(2,676,454)</u>

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

<u>Year Ended June 30:</u>	
2021	\$ (666,300)
2022	(666,300)
2023	(666,300)
2024	<u>(666,300)</u>
Total	\$ <u>(2,665,200)</u>

18. Subsequent Events

Management has evaluated subsequent events through March 23, 2021, which is the date of the financial statements were available to be used.

Debt

Subsequent to June 30, 2020, 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	\$ 420,000	0.95%	07/10/20	07/09/21

19. Commitments and Contingencies

COVID-19

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

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 \$21,330 in encumbrances that will be honored in the next fiscal year.

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 and continues a 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.

20. New Pronouncements

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

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

TOWN OF STOW, MASSACHUSETTS

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability (GASB 68)
(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, 2020	December 31, 2019	0.744295%	\$11,909,143	\$ 3,539,435	336.47%	49.45%
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%

Schedule is 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)
(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, 2020	December 31, 2019	\$ 957,695	\$ 957,695	\$ -	\$ 3,539,435	27.06%
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

Required Supplementary Information
Other Post-Employment Benefits (OPEB)
Schedule of Changes in Net OPEB Liability (GASB 74 and 75)
(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 149,043	\$ 226,496	\$ 226,491
Interest	570,459	565,983	330,583
Differences between expected and actual experience	(1,083,445)	(471,538)	-
Changes of assumptions	(2,262,123)	(236,933)	563,764
Benefit payments, including refunds of member contributions	<u>(370,619)</u>	<u>(258,000)</u>	<u>(240,000)</u>
Net change in total OPEB liability	(2,996,685)	(173,992)	880,838
Total OPEB liability - beginning	<u>10,405,763</u>	<u>10,579,755</u>	<u>9,698,917</u>
Total OPEB liability - ending (a)	7,409,078	10,405,763	10,579,755
 Plan Fiduciary Net Position			
Contributions - employer	605,619	358,000	290,000
Net investment income	15,685	16,539	8,011
Benefit payments, including refunds of member contributions	<u>(370,619)</u>	<u>(258,000)</u>	<u>(240,000)</u>
Net change in plan fiduciary net position	250,685	116,539	58,011
Plan fiduciary net position - beginning	<u>339,300</u>	<u>222,761</u>	<u>164,750</u>
Plan fiduciary net position - ending (b)	<u>589,985</u>	<u>339,300</u>	<u>222,761</u>
Net OPEB liability - ending (a-b)	\$ <u><u>6,819,093</u></u>	\$ <u><u>10,066,463</u></u>	\$ <u><u>10,356,994</u></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

Required Supplementary Information
Other Post-Employment Benefits (OPEB)
Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74 and 75)
(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Schedule of Net OPEB Liability			
Total OPEB liability	\$ 7,409,078	10,405,763	\$ 10,579,755
Plan fiduciary net position	<u>589,985</u>	<u>339,300</u>	<u>222,761</u>
Net OPEB liability (asset)	\$ <u><u>6,819,093</u></u>	<u><u>10,066,463</u></u>	\$ <u><u>10,356,994</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.96%	3.26%	2.11%
Covered employee payroll	\$ 5,356,433	Unavailable	Unavailable
Net OPEB liability as a percentage of covered employee payroll	127.31%	Unavailable	Unavailable
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Schedule of Contributions			
Actuarially determined contribution	\$ 503,056	968,568	\$ 716,038
Contributions in relation to the actuarially determined contribution	<u>605,619</u>	<u>358,000</u>	<u>290,000</u>
Contribution deficiency (excess)	\$ <u><u>(102,563)</u></u>	<u><u>610,568</u></u>	\$ <u><u>426,038</u></u>
Covered employee payroll	\$ 5,356,433	Unavailable	Unavailable
Contributions as a percentage of covered employee payroll	11.31%	Unavailable	Unavailable
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Schedule of Investment Returns			
Annual money weighted rate of return, net of investment expense	3.05%	Unavailable	Unavailable

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See Independent Auditors' Report.