



TOWN OF DOUGLAS, MASSACHUSETTS

Annual 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 Douglas, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts (the Town) 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of



accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2021 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting



or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Melanson".

Andover, Massachusetts
April 6, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Douglas, 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 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water/sewer, and transfer station activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary 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 outflows and inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water/sewer and transfer station operations.

Fiduciary Funds

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

Notes to 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, net position in governmental activities was \$33,827,439, a change of \$(2,756,735), and net position in business-type activities was \$7,853,986, a change of \$50,736.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$9,730,475, a change of \$633,894 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,888,604, a change of \$1,359,843 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)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 12,485	\$ 11,420	\$ 2,409	\$ 2,337	\$ 14,894	\$ 13,757
Capital assets	<u>80,018</u>	<u>82,353</u>	<u>8,400</u>	<u>8,757</u>	<u>88,418</u>	<u>91,110</u>
Total assets	92,503	93,773	10,809	11,094	103,312	104,867
Deferred outflows of resources	4,176	4,855	69	86	4,245	4,941
Long-term liabilities outstanding	58,188	60,127	2,870	3,273	61,058	63,400
Other liabilities	<u>1,736</u>	<u>419</u>	<u>107</u>	<u>97</u>	<u>1,843</u>	<u>516</u>
Total liabilities	59,924	60,546	2,977	3,370	62,901	63,916
Deferred inflows of resources	2,928	1,498	47	7	2,975	1,505
Net investment in capital assets	64,075	64,970	6,358	6,326	70,433	71,296
Restricted	3,435	3,893	-	-	3,435	3,893
Unrestricted	<u>(33,683)</u>	<u>(32,279)</u>	<u>1,496</u>	<u>1,477</u>	<u>(32,187)</u>	<u>(30,802)</u>
Total net position	\$ <u>33,827</u>	\$ <u>36,584</u>	\$ <u>7,854</u>	\$ <u>7,803</u>	\$ <u>41,681</u>	\$ <u>44,387</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$41,681,425, a change of \$(2,705,999) in comparison to the prior year.

The largest portion of net position \$70,432,999 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, 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 \$3,434,949 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 \$(32,186,523) primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION (in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,221	\$ 1,214	\$ 1,350	\$ 1,412	\$ 2,571	\$ 2,626
Operating grants and contributions	15,730	15,097	-	-	15,730	15,097
Capital grants and contributions	-	479	-	-	-	479
General revenues:						
Property taxes	18,437	17,793	-	-	18,437	17,793
Excises	1,405	1,359	-	-	1,405	1,359
Penalties and interest on taxes	125	132	-	-	125	132
Grants and contributions not restricted to specific programs	1,053	1,109	-	-	1,053	1,109
Investment income	94	170	9	1	103	171
Other	226	513	62	65	288	578
Total revenues	38,291	37,866	1,421	1,478	39,712	39,344

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	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expenses:						
General government	2,728	4,545	-	-	2,728	4,545
Public safety	3,584	4,466	-	-	3,584	4,466
Education	31,194	26,329	-	-	31,194	26,329
Public works	1,552	1,834	-	-	1,552	1,834
Human services	268	511	-	-	268	511
Culture and recreation	370	641	-	-	370	641
Interest on long-term debt	634	616	-	-	634	616
Intergovernmental	405	374	-	-	405	374
Water/sewer services	-	-	1,398	1,405	1,398	1,405
Transfer station	-	-	285	255	285	255
Total expenses	<u>40,735</u>	<u>39,316</u>	<u>1,683</u>	<u>1,660</u>	<u>42,418</u>	<u>40,976</u>
Change in net position before transfers	(2,444)	(1,450)	(262)	(182)	(2,706)	(1,632)
Transfers in (out)	<u>(313)</u>	<u>(312)</u>	<u>313</u>	<u>312</u>	<u>-</u>	<u>-</u>
Change in net position	(2,757)	(1,762)	51	130	(2,706)	(1,632)
Net position - beginning of year	<u>36,584</u>	<u>38,346</u>	<u>7,803</u>	<u>7,673</u>	<u>44,387</u>	<u>46,019</u>
Net position - end of year	\$ <u><u>33,827</u></u>	\$ <u><u>36,584</u></u>	\$ <u><u>7,854</u></u>	\$ <u><u>7,803</u></u>	\$ <u><u>41,681</u></u>	\$ <u><u>44,387</u></u>

Governmental Activities

Governmental activities for the year resulted in a change in net position of \$(2,756,735). Key elements of this change are as follows:

General fund operations	\$ 1,092,247
Excess of depreciation (a non-budgeted expense) over principal maturities	(1,545,248)
Change in OPEB expense from GASB 75	(1,915,655)
Change in pension expense from GASB 68	(939,196)
Other	<u>551,117</u>
Total	\$ <u><u>(2,756,735)</u></u>

Business-Type Activities

Business-type activities for the year resulted in a change in net position of \$50,736. The annual general fund transfer to the water/sewer fund is to achieve balanced operating results.

Financial Analysis of the Town's 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 outflows, inflows, 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 government's net resources available for spending at the end of the fiscal year.

General Fund

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,888,604, while total fund balance was \$6,193,788. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to 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>	% of General Fund Expenditures*
Unassigned fund balance	\$	4,888,604	\$ 3,528,761	\$ 1,359,843	16.6%
Total fund balance	\$	6,193,788	\$ 5,101,541	\$ 1,092,247	21.1%

*Expenditure amounts used to calculate the above percentages have been adjusted to exclude the on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System of \$1,723,829.

The total fund balance of the general fund changed by \$1,092,247 during the current fiscal year. Key factors in this change are as follows:

Use of free cash	\$	(652,395)
Excess of state and local revenues over budget		578,649
Budgetary appropriation surplus		846,244
Year-end cable transfer		(22,064)
Change in stabilization balance		25,169
Other		<u>316,644</u>
Total	\$	<u><u>1,092,247</u></u>

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

	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>
General stabilization	\$ 1,503,847	\$ 1,478,678	\$ 25,169

Other Major Funds

Receipts Reserved – The fund is used to track activity primarily for the operations pertaining to ambulance and cable services.

School Choice – The fund accounts for state revenues received for students coming into the school department from other towns.

Non-Major Governmental Funds

The non-major fund balance changed by \$(313,950) primarily from timing differences between the receipt and disbursement of grants and permanent financing of capital projects.

Proprietary Funds

Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$1,496,023, a change of \$18,335 in comparison to the prior year. Annually the general fund transfers approximately \$310,000 to the water/sewer fund to balance the enterprise fund's budget.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

General Fund Budgetary Highlights

In total there is no overall differences between the original budget and the final amended budget. Reclassifications were made and the major reasons for these amendments include:

- \$(25,500) – Various general governmental lines
- \$30,000 – Court judgment
- \$26,000 – Public safety police/fire
- \$(4,500) – Public works
- \$(26,000) – Insurance/employee benefits

Capital Asset and Debt Administration

Capital Assets

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$88,418,574 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery and equipment.

Major capital asset events during the current fiscal year reported as follows:

- \$241,387 2019 Ford F450 Ambulance

- \$86,755 Police Dept – HVAC
- \$84,728 Police Dept – windows

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

Credit rating

During the fiscal year, the Town's Moody's credit rating remained unchanged at Aa3.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$19,461,497 (including unamortized bond premium), 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 the 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:

Office of the Finance Director
Town of Douglas
29 Depot Street
Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

Statement of Net Position
June 30, 2020

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 9,368,367	\$ 1,929,920	\$ 11,298,287
Investments	1,597,349	-	1,597,349
Receivables, net of allowance for uncollectibles:			
Property taxes	280,729	-	280,729
Excises	100,186	-	100,186
User fees	146,181	478,612	624,793
Departmental and other	15,310	-	15,310
Intergovernmental	<u>458,342</u>	<u>-</u>	<u>458,342</u>
Total Current Assets	11,966,464	2,408,532	14,374,996
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	519,136	-	519,136
Capital assets:			
Land and construction in progress	6,999,207	801,122	7,800,329
Other capital assets, net of accumulated depreciation	<u>73,019,091</u>	<u>7,599,154</u>	<u>80,618,245</u>
Total Noncurrent Assets	<u>80,537,434</u>	<u>8,400,276</u>	<u>88,937,710</u>
Total Assets	92,503,898	10,808,808	103,312,706
Deferred Outflows of Resources			
Related to pensions	1,393,244	28,434	1,421,678
Related to OPEB	<u>2,782,418</u>	<u>41,225</u>	<u>2,823,643</u>
Total Deferred Outflows of Resources	4,175,662	69,659	4,245,321

(continued)

TOWN OF DOUGLAS, MASSACHUSETTS

Statement of Net Position

June 30, 2020

(continued)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Liabilities			
Current:			
Warrants payable	512,290	25,391	537,681
Accounts payable	-	63,471	63,471
Accrued liabilities	1,113,081	17,443	1,130,524
Other current liabilities	111,457	-	111,457
Current portion of long-term liabilities:			
Bonds payable	1,620,134	392,227	2,012,361
Compensated absences	6,029	464	6,493
Landfill liability	<u>12,200</u>	<u>-</u>	<u>12,200</u>
Total Current Liabilities	3,375,191	498,996	3,874,187
Noncurrent:			
Bonds payable, net of current portion	15,670,845	1,778,291	17,449,136
Net pension liability	15,592,559	318,215	15,910,774
Net OPEB liability	25,171,061	372,942	25,544,003
Compensated absences, net of current portion	<u>114,560</u>	<u>8,824</u>	<u>123,384</u>
Total Noncurrent Liabilities	<u>56,549,025</u>	<u>2,478,272</u>	<u>59,027,297</u>
Total Liabilities	59,924,216	2,977,268	62,901,484
Deferred Inflows of Resources			
Related to pensions	685,259	13,985	699,244
Related to OPEB	<u>2,242,646</u>	<u>33,228</u>	<u>2,275,874</u>
Total Deferred Inflows of Resources	<u>2,927,905</u>	<u>47,213</u>	<u>2,975,118</u>
Net Position			
Net investment in capital assets	64,075,036	6,357,963	70,432,999
Restricted for:			
Grants and other statutory restrictions	3,339,099	-	3,339,099
Permanent funds:			
Nonexpendable	37,502	-	37,502
Expendable	58,348	-	58,348
Unrestricted	<u>(33,682,546)</u>	<u>1,496,023</u>	<u>(32,186,523)</u>
Total Net Position	<u>\$ 33,827,439</u>	<u>\$ 7,853,986</u>	<u>\$ 41,681,425</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Statement of Activities
For the Year Ended June 30, 2020

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Governmental	Business-	Total
	Expenses	Services	Grants and Contributions	Activities	Type Activities	
Governmental Activities						
General government	\$ 2,728,057	\$ 205,210	\$ 72,008	\$ (2,450,839)	\$ -	\$ (2,450,839)
Public safety	3,584,005	651,516	197,564	(2,734,925)	-	(2,734,925)
Education	31,193,651	313,813	15,032,008	(15,847,830)	-	(15,847,830)
Public works	1,551,697	37,325	344,946	(1,169,426)	-	(1,169,426)
Health and human services	268,478	12,175	65,285	(191,018)	-	(191,018)
Culture and recreation	370,040	1,294	18,117	(350,629)	-	(350,629)
Interest on long-term debt	633,792	-	-	(633,792)	-	(633,792)
Intergovernmental	405,156	-	-	(405,156)	-	(405,156)
Total Governmental Activities	40,734,876	1,221,333	15,729,928	(23,783,615)	-	(23,783,615)
Business-Type Activities						
Water/sewer services	1,398,493	1,024,769	-	-	(373,724)	(373,724)
Transfer station services	284,901	325,384	-	-	40,483	40,483
Total Business-Type Activities	1,683,394	1,350,153	-	-	(333,241)	(333,241)
Total	\$ 42,418,270	\$ 2,571,486	\$ 15,729,928	(23,783,615)	(333,241)	(24,116,856)
General Revenues and Transfers						
Property taxes				18,436,728	-	18,436,728
Excises				1,405,098	-	1,405,098
Penalties, interest and other taxes				125,181	-	125,181
Grants and contributions not restricted to specific programs				1,052,753	-	1,052,753
Investment income				93,691	9,239	102,930
Miscellaneous				225,968	62,199	288,167
Transfers, net				(312,539)	312,539	-
Total general revenues and transfers				21,026,880	383,977	21,410,857
Change in Net Position				(2,756,735)	50,736	(2,705,999)
Net Position						
Beginning of year				36,584,174	7,803,250	44,387,424
End of year				\$ 33,827,439	\$ 7,853,986	\$ 41,681,425

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

TOWN OF DOUGLAS, MASSACHUSETTS

Governmental Funds
Balance Sheet
June 30, 2020

	General Fund	Receipts Reserved	School Choice	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and short-term investments	\$ 5,950,446	\$ 827,195	\$ 1,405,554	\$ 1,185,172	\$ 9,368,367
Investments	1,503,847	-	-	93,502	1,597,349
Receivables:					
Property taxes	918,630	-	-	-	918,630
Excises	156,129	-	-	-	156,129
User fees	-	644,407	-	-	644,407
Departmental and other	-	-	-	15,310	15,310
Intergovernmental	44,812	-	120,414	293,116	458,342
	<u>44,812</u>	<u>-</u>	<u>120,414</u>	<u>293,116</u>	<u>458,342</u>
Total Assets	\$ <u>8,573,864</u>	\$ <u>1,471,602</u>	\$ <u>1,525,968</u>	\$ <u>1,587,100</u>	\$ <u>13,158,534</u>
Liabilities					
Warrants payable	\$ 401,829	\$ -	\$ 33,273	\$ 77,188	\$ 512,290
Accrued liabilities	880,102	-	-	-	880,102
Other liabilities	111,457	-	-	-	111,457
	<u>111,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,457</u>
Total Liabilities	1,393,388	-	33,273	77,188	1,503,849
Deferred Inflows of Resources					
Unavailable revenues	986,688	644,406	-	293,116	1,924,210
Fund Balances					
Nonspendable	-	-	-	37,502	37,502
Restricted	171,918	827,196	1,492,695	1,179,294	3,671,103
Committed	1,090,363	-	-	-	1,090,363
Assigned	42,903	-	-	-	42,903
Unassigned	4,888,604	-	-	-	4,888,604
	<u>4,888,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,888,604</u>
Total Fund Balances	<u>6,193,788</u>	<u>827,196</u>	<u>1,492,695</u>	<u>1,216,796</u>	<u>9,730,475</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>8,573,864</u>	\$ <u>1,471,602</u>	\$ <u>1,525,968</u>	\$ <u>1,587,100</u>	\$ <u>13,158,534</u>

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

TOWN OF DOUGLAS, 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	\$ 9,730,475
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	80,018,298
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,251,275
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension and OPEB liabilities including related outflows and inflows are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(56,939,631)
<ul style="list-style-type: none">• Other	<u>(232,978)</u>
Net position of governmental activities	<u><u>\$ 33,827,439</u></u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2020

	General <u>Fund</u>	Receipts <u>Reserved</u>	School <u>Choice</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues					
Property taxes	\$ 18,418,114	\$ -	\$ -	\$ -	\$ 18,418,114
Excises	1,385,774	3,182	-	-	1,388,956
Penalties, interest and other taxes	124,516	665	-	-	125,181
Charges for services	154,518	310,646	-	421,174	886,338
Intergovernmental	11,520,098	99,982	861,000	2,127,033	14,608,113
Licenses and permits	262,905	-	-	-	262,905
Fines and forfeitures	30,591	-	-	595	31,186
Investment income	91,352	-	-	2,339	93,691
Contributions	-	1,125	-	59,025	60,150
Miscellaneous	126,674	68,315	-	104,969	299,958
Total Revenues	32,114,542	483,915	861,000	2,715,135	36,174,592
Expenditures					
Current:					
General government	1,934,916	-	-	226,607	2,161,523
Public safety	3,106,586	-	-	351,168	3,457,754
Education	18,014,504	-	1,099,976	2,247,391	21,361,871
Public works	829,419	-	-	138,317	967,736
Health and human services	222,296	-	-	18,991	241,287
Culture and recreation	306,817	-	-	21,655	328,472
Employee benefits	4,105,853	-	-	4,956	4,110,809
Debt service:					
Principal	1,440,000	-	-	-	1,440,000
Interest	753,551	-	-	-	753,551
Intergovernmental	405,156	-	-	-	405,156
Total Expenditures	31,119,098	-	1,099,976	3,009,085	35,228,159
Excess (deficiency) of revenues over expenditures	995,444	483,915	(238,976)	(293,950)	946,433
Other Financing Sources (Uses)					
Transfers in	431,406	22,064	-	-	453,470
Transfers out	(334,603)	(411,406)	-	(20,000)	(766,009)
Total Other Financing Sources (Uses)	96,803	(389,342)	-	(20,000)	(312,539)
Change in fund balance	1,092,247	94,573	(238,976)	(313,950)	633,894
Fund Balance, at Beginning of Year	5,101,541	732,623	1,731,671	1,530,746	9,096,581
Fund Balance, at End of Year	\$ 6,193,788	\$ 827,196	\$ 1,492,695	\$ 1,216,796	\$ 9,730,475

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

TOWN OF DOUGLAS, 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	\$ 633,894
<ul style="list-style-type: none">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	724,459
Net effect on disposal of assets	(73,990)
Depreciation	(2,985,248)
<ul style="list-style-type: none">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:	
Repayments of debt	1,440,000
<ul style="list-style-type: none">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 unavailable revenue.	
	263,004
<ul style="list-style-type: none">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.	
Change in OPEB expense from GASB 75	(1,915,655)
Change in pension expense from GASB 68	(939,196)
Other	95,997
Change in net position of governmental activities	\$ <u>(2,756,735)</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Proprietary Funds
Statement of Net Position
June 30, 2020

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Nonmajor Transfer Station Fund	Total
Assets			
Current:			
Cash and short-term investments	\$ 1,557,284	\$ 372,636	\$ 1,929,920
User fee receivables	<u>478,612</u>	<u>-</u>	<u>478,612</u>
Total current assets	2,035,896	372,636	2,408,532
Noncurrent:			
Capital assets:			
Land and construction in progress	789,384	11,738	801,122
Other capital assets, net of accumulated depreciation	<u>7,584,513</u>	<u>14,641</u>	<u>7,599,154</u>
Total noncurrent assets	<u>8,373,897</u>	<u>26,379</u>	<u>8,400,276</u>
Total Assets	10,409,793	399,015	10,808,808
Deferred Outflows of Resources			
Related to pensions	28,434	-	28,434
Related to OPEB	<u>41,225</u>	<u>-</u>	<u>41,225</u>
Total Deferred Outflows of Resources	69,659	-	69,659
Liabilities			
Current:			
Warrants payable	-	25,391	25,391
Accounts payable	63,471	-	63,471
Accrued liabilities	17,443	-	17,443
Current portion of long-term liabilities:			
Bonds payable	392,227	-	392,227
Compensated absences	<u>464</u>	<u>-</u>	<u>464</u>
Total current liabilities	473,605	25,391	498,996
Noncurrent:			
Bonds payable, net of current portion	1,778,291	-	1,778,291
Net pension liability	318,215	-	318,215
Net OPEB liability	372,942	-	372,942
Compensated absences, net of current portion	<u>8,824</u>	<u>-</u>	<u>8,824</u>
Total noncurrent liabilities	<u>2,478,272</u>	<u>-</u>	<u>2,478,272</u>
Total Liabilities	2,951,877	25,391	2,977,268
Deferred Inflows of Resources			
Related to pensions	13,985	-	13,985
Related to OPEB	<u>33,228</u>	<u>-</u>	<u>33,228</u>
Total Deferred Inflows of Resources	<u>47,213</u>	<u>-</u>	<u>47,213</u>
Net Position			
Net investment in capital assets	6,331,584	26,379	6,357,963
Unrestricted	<u>1,148,778</u>	<u>347,245</u>	<u>1,496,023</u>
Total Net Position	\$ <u><u>7,480,362</u></u>	\$ <u><u>373,624</u></u>	\$ <u><u>7,853,986</u></u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Proprietary Funds
Statement Of Revenues, Expenses And Changes In Fund Net Position
For the Year Ended June 30, 2020

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Nonmajor Transfer Station Fund	Total
Operating Revenues			
Charges for services	\$ 1,024,769	\$ 325,384	\$ 1,350,153
Other	<u>62,084</u>	<u>115</u>	<u>62,199</u>
Total Operating Revenues	1,086,853	325,499	1,412,352
Operating Expenses			
Salaries and benefits	385,616	60,441	446,057
Other operating expenses	540,724	223,133	763,857
Depreciation	<u>374,985</u>	<u>1,327</u>	<u>376,312</u>
Total Operating Expenses	<u>1,301,325</u>	<u>284,901</u>	<u>1,586,226</u>
Operating Income (Loss)	(214,472)	40,598	(173,874)
Nonoperating Revenues (Expenses)			
Investment income	7,344	1,895	9,239
Interest expense	<u>(97,168)</u>	<u>-</u>	<u>(97,168)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(89,824)</u>	<u>1,895</u>	<u>(87,929)</u>
Income (Loss) Before Transfers	(304,296)	42,493	(261,803)
Transfers in	<u>312,539</u>	<u>-</u>	<u>312,539</u>
Change in Net Position	8,243	42,493	50,736
Net Position at Beginning of Year	<u>7,472,119</u>	<u>331,131</u>	<u>7,803,250</u>
Net Position at End of Year	<u>\$ 7,480,362</u>	<u>\$ 373,624</u>	<u>\$ 7,853,986</u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Proprietary Funds

Statement Of Cash Flows

For the Year Ended June 30, 2020

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Nonmajor Transfer Station Fund	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 1,100,126	\$ 325,499	\$ 1,425,625
Payments to employees	(506,586)	(60,441)	(567,027)
Payments to vendors	(372,282)	(218,221)	(590,503)
Net Cash Provided By Operating Activities	221,258	46,837	268,095
Cash Flows From Noncapital Financing Activities			
Transfers in	312,540	-	312,540
Net Cash Provided By Noncapital Financing Activities	312,540	-	312,540
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(19,696)	-	(19,696)
Principal payments on bonds	(389,018)	-	(389,018)
Interest expense	(97,169)	-	(97,169)
Net Cash (Used For) Capital and Related Financing Activities	(505,883)	-	(505,883)
Cash Flows From Investing Activities			
Investment income	7,344	1,895	9,239
Net Change in Cash and Short-Term Investments	35,259	48,732	83,991
Cash and Short-Term Investments, Beginning of Year	1,522,025	323,904	1,845,929
Cash and Short-Term Investments, End of Year	\$ 1,557,284	\$ 372,636	\$ 1,929,920
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating (loss)	\$ (214,472)	\$ 40,598	\$ (173,874)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	374,985	1,327	376,312
Changes in assets, liabilities, and deferred outflows/inflows:			
User fees	13,273	-	13,273
Deferred outflows - related to pensions	18,551	-	18,551
Deferred outflows - related to OPEB	(2,609)	-	(2,609)
Warrants and accounts payable	7,613	4,912	12,525
Accrued liabilities	(670)	-	(670)
Net pension liability	(6,914)	-	(6,914)
Net OPEB liability	(8,983)	-	(8,983)
Deferred inflows - related to pensions	7,529	-	7,529
Deferred inflows - related to OPEB	32,955	-	32,955
Net Cash Provided By Operating Activities	\$ 221,258	\$ 46,837	\$ 268,095

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

TOWN OF DOUGLAS, MASSACHUSETTS

Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2020

	Other Post-Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
Assets			
Cash and short-term investments	\$ -	\$ -	\$ 367,853
Investments:			
Certificates of deposit	-	21,675	-
Federal agency securities	-	26,465	-
Corporate bonds	-	34,796	-
Corporate equities	626,633	14,293	-
Equity mutual funds	<u>226,863</u>	<u>3,911</u>	<u>-</u>
Total Investments	853,496	101,141	-
Accounts receivable	<u>-</u>	<u>-</u>	<u>4,836</u>
Total Assets	853,496	101,141	\$ <u><u>372,689</u></u>
Liabilities			
Accounts payable	-	-	12,855
Other liabilities	<u>-</u>	<u>-</u>	<u>359,834</u>
Total Liabilities	<u>-</u>	<u>-</u>	\$ <u><u>372,689</u></u>
Net Position			
Restricted for OPEB purposes	853,496	-	
Restricted for individual organizations and other governments	<u>-</u>	<u>101,141</u>	
Total Net Position	\$ <u><u>853,496</u></u>	\$ <u><u>101,141</u></u>	

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

TOWN OF DOUGLAS, MASSACHUSETTS

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2020

	Other Post-Employment Benefits Trust Fund	Private Purpose Trust Funds
Additions		
Employer contributions	\$ 394,336	\$ -
Interest income	<u>20,314</u>	<u>1,680</u>
Total additions	414,650	1,680
Deductions		
Benefit payments to plan members, beneficiaries and other systems	284,336	-
Other	<u>-</u>	<u>1,100</u>
Total deductions	<u>284,336</u>	<u>1,100</u>
Net increase	130,314	580
Net position restricted for OPEB and other purposes		
Beginning of year	<u>723,182</u>	<u>100,561</u>
End of year	<u><u>\$ 853,496</u></u>	<u><u>\$ 101,141</u></u>

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

TOWN OF DOUGLAS, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Douglas, 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 government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2020, it was determined that no entities met the required GASB 14 (as amended) criteria (fiscal dependency, financial benefit or burden) of component units.

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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise 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 government. 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 government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *receipts reserved fund* accounts primarily for the operations pertaining to ambulance and cable services.
- The *school choice fund* accounts for state revenues received for students coming into the school department from other towns.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- Water/sewer operations

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 pension trust fund or 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 for student activity funds, performance bonds and Whittin Reservoir Watershed District, 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, proprietary, 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".

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be cash equivalents.

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 are carried at fair value, except certificates of deposit which are reported at cost.

Property Tax Limitations

Legislation known as “Proposition 2½” has limited 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 is voted. The actual fiscal year 2020 tax levy reflected an excess capacity of \$21,875. Certain provisions of Proposition 2 ½ can be overridden by a referendum.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of five years. 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>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

Compensated Absences

Per individual contractual agreement, the Town permits 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, proprietary, and fiduciary fund 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, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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 their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

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 and proprietary funds.

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

3. Deposits and Investments

Town (Excluding OPEB Trust Fund)

State statutes (MGL Chapter 44, Section 55) place certain limitation on the nature of deposits and investments available to the Town. Deposits, including demand deposits, money markets, certificates of deposits in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the institution involved. Investments may be made in unconditionally guaranteed U.S. government obligations have maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consists of such obligations. Other allowable investments include certificates of deposits having a maturity date of up to 3 years from the date of purchase, national banks and Massachusetts Municipal Depository Trust (MMDT). MMDT, which is an external investment pool overseen by the Treasurer of the Commonwealth of Massachusetts, meets the criteria established by GASB 79, Certain External Investment Pools and Pool Participants, to report its investments at amortized cost, which approximates the net asset value of 1.00 per share. MMDT has an average maturity of less than 1 year and is not rated or subject to custodial credit risk disclosure. MGL Chapter 44, Section 54 provides additional investment options for certain special revenue, trust and OPEB funds.

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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2020, none of the Town's bank balances of \$12,452,904 was exposed to custodial credit risk as uninsured and/or uncollateralized. Additionally, \$9,040 was on deposit with the Massachusetts Municipal Depository Trust, which is the state investment pool as authorized by Massachusetts General Law, Chapter 29, Section 38A.

The following is a summary of the Town's investments as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>
Market-linked certificates of deposit	\$ 363,996
Corporate bonds	584,337
Corporate equities	240,030
Equity mutual funds	65,686
U.S. Treasury and agencies	<u>444,441</u>
Total investments	<u>\$ 1,698,490</u>

Custodial Credit Risk – Investments

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

As of June 30, 2020, the Town did not have any investments subject to custodial credit risk exposure as all assets were held in the Town's name.

Credit Risk – Investments of Debt 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.

As of June 30, 2020, the credit quality ratings, as rated by S&P Global Ratings of the Town's debt securities are as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>					
		<u>AAA</u>	<u>A+</u>	<u>A-</u>	<u>AA-</u>	<u>BBB+</u>	<u>Unavailable</u>
Market-linked certificates of deposit	\$ 363,996	\$ -	\$ -	\$ -	\$ -	\$ -	363,996
Corporate bonds	584,337	-	125,497	227,395	155,520	75,925	-
U.S. Treasury and agencies	<u>444,441</u>	<u>444,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,392,774</u>	<u>\$ 444,441</u>	<u>\$ 125,497</u>	<u>\$ 227,395</u>	<u>\$ 155,520</u>	<u>\$ 75,925</u>	<u>\$ 363,996</u>

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.

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

As of June 30, 2020, the Town does not have an investment in one issuer greater than 5% of total investments.

Interest Rate Risk— Investments of Debt Securities

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 does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u>		
		<u>(in Years)</u>		
		<u>Less</u>	<u>1-5</u>	<u>6-10</u>
		<u>Than 1</u>		
Market-linked certificates of deposit	\$ 363,996	\$ 75,100	\$ 288,896	\$ -
Corporate bonds	584,337	216,809	367,528	-
U.S. Treasury and agencies	<u>444,441</u>	<u>145,132</u>	<u>289,296</u>	<u>10,013</u>
Total	<u>\$ 1,392,774</u>	<u>\$ 437,041</u>	<u>\$ 945,720</u>	<u>\$ 10,013</u>

Foreign Currency Risk – Investments

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 is not to invest in foreign currency investments.

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:

		<u>Fair Value Measurements Using:</u>	
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)
<u>Investment Type</u>	<u>Amount</u>		
Investments by fair value level:			
Market-linked certificates of deposits	\$ 363,996	\$ -	\$ 363,996
Corporate bonds	584,337	-	584,337
Corporate equities	240,030	240,030	-
Equity mutual funds	65,686	65,686	-
U.S. Treasury and agencies	<u>444,441</u>	264,379	180,062
Total	<u>\$ 1,698,490</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.

4. Investments – OPEB Trust Fund

Generally, the Town’s OPEB investment policies mirror that of the Town as discussed in the previous note.

The following is a summary of the OPEB Trust Fund’s investments as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>
Corporate equities	\$ 626,633
Equity mutual funds	<u>226,863</u>
Total investments	<u><u>\$ 853,496</u></u>

Custodial Credit Risk

As of June 30, 2020, none of the OPEB Trust Fund’s total investments were subject to custodial credit risk exposure as all assets were held in the Town’s name.

Concentration of Credit Risk

As of June 30, 2020, the Town does not have investments in any one issuer that exceeded 5% of total investments.

Fair Value

The OPEB Trust Fund has the following fair value measurements as of June 30, 2020:

		Fair Value Measurements Using:
		Quoted prices in active markets for identical assets
<u>Investment Type</u>	<u>Amount</u>	<u>(Level 1)</u>
Investments by fair value level:		
Corporate equities	\$ 626,633	\$ 626,633
Equity mutual funds	<u>226,863</u>	226,863
Total	<u>\$ 853,496</u>	

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

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.

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% plus the taxes on property newly added to the tax rolls of the total assessed value of all taxable property within the Town.

The Town bills and collects its property taxes on a quarterly basis following the January 1 assessment. The approximate 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 occurs annually. The Town ultimately has the right to foreclose on all properties where the taxes remain unpaid. 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.

Boat excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

Property taxes and excise receivables at June 30, 2020 consist of the following:

	Gross Amount <u>(fund basis)</u>	Allowance for Doubtful <u>Accounts</u>	Current <u>Portion</u>	Long- Term <u>Portion</u>
Real estate taxes	\$ 313,961	\$ (43,926)	\$ 270,035	\$ -
Personal property taxes	27,851	(17,157)	10,694	-
Tax liens	<u>576,818</u>	<u>(57,682)</u>	<u>-</u>	<u>519,136</u>
Total property taxes	<u>\$ 918,630</u>	<u>\$ (118,765)</u>	<u>\$ 280,729</u>	<u>\$ 519,136</u>
Motor vehicle excise	\$ 151,474	\$ (52,825)	\$ 98,649	
Boat excise	<u>4,655</u>	<u>(3,118)</u>	<u>1,537</u>	
Total excises	<u>\$ 156,129</u>	<u>\$ (55,943)</u>	<u>\$ 100,186</u>	

6. User Fee Receivables

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

Governmental Funds		Gross <u>Amount</u>	Allowance for Doubtful <u>Accounts</u>	Net <u>Amount</u>
Ambulance	\$	<u>644,407</u>	\$ <u>(498,226)</u>	\$ <u>146,181</u>
Total	\$	<u><u>644,407</u></u>	\$ <u><u>(498,226)</u></u>	\$ <u><u>146,181</u></u>
Business-Type Funds		Gross <u>Amount</u>	Allowance for Doubtful <u>Accounts</u>	Net <u>Amount</u>
Water/Sewer	\$	<u>478,612</u>	\$ <u>-</u>	\$ <u>478,612</u>
Total	\$	<u><u>478,612</u></u>	\$ <u><u>-</u></u>	\$ <u><u>478,612</u></u>

7. Intergovernmental Receivables

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

8. 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	\$ 431,406	\$ 334,603
Receipts reserved	22,064	411,406
Nonmajor Funds:		
Special Revenue Funds	<u>-</u>	<u>20,000</u>
Subtotal Nonmajor Funds	-	20,000
<u>Business-Type Funds:</u>		
Water/Sewer Fund	<u>312,539</u>	<u>-</u>
Subtotal Business-Type Funds	<u>312,539</u>	<u>-</u>
Grand Total	\$ <u><u>766,009</u></u>	\$ <u><u>766,009</u></u>

The amount \$312,539 represents the Town's annual transfer from the general fund to pay a portion of the water/sewer enterprise debt service expenses. The majority of the transfer out of the receipts reserved fund is \$320,000 from the ambulance fund. The Town's other routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

9. Capital Assets

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 81,724	\$ 193	\$ -	\$ 81,917
Machinery, equipment, and furnishings	9,293	426	(167)	9,552
Infrastructure	<u>12,610</u>	<u>21</u>	<u>-</u>	<u>12,631</u>
Total capital assets, being depreciated	103,627	640	(167)	104,100
Less accumulated depreciation for:				
Buildings and improvements	(18,046)	(2,020)	-	(20,066)
Machinery, equipment, and furnishings	(7,101)	(518)	93	(7,526)
Infrastructure	<u>(3,042)</u>	<u>(447)</u>	<u>-</u>	<u>(3,489)</u>
Total accumulated depreciation	<u>(28,189)</u>	<u>(2,985)</u>	<u>93</u>	<u>(31,081)</u>
Total capital assets, being depreciated, net	75,438	(2,345)	(74)	73,019
Capital assets, not being depreciated:				
Land	6,915	-	-	6,915
Construction in progress	<u>-</u>	<u>84</u>	<u>-</u>	<u>84</u>
Total capital assets, not being depreciated	<u>6,915</u>	<u>84</u>	<u>-</u>	<u>6,999</u>
Governmental activities capital assets, net	<u>\$ 82,353</u>	<u>\$ (2,261)</u>	<u>\$ (74)</u>	<u>\$ 80,018</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,121	\$ -	\$ -	\$ 8,121
Machinery, equipment, and furnishings	551	19	-	570
Infrastructure	<u>5,569</u>	<u>-</u>	<u>-</u>	<u>5,569</u>
Total capital assets, being depreciated	14,241	19	-	14,260
Less accumulated depreciation for:				
Buildings and improvements	(2,649)	(191)	-	(2,840)
Machinery, equipment, and furnishings	(212)	(48)	-	(260)
Infrastructure	<u>(3,424)</u>	<u>(137)</u>	<u>-</u>	<u>(3,561)</u>
Total accumulated depreciation	<u>(6,285)</u>	<u>(376)</u>	<u>-</u>	<u>(6,661)</u>
Total capital assets, being depreciated, net	7,956	(357)	-	7,599
Capital assets, not being depreciated:				
Land	<u>801</u>	<u>-</u>	<u>-</u>	<u>801</u>
Total capital assets, not being depreciated	<u>801</u>	<u>-</u>	<u>-</u>	<u>801</u>
Business-type activities capital assets, net	<u>\$ 8,757</u>	<u>\$ (357)</u>	<u>\$ -</u>	<u>\$ 8,400</u>

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

Governmental Activities	
General government	\$ 271
Public safety	286
Education	1,894
Public works	521
Culture and recreation	<u>13</u>
Total governmental activities	<u>\$ 2,985</u>
Business-Type Activities	
Water	\$ 375
Transfer station	<u>1</u>
Total business-type activities	<u>\$ 376</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 pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

11. Warrants Payable/Accounts Payable

Warrants payable represent additional 2020 expenditures paid by July 15, 2020. Accounts payable represent additional 2020 expenditures paid after July 15, 2020.

12. Accrued Liabilities

Accrued liabilities expenses represent 2020 expenditures paid in fiscal 2021, primarily made up of teachers summer pay.

13. Long-Term Debt

General Obligation Bonds and Loans

The Town issues general obligation bonds and direct borrowings to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds and direct borrowings currently outstanding are as follows:

<u>Governmental Activities</u>	Original	Serial	Interest	Amount
<u>General Obligation Bonds</u>	<u>Issue</u>	<u>Maturities</u>	<u>Rate(s) %</u>	<u>Outstanding</u>
		<u>Through</u>		<u>as of</u>
				<u>6/30/20</u>
Public offerings:				
Land	767,200	12/15/21	4.36%	\$ 100,000
Refunding	3,750,000	06/01/22	1.59%	825,000
School building, department equipment, and				
Town building remodel	3,971,988	06/30/31	2.00%	3,020,000
Refunding	12,825,000	02/15/32	5.00%	<u>12,100,000</u>
Total Governmental Activities				<u>\$ 16,045,000</u>

<u>Business-Type Activities</u>		Serial	Interest	Amount
		Maturities	Rate(s) %	Outstanding
<u>General Obligation Bonds</u>		<u>Through</u>		as of
				<u>6/30/20</u>
Public offerings:				
Water refunding	95,000	01/15/21	2.13%	\$ 5,000
Water	125,000	06/30/31	3.00%	105,000
Total public offerings				<u>110,000</u>
Total general obligation bonds				110,000
<u>Loans - Direct Borrowings</u>				
Sewer plant - MWPAT	300,000	07/15/24	2.00%	94,176
Sewer plant - MWPAT	5,670,506	02/01/25	2.00%	1,966,342
Total loans - direct borrowings				<u>2,060,518</u>
Total Business-Type Activities				<u>\$ 2,170,518</u>

Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2020 are as follows:

<u>Governmental</u>	<u>Bonds - Public Offerings</u>		<u>Loans - Direct Borrowings</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2021	\$ 1,515,000	\$ 690,125	\$ -	\$ -	\$ 2,205,125
2022	1,590,000	625,975	-	-	2,215,975
2023	1,170,000	559,575	-	-	1,729,575
2024	1,225,000	504,375	-	-	1,729,375
2025	1,240,000	446,525	-	-	1,686,525
2026 - 2030	6,570,000	1,402,800	-	-	7,972,800
2031 - 2033	<u>2,735,000</u>	<u>158,350</u>	<u>-</u>	<u>-</u>	<u>2,893,350</u>
Total	<u>\$ 16,045,000</u>	<u>\$ 4,387,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,432,725</u>

<u>Business-Type</u>	<u>Bonds - Public Offerings</u>		<u>Loans - Direct Borrowings</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2021	\$ 10,000	\$ 3,350	\$ 382,227	\$ 23,380	\$ 418,957
2022	10,000	2,950	399,729	13,680	426,359
2023	10,000	2,550	412,953	7,111	432,614
2024	10,000	2,150	430,469	584	443,203
2025	10,000	1,750	435,140	196	447,086
2026 - 2030	50,000	5,450	-	-	55,450
2031 - 2033	<u>10,000</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>10,300</u>
Total	<u>\$ 110,000</u>	<u>\$ 18,500</u>	<u>\$ 2,060,518</u>	<u>\$ 44,951</u>	<u>\$ 2,233,969</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:						
Public offerings	\$ 17,485	\$ -	\$ (1,440)	\$ 16,045	\$ (1,515)	\$ 14,530
Unamortized premium	<u>1,351</u>	<u>-</u>	<u>(105)</u>	<u>1,246</u>	<u>(105)</u>	<u>1,141</u>
Subtotal	18,836	-	(1,545)	17,291	(1,620)	15,671
Net pension liability	15,931	-	(338)	15,593	-	15,593
Net OPEB liability	25,251	-	(80)	25,171	-	25,171
Compensated absences	85	36	-	121	(6)	115
Landfill liability	<u>24</u>	<u>-</u>	<u>(12)</u>	<u>12</u>	<u>(12)</u>	<u>-</u>
Total	<u>\$ 60,127</u>	<u>\$ 36</u>	<u>\$ (1,975)</u>	<u>\$ 58,188</u>	<u>\$ (1,638)</u>	<u>\$ 56,550</u>
Business-Type Activities						
Bonds payable:						
Public offerings	\$ 130	\$ -	\$ (20)	\$ 110	\$ (10)	\$ 100
Loans payable (direct borrowings)	<u>2,430</u>	<u>-</u>	<u>(370)</u>	<u>2,060</u>	<u>(382)</u>	<u>1,678</u>
Subtotal	2,560	-	(390)	2,170	(392)	1,778
Net pension liability	325	-	(7)	318	-	318
Net OPEB liability	382	-	(9)	373	-	373
Compensated absences	<u>6</u>	<u>3</u>	<u>-</u>	<u>9</u>	<u>-</u>	<u>9</u>
Total	<u>\$ 3,273</u>	<u>\$ 3</u>	<u>\$ (406)</u>	<u>\$ 2,870</u>	<u>\$ (392)</u>	<u>\$ 2,478</u>

Long-Term Debt Supporting Governmental and Business-Type Activities

General obligation bonds, issued by the Town for various municipal projects are approved by Town Meeting and repaid with revenues recorded in the general fund and user fees recorded in enterprise funds. All other long-term debt is repaid from the funds that the cost relates to, primarily the general fund and enterprise funds.

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$12,200 reported as landfill postclosure care liability at June 30, 2020 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2020. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. 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.

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

The following types of fund balances are reported at June 30, 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 classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted

Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed

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

Assigned

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

Unassigned

Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2020:

	General Fund	Receipts Reserved	School Choice	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 37,502	\$ 37,502
Total Nonspendable	-	-	-	37,502	37,502
Restricted					
Debt service	171,918	-	-	-	171,918
Special revenue funds	-	827,196	1,492,695	1,021,114	3,341,005
Capital project fund	-	-	-	101,739	101,739
Expendable permanent funds	-	-	-	56,441	56,441
Total Restricted	171,918	827,196	1,492,695	1,179,294	3,671,103
Committed					
Reserve for continuing appropriations:					
General government	595,276	-	-	-	595,276
Public safety	181,473	-	-	-	181,473
Education	31,473	-	-	-	31,473
Public works	203,241	-	-	-	203,241
Culture and recreation	54,900	-	-	-	54,900
Health and human services	24,000	-	-	-	24,000
Total Committed	1,090,363	-	-	-	1,090,363
Assigned					
Encumbrances:					
General government	22,632	-	-	-	22,632
Public safety	3,527	-	-	-	3,527
Education	9,716	-	-	-	9,716
Public works	6,318	-	-	-	6,318
Health and human services	610	-	-	-	610
Other	100	-	-	-	100
Total Assigned	42,903	-	-	-	42,903
Unassigned					
General stabilization fund	1,503,847	-	-	-	1,503,847
Unassigned	3,384,757	-	-	-	3,384,757
Total Unassigned	4,888,604	-	-	-	4,888,604
Total Fund Balance	\$ 6,193,788	\$ 827,196	\$ 1,492,695	\$ 1,216,796	\$ 9,730,475

17. Worcester Regional Retirement System

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

Plan Description

Substantially all eligible employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Worcester Regional Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501 or from the System's website at www.worcesterregionalretirement.org.

Participant Contributions

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

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

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

Participant Retirement Benefits

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to

April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

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

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

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

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

Methods of Payment

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

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

- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree’s beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

Employer Contributions

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

The Town’s contribution to the System for the year ended June 30, 2020 was \$1,088,352, 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 System’s fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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 \$15,910,774 for its proportionate share of the 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 that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the Town's proportion was 1.787466%, which was a decrease of 0.005337% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the Town recognized pension expense of \$2,046,715. 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	\$ 46,723	\$ (95,327)
Changes of assumptions	889,287	-
Net difference between projected and actual earnings on pension plan investments	-	(437,015)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>485,668</u>	<u>(166,902)</u>
Total	<u>\$ 1,421,678</u>	<u>\$ (699,244)</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	\$ 389,590
2022	286,255
2023	202,131
2024	(195,088)
2024	<u>39,546</u>
Total	<u>\$ 722,434</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3%
Salary increases	4.25% - 7%, based on service
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Remaining amortization period	17 years, except for ERI for 2002 and 2003 (10 years) and 2010 (4 years)

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

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	39.00%	4.68%
Fixed income	23.00%	1.90%
Private equity	13.00%	8.50%
Real estate	10.00%	3.70%
Timber/natural resources	4.00%	4.30%
Hedge funds	11.00%	3.40%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions

will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.65%, 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:

	Current Discount Rate	
1% Decrease <u>(6.65%)</u>		1% Increase <u>(8.65%)</u>
\$ 19,415,287	\$ 15,910,774	\$ 12,951,312

Pension Plan Fiduciary Net Position

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

18. Massachusetts Teachers' Retirement System (MTRS)

Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67 *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

- (a) 7.25% (changed from 7.35%) investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.

- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect post-retirement mortality through January 1, 2017.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB with a base year of 2014 (gender-distinct).
 - Disability – assumed to be in accordance with the RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

Target Allocations

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return 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 rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.00%	4.90%
Portfolio completion strategies	11.00%	3.90%
Core fixed income	15.00%	1.30%
Private equity	13.00%	8.20%
Real estate	10.00%	3.60%
Value added fixed income	8.00%	4.70%
Timber/natural resources	4.00%	4.10%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

1% Decrease (<u>6.25%</u>)	Current Discount Rate (<u>7.25%</u>)	1% Increase (<u>8.25%</u>)
\$ 31,232,100	\$ 25,214,020	\$ 20,062,500

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

Town Proportions

In fiscal year 2019 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability was approximately \$30,106,220 based on a proportionate share of 0.119403%. As required by GASB 68, the Town has recognized its portion of the Commonwealth's contribution of approximately \$1,723,829 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$3,650,902 as both a revenue and expense in the governmental activities.

19. 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 2014, 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 Health Plans Inc. (HPI) and transitioned from Tufts Health Plan to AETNA in calendar year 2020. 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 available budget compacity.

Plan Membership

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	126
Active employees	<u>269</u>
Total	<u><u>395</u></u>

Investments

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

Rate of return. For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 2.8%. 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 July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3%
Salary increases	3%, average, including inflation
Investment rate of return	2.66%, net of OPEB plan investment expense
Municipal bond rate	2.66%
Discount rate	2.66%
Healthcare cost trend rates	8%, decreasing to 5% ultimate
Participation rate	80%

Mortality rates were based on RP-2014 mortality table with MP-2016 projection.

Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of 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	39.08%	4.96%
International equity	20.67%	7.01%
Domestic bond	23.71%	2.22%
International bond	4.65%	1.53%
Alternatives	11.42%	2.76%
Cash and equivalents	0.47%	
Total	<u>100.00%</u>	

Contributions

In addition to the implicit subsidy contribution, the Town's policy is to contribute the amounts provided annually by the budget.

Discount Rate

The discount rate used to measure the net OPEB liability was 2.66%. 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 2.66% and municipal bond rate of 2.66% thereafter (based on index provided by Standard and Poor's on 20-year municipal bond rate 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	\$ 26,397,499
Plan fiduciary net position	<u>853,496</u>
Net OPEB liability	<u><u>\$ 25,544,003</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.23%

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 Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 26,355,765	\$ 723,182	\$ 25,632,583
Changes for the year:			
Service cost	1,530,377	-	1,530,377
Interest	731,360	-	731,360
Contributions - employer	-	394,336	(394,336)
Net investment income	-	20,314	(20,314)
Differences between expected and actual experience	(2,513,378)	-	(2,513,378)
Changes in assumptions	577,711		577,711
Benefit payments	<u>(284,336)</u>	<u>(284,336)</u>	<u>-</u>
Net Changes	<u>41,734</u>	<u>130,314</u>	<u>(88,580)</u>
Balances, end of year	<u>\$ 26,397,499</u>	<u>\$ 853,496</u>	<u>\$ 25,544,003</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.79% in 2019 to 2.66% in 2020.

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% Decrease (1.66%)	Current Discount Rate (2.66%)	1% Increase (3.66%)
\$ 29,996,730	\$ 25,544,003	\$ 21,091,277

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:

1% Decrease <u>(7%)</u>	Current Healthcare Cost Trend Rates <u>(8%)</u>	1% Increase <u>(9%)</u>
\$ 20,130,162	\$ 25,544,003	\$ 32,234,339

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 an OPEB expense of \$2,331,354. At June 30, 2020, the Town reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ 1,623,007	\$ (2,262,040)
Change in assumptions	1,200,636	-
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(13,834)</u>
Total	\$ <u>2,823,643</u>	\$ <u>(2,275,874)</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	\$ 89,794
2022	89,821
2023	89,822
2024	94,396
2025	94,396
Thereafter	<u>89,540</u>
Total	\$ <u>547,769</u>

20. Commitments and Contingencies

COVID-19

The COVID-19 outbreak in the United States (and across the globe) has 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 on 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 \$42,803 in encumbrances that will be honored in the next fiscal year.

21. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year ending June 30, 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 DOUGLAS, MASSACHUSETTS

Required Supplemental Information
General Fund

Schedule 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	\$ 18,399,324	\$ 18,399,324	\$ 18,418,114	\$ 18,790
Excise	1,071,212	1,071,212	1,385,774	314,562
Penalties, interest and other taxes	137,000	137,000	124,516	(12,484)
Charges for services	125,878	125,878	154,518	28,640
Intergovernmental	9,839,481	9,839,481	9,796,269	(43,212)
Licenses and permits	145,000	145,000	262,905	117,905
Fines and forfeitures	20,000	20,000	30,591	10,591
Investment income	19,000	19,000	66,183	47,183
Miscellaneous	30,000	30,000	126,674	96,674
Total Revenues	29,786,895	29,786,895	30,365,544	578,649
Expenditures				
General government	2,658,238	2,662,738	2,541,288	121,450
Public safety	3,450,602	3,476,602	3,291,586	185,016
Education	17,076,719	17,076,719	16,725,102	351,617
Public works	1,113,000	1,108,500	1,038,977	69,523
Health and human services	277,549	277,549	246,906	30,643
Culture and recreation	386,474	386,474	361,717	24,757
Employee benefits	4,232,599	4,206,599	4,116,540	90,059
Debt service	2,506,090	2,506,090	2,506,090	-
Intergovernmental	378,335	378,335	405,156	(26,821)
Total Expenditures	32,079,606	32,079,606	31,233,362	846,244
Excess (deficiency) of Revenues over Expenditures	(2,292,711)	(2,292,711)	(867,818)	1,424,893
Other Financing Sources/Uses				
Transfers in	431,406	431,406	431,406	-
Transfers out	-	-	(22,064)	(22,064)
Use of free cash:				
Capital budget	602,395	602,395	602,395	-
OPEB trust fund contribution	50,000	50,000	50,000	-
Prior year carryforwards	1,208,910	1,208,910	1,208,910	-
Total Other Financing Sources (Uses)	2,292,711	2,292,711	2,270,647	(22,064)
Overall Budgetary Excess (Deficiency)	\$ -	\$ -	\$ 1,402,829	\$ 1,402,829

See Independent Auditors' Report.

**Notes to the Required Supplemental Information
for General Fund Budget**

Budgetary Basis

The general fund final appropriation appearing on the previous page 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>
GAAP basis	\$ 32,114,542	\$ 31,119,098	\$ 96,803
Add end-of-year appropriation carryforwards to expenditures	-	1,133,166	-
To record use of free cash	-	-	652,395
To record use of prior year carryforwards	-	-	1,208,910
To remove effect of combining stabilization and general fund	(25,169)	-	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(1,723,829)	(1,723,829)	-
To reclassify debt service expenditures	-	312,539	312,539
Other	-	392,388	-
Budgetary basis	<u>\$ 30,365,544</u>	<u>\$ 31,233,362</u>	<u>\$ 2,270,647</u>

See Independent Auditors' Report.

TOWN OF DOUGLAS, MASSACHUSETTS

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability

(Unaudited)

Worcester Regional 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	1.787466%	\$15,910,774	\$ 6,208,415	256.28%	47.40%
June 30, 2019	December 31, 2018	1.792803%	\$16,256,457	\$ 5,241,322	310.16%	43.05%
June 30, 2018	December 31, 2017	1.807354%	\$14,737,670	\$ 5,726,211	257.37%	46.40%
June 30, 2017	December 31, 2016	1.665727%	\$13,952,025	\$ 6,111,451	228.29%	42.00%
June 30, 2016	December 31, 2015	1.673328%	\$11,877,399	\$ 5,729,138	207.32%	44.52%
June 30, 2015	December 31, 2014	1.717729%	\$10,221,653	\$ 5,508,787	185.55%	47.94%

Massachusetts Teachers' 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>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</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	June 30, 2019	0.119403%	\$ -	\$ 30,106,220	\$ 30,106,220	\$ 8,689,133	-	53.95%
June 30, 2019	June 30, 2018	0.119237%	\$ -	\$ 28,272,534	\$ 28,272,534	\$ 8,373,855	-	54.84%
June 30, 2018	June 30, 2017	0.117267%	\$ -	\$ 26,836,952	\$ 26,836,952	\$ 7,962,978	-	54.25%
June 30, 2017	June 30, 2016	0.135543%	\$ -	\$ 30,304,669	\$ 30,304,669	\$ 8,915,551	-	52.73%
June 30, 2016	June 30, 2015	0.133839%	\$ -	\$ 27,423,140	\$ 27,423,140	\$ 8,772,387	-	55.38%
June 30, 2015	June 30, 2014	0.142008%	\$ -	\$ 22,574,170	\$ 22,574,170	\$ 8,707,212	-	61.64%

TOWN OF DOUGLAS, MASSACHUSETTS

Required Supplementary Information Schedule of Pension Contributions

(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined 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	\$ 1,088,352	\$ 1,088,352	\$ -	\$ 6,208,415	17.53%
June 30, 2019	December 31, 2018	\$ 998,134	\$ 998,134	\$ -	\$ 5,241,322	19.04%
June 30, 2018	December 31, 2017	\$ 914,509	\$ 914,509	\$ -	\$ 5,726,211	15.97%
June 30, 2017	December 31, 2016	\$ 809,124	\$ 809,124	\$ -	\$ 6,111,451	13.24%
June 30, 2016	December 31, 2015	\$ 752,764	\$ 752,764	\$ -	\$ 5,729,138	13.14%
June 30, 2015	December 31, 2014	\$ 678,830	\$ 678,830	\$ -	\$ 5,508,787	12.32%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	June 30, 2019	\$ 1,723,829	\$ 1,723,829	\$ -	\$ 8,689,133	19.84%
June 30, 2019	June 30, 2018	\$ 1,567,702	\$ 1,567,702	\$ -	\$ 8,373,855	18.72%
June 30, 2018	June 30, 2017	\$ 1,448,848	\$ 1,448,848	\$ -	\$ 7,962,978	18.19%
June 30, 2017	June 30, 2016	\$ 1,524,297	\$ 1,524,297	\$ -	\$ 8,915,551	17.10%
June 30, 2016	June 30, 2015	\$ 1,367,741	\$ 1,367,741	\$ -	\$ 8,772,387	15.59%
June 30, 2015	June 30, 2014	\$ 1,331,158	\$ 1,331,158	\$ -	\$ 8,707,212	15.29%

TOWN OF DOUGLAS, MASSACHUSETTS

Required Supplementary Information
Other Post-Employment Benefits (OPEB)
Schedule of Changes in Net OPEB Liability

(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability				
Service cost	\$ 1,530,377	\$ 1,280,677	\$ 1,244,458	\$ 1,160,278
Interest	731,360	646,729	608,518	778,464
Differences between expected and actual experience	(2,513,378)	2,028,759	(268,883)	-
Changes of assumptions	577,711	850,870	594,117	-
Benefit payments, including refunds of member contributions	<u>(284,336)</u>	<u>(307,200)</u>	<u>(292,466)</u>	<u>(269,884)</u>
Net change in total OPEB liability	41,734	4,499,835	1,885,744	1,668,858
Total OPEB liability - beginning	<u>26,355,765</u>	<u>21,855,930</u>	<u>19,970,186</u>	<u>18,301,328</u>
Total OPEB liability - ending (a)	26,397,499	26,355,765	21,855,930	19,970,186
Plan Fiduciary Net Position				
Contributions - employer	394,336	459,700	419,308	403,206
Net investment income	20,314	38,726	22,627	23,938
Benefit payments, including refunds of member contributions	<u>(284,336)</u>	<u>(307,200)</u>	<u>(292,466)</u>	<u>(269,884)</u>
Net change in plan fiduciary net position	130,314	191,226	149,469	157,260
Plan fiduciary net position - beginning	<u>723,182</u>	<u>531,956</u>	<u>382,487</u>	<u>225,227</u>
Plan fiduciary net position - ending (b)	<u>853,496</u>	<u>723,182</u>	<u>531,956</u>	<u>382,487</u>
Net OPEB liability - ending (a-b)	\$ <u><u>25,544,003</u></u>	\$ <u><u>25,632,583</u></u>	\$ <u><u>21,323,974</u></u>	\$ <u><u>19,587,699</u></u>

TOWN OF DOUGLAS, MASSACHUSETTS

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

(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability				
Total OPEB liability	\$ 26,397,499	\$ 26,355,765	\$ 21,855,930	\$ 19,970,186
Plan fiduciary net position	<u>853,496</u>	<u>723,182</u>	<u>531,956</u>	<u>382,487</u>
Net OPEB liability	<u>\$ 25,544,003</u>	<u>\$ 25,632,583</u>	<u>\$ 21,323,974</u>	<u>\$ 19,587,699</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.23%	2.74%	2.43%	1.92%
Covered employee payroll	\$ 16,973,469	16,507,832	15,440,632	15,440,632
Net OPEB liability as a percentage of covered employee payroll	150%	155%	138%	127%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Contributions				
Actuarially determined contribution	\$ 3,267,687	\$ 2,711,333	\$ 1,852,976	\$ 1,938,742
Contributions in relation to the actuarially determined contribution	<u>394,336</u>	<u>459,700</u>	<u>419,308</u>	<u>403,206</u>
Contribution deficiency	<u>\$ 2,873,351</u>	<u>\$ 2,251,633</u>	<u>\$ 1,433,668</u>	<u>\$ 1,535,536</u>
Covered employee payroll	\$ 16,973,469	16,507,832	15,440,632	15,440,632
Contributions as a percentage of covered employee payroll	17%	14%	9%	10%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns				
Annual money weighted rate of return, net of investment expense	2.80%	5.80%	5.08%	8.50%



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Douglas, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts (the Town), 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, and have issued our report thereon dated April 6, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a



combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Andover, Massachusetts
April 6, 2021