

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**R|C|A**  
**C|P|A**

**TOWN OF MIDDLETON, MASSACHUSETTS**

Report on Examination of the Basic Financial Statements and  
Additional Information

Year Ended June 30, 2020

## **TOWN OF MIDDLETON, MASSACHUSETTS**

### **TABLE OF CONTENTS** **YEAR ENDED JUNE 30, 2020**

---

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 – 3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4 – 10
<u>BASIC FINANCIAL STATEMENTS:</u>	
<u>Government-Wide Financial Statements:</u>	
Statement of Net Position	11
Statement of Activities	12
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to Basic Financial Statements	22 – 51
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of Town's Proportionate Share of the Net Pension Liability	52
Schedule of Town's Contributions to Pension Plan	52
Schedule of the Commonwealth's Collective Share of the Massachusetts Teachers' Retirement System Net Pension Liability	53
Schedule of Changes in Net OPEB Liability and Related Ratios	54
Schedule of Contributions to OPEB Plan	55
Schedule of Investment returns – OPEB Plan	55
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	56
Notes to Required Supplementary Information	57
<u>OTHER REPORTS:</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58 – 59



**ROSELLI, CLARK & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park  
Suite 4900  
Woburn, MA 01801  
Telephone: (781) 933-0073  
[www.roselliclark.com](http://www.roselliclark.com)

**INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Selectmen  
Town of Middleton, 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 Middleton, 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, except for the Middleton Electric Light Department "the Light Department" "the Electric Light Department" or "MELD", which is as of December 31, 2019 and is a Town Department reported as an enterprise fund and part of the Town's business-type funds. We did not audit the financial statements of the Light Department. The Light Department represents 100% of the assets, net position, and operating revenues of the Town's business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this discretely presented component unit, is based solely on the report of the other auditors.

**Management's Responsibility for the Financial Statements**

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

**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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

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

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

## **Opinions**

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2020, except for the Light Department, which is as of December 31, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Restatement of Prior Year Ending Balances**

As discussed in Note IV certain balances in the Government-Wide Statement of Net Position were restated which caused the previously reported total net position in the governmental activities to be restated. Our opinion was not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is 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 sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2020 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 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.

*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
September 16, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Middleton, Massachusetts (the “Town”), we offer readers of the Town’s financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020 (December 31, 2019 for the Light Department). We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

### **Financial Highlights**

- The assets and deferred outflows of financial resources exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$43.9 million (*total net position*).
- The Town’s total net position increased by approximately \$1.4 million year-over-year, not including a restatement which caused an approximate \$4.9 million increase in governmental activities net position. The increase from operations was the result of a decrease in governmental activities of approximately \$0.9 million offset by about a \$2.3 million increase in Light Department operations.
- The Town’s total long-term debt in its governmental activities decreased by over \$1 million due to regular scheduled maturities.
- As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of over \$9.9 million, which was approximately \$3.3 million lower than the prior year. Of the ending fund balance, approximately \$2.6 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures or nonspendable.

### **Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town consist completely of Light Department activities.

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

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

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

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

**Proprietary Funds** – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for enterprise funds of the Light Department.

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

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

### **Government-Wide Financial Analysis**

The following table represents the condensed statement of net position:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2020	June 30, 2019 (restated)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019 (restated)
<b>Assets</b>						
Current and other assets	\$ 17,832,222	\$ 20,498,007	\$ 17,490,300	\$ 15,401,015	\$ 35,322,522	\$ 35,899,022
Capital assets, net	57,502,983	54,518,082	12,508,342	11,959,527	70,011,325	66,477,609
<b>Total assets</b>	<b>75,335,205</b>	<b>75,016,089</b>	<b>29,998,642</b>	<b>27,360,542</b>	<b>105,333,847</b>	<b>102,376,631</b>
<b>Deferred outflows of resources</b>						
	3,559,901	3,702,208	830,280	918,611	4,390,181	4,620,819
<b>Liabilities</b>						
Long-term liabilities	47,913,398	56,070,226	4,782,277	4,621,358	52,695,675	60,691,584
Other liabilities	7,546,925	6,904,226	1,490,502	1,224,054	9,037,427	8,128,280
<b>Total liabilities</b>	<b>55,460,323</b>	<b>62,974,452</b>	<b>6,272,779</b>	<b>5,845,412</b>	<b>61,733,102</b>	<b>68,819,864</b>
<b>Deferred inflows of resources</b>						
	3,993,040	337,260	72,280	239,000	4,065,320	576,260
<b>Net Position</b>						
Net investment in capital assets	41,125,835	40,795,178	12,508,342	11,959,527	53,634,177	52,754,705
Restricted	6,036,959	6,165,527	-	-	6,036,959	6,165,527
Unrestricted	(27,721,051)	(31,554,120)	11,975,521	10,235,214	(15,745,530)	(21,318,906)
<b>Total Net Position</b>	<b>\$ 19,441,743</b>	<b>\$ 15,406,585</b>	<b>\$ 24,483,863</b>	<b>\$ 22,194,741</b>	<b>\$ 43,925,606</b>	<b>\$ 37,601,326</b>

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$43.9 million (*total net position*), which represents an approximate \$1.4 million increase from the prior year’s balance, as restated.

The largest portion (\$53.6 million) of the Town’s overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional significant portion of the Town’s total net position (\$6.0 million) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position* which is currently in a deficit position of over \$15.7 million. Surpluses of nearly \$12.0 million in the business-type activities are offset by a deficit of over \$27.7 million in the governmental activities. The business-type surplus may be used to meet the ongoing obligations of the business-type activities. The governmental activities deficit is primarily the result of approximately \$35.1 million in obligations related to OPEB and pensions. The Town expects that its deficit in unrestricted net position will continue to increase for the foreseeable future until a mechanism to more adequately fund its annual OPEB obligation is in place.

The following table represents the condensed statement of changes in net position:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 3,151,970	\$ 3,424,586	\$ 13,507,684	\$ 13,903,397	\$ 16,659,654	\$ 17,327,983
Operating grants and contributions	5,297,743	4,493,221	265,173	576,456	5,562,916	5,069,677
Capital grants and contributions	814,305	553,573	-	-	814,305	553,573
General revenues:						
Property taxes	30,516,284	29,020,330	-	-	30,516,284	29,020,330
Excise taxes	2,456,789	2,494,660	-	-	2,456,789	2,494,660
Unrestricted investment earnings	156,673	265,505	1,176,429	(656,279)	1,333,102	(390,774)
Other	861,369	861,847	-	-	861,369	861,847
<b>Total Revenues</b>	<b>43,255,133</b>	<b>41,113,722</b>	<b>14,949,286</b>	<b>13,823,574</b>	<b>58,204,419</b>	<b>54,937,296</b>
<b>Expenses</b>						
General government	2,395,200	2,654,464	-	-	2,395,200	2,654,464
Public safety	5,854,508	5,842,299	-	-	5,854,508	5,842,299
Education	30,001,303	28,900,150	-	-	30,001,303	28,900,150
Public works	3,021,094	2,943,480	-	-	3,021,094	2,943,480
Health and human services	826,756	796,684	-	-	826,756	796,684
Culture and recreation	1,682,730	1,168,463	-	-	1,682,730	1,168,463
Debt service	499,235	449,333	-	-	499,235	449,333
Electric light	-	-	12,484,064	13,459,723	12,484,064	13,459,723
<b>Total Expenses</b>	<b>44,280,826</b>	<b>42,754,873</b>	<b>12,484,064</b>	<b>13,459,723</b>	<b>56,764,890</b>	<b>56,214,596</b>
Change in net position before transfers	(1,025,693)	(1,641,151)	2,465,222	363,851	1,439,529	(1,277,300)
<b>Transfers</b>	<b>176,100</b>	<b>223,000</b>	<b>(176,100)</b>	<b>(223,000)</b>	<b>-</b>	<b>-</b>
Change in net position	(849,593)	(1,418,151)	2,289,122	140,851	1,439,529	(1,277,300)
Net position, beginning of year	15,406,585	17,277,687	22,194,741	22,068,534	37,601,326	39,346,221
Restatement for net OPEB liability	4,884,751	(452,951)	-	(14,644)	4,884,751	(467,595)
Net position, beginning of year, as restated	20,291,336	16,824,736	22,194,741	22,053,890	42,486,077	38,878,626
Net position, end of year	<b>\$ 19,441,743</b>	<b>\$ 15,406,585</b>	<b>\$ 24,483,863</b>	<b>\$ 22,194,741</b>	<b>\$ 43,925,606</b>	<b>\$ 37,601,326</b>

**Governmental Activities** – Total revenues in fiscal year 2020 in the Town's governmental activities increased over \$2.1 million from fiscal year 2019. This increase was due primarily to an increase in property taxes which were nearly \$1.5 million greater than the prior year. Operating grants and contributions were approximately \$0.6 million higher than the prior year due to higher on-behalf payments made to the state teachers retirement system by the Commonwealth of Massachusetts. All other revenue categories experienced minor increases and decreases that aggregated to the remaining net increase. The greatest revenue areas were property taxes which represented 70.5% of revenues. The increase was in line with the statutorily allowed increase from year to year and was expected. Operating grants which represented 12.2% of revenues increased as noted above. No other revenue sources were greater than 10% of total revenues in fiscal years 2020 or 2019.

Total expenses for the current fiscal year were nearly \$44.3 million which was \$1.5 million higher than the prior year, primarily the result of education spending. Education represents by far the largest expense category for the Town. In fiscal year 2020, education expenses represented approximately 67.8% of total expenses, consistent with 67.6% in the prior year. The Town continues to fund education expenses above the minimum state requirements. Public safety expenses represented 13.2% of total fiscal year 2020 expense; consistent with 13.7% in the prior year. No other expense types were greater than 10% of total expenses in fiscal years 2020 and 2019.

**Business-Type Activities** – Operating revenues of the light department decreased as actual customer kilowatt hour sales decreased approximately 3.0% and overall revenue from customer charges decreased 3.2%. There were no rate changes during the year. Investment income increased approximately \$1.8 million due to favorable market factors. Operating expenses decreased approximately \$1.0 million, or 7.2%, primarily due to lower power costs and a decrease in demand.

### **Government Funds Financial Analysis**

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

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

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of over \$9.9 million, which is nearly \$3.3 million lower than the prior year. The decrease was primarily due to over \$3.6 million of capital spending. Of the ending fund balance approximately \$2.6 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was nearly \$6.3 million, while total general fund balance was over \$8.1 million. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 15.7% of total general fund expenditures, while total fund balance represents approximately 20.4% of that same amount. The change from the prior year was negligible.

The Town also maintains a major fund to account for its various capital projects. The Town reported \$0.2 million as restricted and a \$3.7 million deficit as unassigned. The Town expended approximately \$3.6 million on land acquisition and related costs during the year.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds and trust funds. The fund balances in the nonmajors funds were unchanged from the prior year and the majority of the total, \$5.1 million, was restricted.

**Proprietary Funds** – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the Light Department was nearly \$24.5 million.

**Fiduciary Fund** – The Town’s fiduciary fund is comprised of the Town and Light Department’s OPEB trusts and private purpose trust funds. The OPEB trusts increased nearly \$0.1 million and \$0.2 million

respectively for the Town and Light Department trusts due to continued funding beyond the pay go amount; and the private purpose trust funds were relatively unchanged.

### **General Fund Budgetary Highlights**

A budget to actual schedule for the general fund has been provided as required supplementary information. During the fiscal year, Town Meeting increased appropriations approximately \$1.2 million as more fully described in the notes to required supplementary information.

### **Capital Asset and Debt Administration**

**Capital Assets** – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2020, amounts to approximately \$70.0 million, net of accumulated depreciation. This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment and infrastructure. The balance increased over \$3.5 million as additions were higher than depreciation. Additions were primarily related to land acquisitions totaling \$3.8 million and infrastructure improvements of over \$0.8 million.

Additional information on the Town capital assets can be found in Note II, Section C of this report.

**Long-term Debt** – At June 30, 2020, the Town had total debt outstanding of approximately \$12.9 million, all reported in the governmental activities. Debt decreased approximately \$1.0 million due to regular scheduled maturities.

Standard and Poor’s has assigned a bond rating of AA+ for its general obligation debt.

Additional information on the Town’s debt can be found in Note II, Sections E, F and G of this report.

### **Economic Factors and Next Year’s Budgets and Rates**

- The Town’s real estate tax base is made up predominantly of residential taxes, which when setting the 2021 tax rate will be approximately 82% of the entire real estate tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy without a ballot override by the voters.
- Unemployment rates across the Commonwealth continue to be among the highest in the country as the effects of the COVID-19 pandemic has hit states with higher pre-pandemic employment rates the hardest.
- The Town’s housing market has remained relatively stable as median house prices statewide have increased steadily for the past five years. This has been fueled by an attractive mortgage market with relatively low rates and housing inventory that has been declining for many years. The pandemic has also seen many people leaving larger cities to purchase homes in the suburbs. This increases demand at a time when fewer sellers are listing their homes for sale.
- The Town anticipates receiving the same amount of state aid for 2021 as in the previous fiscal year based on state budget estimates. This is a significant budget source for the Town as a substantial portion of this aid, more commonly referred to as Chapter 70 is used to subsidize the education budget. Other local revenues like motor vehicle, hotel/motel and meals excise taxes that the Town relies on to balance the budget have fallen due to the pandemic and as such the Town has factored a local revenue decrease into its tax rate setting process.

The above items were considered when the Town accepted its budget for fiscal year 2021 at the June 2020 Town Meeting.

**Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the CFO/Town Accountant, 48 South Main Street, Middleton, Massachusetts 01949.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
	Assets		
Cash and cash equivalents	\$ 12,630,844	\$ 4,322,007	\$ 16,952,851
Investments	3,179,721	8,688,703	11,868,424
Receivables, net:			
Property taxes	876,692	-	876,692
User charges	9,946	1,295,621	1,305,567
Departmental and other	594,499	240,737	835,236
Intergovernmental	72,059	-	72,059
Unbilled revenue	-	231,618	231,618
Inventory	-	561,073	561,073
Prepaid items	-	2,148,660	2,148,660
Other assets	-	1,881	1,881
Tax foreclosures	468,461	-	468,461
Capital assets not being depreciated	10,808,545	2,219,869	13,028,414
Capital assets, net of accumulated depreciation	46,694,438	10,288,473	56,982,911
<b>Total Assets</b>	<b>75,335,205</b>	<b>29,998,642</b>	<b>105,333,847</b>
<b>Deferred Outflows of Resources</b>			
Related to Pensions	1,990,752	545,623	2,536,375
Related to OPEB	1,569,149	284,657	1,853,806
<b>Total Deferred Outflows of Resources</b>	<b>3,559,901</b>	<b>830,280</b>	<b>4,390,181</b>
<b>Liabilities</b>			
Warrants and accounts payable	1,057,187	1,036,577	2,093,764
Accrued payroll and withholdings	1,441,861	-	1,441,861
Accrued interest	154,317	-	154,317
Customer deposits	-	180,637	180,637
Other liabilities	38,501	273,288	311,789
Bond anticipation notes payable	3,745,000	-	3,745,000
Noncurrent liabilities:			
Due within one year	1,110,059	-	1,110,059
Due in more than one year	47,913,398	4,782,277	52,695,675
<b>Total Liabilities</b>	<b>55,460,323</b>	<b>6,272,779</b>	<b>61,733,102</b>
<b>Deferred Inflows of Resources</b>			
Related to Pensions	1,136,451	53,173	1,189,624
Related to OPEB	2,856,589	19,107	2,875,696
<b>Total Deferred Inflows of Resources</b>	<b>3,993,040</b>	<b>72,280</b>	<b>4,065,320</b>
<b>Net Position</b>			
Net investment in capital assets	41,125,835	12,508,342	53,634,177
Restricted for:			
Nonexpendable permanent funds	183,296	-	183,296
Expendable permanent funds	135,814	-	135,814
Grants and gifts	548,020	-	548,020
Other specific purposes	5,169,829	-	5,169,829
Unrestricted	(27,721,051)	11,975,521	(15,745,530)
<b>Total Net Position</b>	<b>\$ 19,441,743</b>	<b>\$ 24,483,863</b>	<b>\$ 43,925,606</b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 2,395,200	\$ 513,030	\$ 61,025	\$ -	\$ (1,821,145)		\$ (1,821,145)
Public safety	5,854,508	1,163,658	1,300	63,251	(4,626,299)		(4,626,299)
Education	30,001,303	556,652	4,937,655	-	(24,506,996)		(24,506,996)
Public works	3,021,094	819,805	9,893	694,805	(1,496,591)		(1,496,591)
Health and human services	826,756	92,832	269,088	-	(464,836)		(464,836)
Culture and recreation	1,682,730	3,795	18,782	56,249	(1,603,904)		(1,603,904)
Interest expense	499,235	2,198	-	-	(497,037)		(497,037)
Total governmental activities	44,280,826	3,151,970	5,297,743	814,305	(35,016,808)		(35,016,808)
Business-type activities:							
Electric Light	12,484,064	13,507,684	265,173	-	\$ 1,288,793		1,288,793
Total business-type activities	12,484,064	13,507,684	265,173	-	1,288,793		1,288,793
<b>Total Primary Government</b>	<b>\$ 56,764,890</b>	<b>\$ 16,659,654</b>	<b>\$ 5,562,916</b>	<b>\$ 814,305</b>	<b>(35,016,808)</b>	<b>1,288,793</b>	<b>(33,728,015)</b>
<b>General Revenues:</b>							
Property taxes				30,516,284	-	30,516,284	
Motor vehicle and other excise				2,456,789	-	2,456,789	
Payments in lieu of taxes				139,096	-	139,096	
Grants and contributions not restricted							
to specific programs				601,261	-	601,261	
Penalties and interest on taxes				121,012	-	121,012	
Unrestricted investment income				156,673	1,176,429	1,333,102	
<u>Transfers (net)</u>				176,100	(176,100)	-	
Total general revenues				34,167,215	1,000,329	35,167,544	
Change in Net Position				(849,593)	2,289,122	1,439,529	
<b>Net Position:</b>							
Beginning of year, as restated (see Note IV)				20,291,336	22,194,741	42,486,077	
End of year				\$ 19,441,743	\$ 24,483,863	\$ 43,925,606	

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 7,312,645	\$ 247,652	\$ 4,774,890	\$ 12,335,187
Investments	3,043,049	-	432,329	3,475,378
Receivables, net of allowance for uncollectibles:				
Property taxes	870,446	-	6,246	876,692
Intergovernmental	-	-	72,059	72,059
User charges	-	-	9,946	9,946
Departmental and other	235,572	-	358,927	594,499
Tax foreclosures	468,461	-	-	468,461
<b>Total Assets</b>	<u>11,930,173</u>	<u>247,652</u>	<u>5,654,397</u>	<u>17,832,222</u>
<b>Deferred Outflows of Resources</b>				
	-	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 11,930,173</u></u>	<u><u>\$ 247,652</u></u>	<u><u>\$ 5,654,397</u></u>	<u><u>\$ 17,832,222</u></u>
<b>Liabilities</b>				
Warrants and accounts payable	\$ 1,057,187	\$ -	\$ -	\$ 1,057,187
Accrued payroll and withholdings	1,441,861	-	-	1,441,861
Other liabilities	32,980	-	5,521	38,501
Bond anticipation notes payable	-	3,745,000	-	3,745,000
<b>Total Liabilities</b>	<u>2,532,028</u>	<u>3,745,000</u>	<u>5,521</u>	<u>6,282,549</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - property taxes	550,327	-	6,246	556,573
Unavailable revenues - other	704,033	-	368,873	1,072,906
<b>Total Deferred Inflows of Resources</b>	<u>1,254,360</u>	<u>-</u>	<u>375,119</u>	<u>1,629,479</u>
<b>Fund Balances</b>				
Nonspendable	-	-	183,296	183,296
Restricted	335,972	157,946	5,142,572	5,636,490
Committed	498,385	-	-	498,385
Assigned	1,043,672	-	-	1,043,672
Unassigned	6,265,756	(3,655,294)	(52,111)	2,558,351
<b>Total Fund Balances</b>	<u>8,143,785</u>	<u>(3,497,348)</u>	<u>5,273,757</u>	<u>9,920,194</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u><u>\$ 11,930,173</u></u>	<u><u>\$ 247,652</u></u>	<u><u>\$ 5,654,397</u></u>	<u><u>\$ 17,832,222</u></u>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020**

---

<b>Total Governmental Fund Balances</b>	<b>\$ 9,920,194</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	57,502,983
Other long-term assets are unavailable to pay current-period expenditures	1,629,479
Deferred outflows and inflows of resources to be recognized in future fiscal years are not available resources and, therefore, are not reported in the funds:	
Deferred outflows related to pensions	1,990,752
Deferred outflows related to other postemployment benefits	1,569,149
Deferred inflows related to pensions	(1,136,451)
Deferred inflows related to other postemployment benefits	<u>(2,856,589)</u>
Net effect of reporting deferred outflows and inflows of resources	(433,139)
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due.	(154,317)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Bonds and notes payable	(12,903,835)
Unamortized premiums on bonds	(247,571)
Landfill closure	(787,500)
Net pension liability	(17,147,338)
Net other postemployment benefits liability	<u>(17,937,213)</u>
Net effect of reporting long-term liabilities	<u>(49,023,457)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 19,441,743</u></b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FISCAL YEAR ENDED JUNE 30, 2020**

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 30,351,662	\$ -	\$ 248,183	\$ 30,599,845
Intergovernmental	5,069,822	-	1,506,959	6,576,781
Motor vehicle and other excises	2,388,365	-	-	2,388,365
Licenses and permits	595,093	-	-	595,093
Penalties and interest on taxes	121,012	-	-	121,012
Payments in lieu of taxes	139,096	-	-	139,096
Fines and forfeitures	13,269	-	-	13,269
Charges for services	-	-	1,114,874	1,114,874
Departmental and other revenue	588,098	-	849,481	1,437,579
Investment income	149,036	-	7,637	156,673
Contributions and donations	-	-	136,528	136,528
 Total Revenues	 39,415,453	 -	 3,863,662	 43,279,115
Expenditures:				
Current:				
General government	1,891,774	3,649,044	139,391	5,680,209
Public safety	4,505,395	-	60,930	4,566,325
Education	23,812,604	-	954,154	24,766,758
Public works	1,876,183	-	989,504	2,865,687
Health and human services	465,872	-	177,116	642,988
Culture and recreation	588,008	-	687,024	1,275,032
Pension and employee benefits	5,055,853	-	-	5,055,853
State and county assessments	330,070	-	-	330,070
Debt service:				
Principal	887,250	-	113,813	1,001,063
Interest	552,321	-	6,810	559,131
 Total Expenditures	 39,965,330	 3,649,044	 3,128,742	 46,743,116
Excess (Deficiency) of Revenues Over (Under) Expenditures	(549,877)	(3,649,044)	734,920	(3,464,001)
Other Financing Sources (Uses):				
Transfers in	909,411	-	-	909,411
Transfers out	-	-	(733,311)	(733,311)
 Total Other Financing Sources (Uses)	 909,411	 -	 (733,311)	 176,100
Net Change in Fund Balances	359,534	(3,649,044)	1,609	(3,287,901)
 FUND BALANCES - Beginning of year	 7,784,251	 151,696	 5,272,148	 13,208,095
 FUND BALANCES - End of year	 \$ 8,143,785	 \$ (3,497,348)	 \$ 5,273,757	 \$ 9,920,194

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2020**

---

<b>Net Change in Fund Balances - Total Governmental Fund Balances</b>	\$ (3,287,901)
---	----------------

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. The net amounts are reflected here as reconciling items:

Capital outlays	5,385,986
Depreciation expense	<u>(2,401,085)</u>

Net effect of reporting capital assets	2,984,901
--	-----------

The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Amortization of premiums on bonds and notes payable	39,195
Repayments of debt	<u>1,001,063</u>

Net effect of reporting long-term debt	1,040,258
--	-----------

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

(23,982)

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.

20,701

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:

Landfill closure	52,500
Pension benefits	<u>(662,923)</u>
Other postemployment benefits	<u>(973,147)</u>

Net effect of reporting long-term liabilities	<u>(1,583,570)</u>
---	--------------------

<b>Change in Net Position of Governmental Activities</b>	<b>\$ (849,593)</b>
--	---------------------

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2020**

	Business-Type Activities
	Electric Light Enterprise
	(December 31, 2019)
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 4,322,007
Investments	8,688,703
Receivables (net):	
User charges	1,295,621
Departmental and other	240,737
Unbilled revenue	231,618
Inventory	561,073
Prepaid items	2,148,660
Other current assets	1,881
	<u>17,490,300</u>
Total current assets	<u>17,490,300</u>
Noncurrent assets:	
Nondepreciable capital assets	2,219,869
Capital assets (net of depreciation)	<u>10,288,473</u>
Total noncurrent assets	<u>12,508,342</u>
Total Assets	<u>29,998,642</u>
<b>Deferred Outflows of Resources</b>	
Related to Pensions	545,623
Related to OPEB	<u>284,657</u>
Total Deferred Outflows of Resources	<u>830,280</u>
<b>Liabilities</b>	
Current liabilities:	
Warrants and accounts payable	1,036,577
Customer deposits	180,637
Other liabilities	<u>273,288</u>
Total current liabilities	<u>1,490,502</u>
Noncurrent liabilities:	
Compensated absences	80,968
Net other postemployment benefits liability	481,379
Net pension liability	<u>4,219,930</u>
Total noncurrent liabilities	<u>4,782,277</u>
Total Liabilities	<u>6,272,779</u>
<b>Deferred Inflows of Resources</b>	
Related to Pensions	53,173
Related to OPEB	<u>19,107</u>
Total Deferred Inflows of Resources	<u>72,280</u>
<b>Net Position</b>	
Net investment in capital assets	12,508,342
Restricted	-
Unrestricted	<u>11,975,521</u>
<b>Total Net Position</b>	<b><u>\$ 24,483,863</u></b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2020**

---

	Business-Type Activities
Electric Light	<u>Enterprise</u>
	<u>(December 31, 2019)</u>
Operating Revenues:	
Charges for services	\$ 13,507,684
Other operating revenues	<u>265,173</u>
	<u>13,772,857</u>
Operating Expenses:	
Purchased power and production	8,919,188
Other operating expenses	2,864,749
Depreciation and bad debts	<u>700,127</u>
	<u>12,484,064</u>
Operating Income (Loss)	<u>1,288,793</u>
Nonoperating Revenues (Expenses):	
Investment income (loss)	<u>1,176,429</u>
	<u>1,176,429</u>
Income (Loss) Before Transfers	2,465,222
Transfers out	<u>(176,100)</u>
Change in Net Position	2,289,122
Total Net Position - Beginning of the Year	<u>22,194,741</u>
<b>Total Net Position - End of the Year</b>	<b><u>\$ 24,483,863</u></b>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2020**

	Business-Type Activities
	Electric Light Enterprise (December 31, 2019)
Cash Flows from Operating Activities:	
Receipts from customers	\$ 13,705,716
Payments to suppliers	(10,297,627)
Payments to employees	(1,795,213)
Operating transfers out	<u>(176,100)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,436,776</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	<u>(1,248,942)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,248,942)</u>
Cash Flows from Investing Activities:	
Investment income	1,176,429
Investment of operating cash, net	<u>(279,810)</u>
Net Cash Provided by (Used in) Investing Activities	<u>896,619</u>
Net Change in Cash and Cash Equivalents	1,084,453
Cash and Cash Equivalents:	
Beginning of the year	<u>3,237,554</u>
End of the year	<u>\$ 4,322,007</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating Income (Loss)	\$ 1,288,793
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Operating transfers out	(176,100)
Depreciation, bad debts and reserve	700,127
Changes in assets and liabilities:	
Receivables	13,520
Unbilled revenue	(46,454)
Inventory	46,825
Prepaid items	(738,913)
Accounts payable	314,888
Customer deposits	(34,207)
Other liabilities	(2,962)
Net other postemployment benefits liability	70,683
Net pension liability	<u>576</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,436,776</u>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2020**

	(Light Department) December 31, 2019			
	Other Postemployment Benefits Trust Fund	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 1,572	\$ 94,999	\$ 166,275
Investments:				
Negotiable certificates of deposit	- -	- -	6,983	30,115
Common stock	- -	- -	9,679	41,745
Corporate fixed income securities	- -	- -	19,154	82,611
U.S. government obligations	- -	- -	14,788	63,780
Equity mutual funds	- -	982,021	368,732	- -
Other mutual funds	- -	- -	90,335	- -
PRIT	<u>1,369,464</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>
<b>Total Assets</b>	<u>1,369,464</u>	<u>983,593</u>	<u>604,670</u>	<u>384,526</u>
<b>Liabilities</b>				
Agency liabilities	- -	- -	- -	384,526
<b>Total Liabilities</b>	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>384,526</u>
<b>Net Position</b>				
Restricted for other postemployment benefits	1,369,464	983,593	- -	- -
Held in trust for private purposes	- -	- -	640,670	- -
<b>Total Net Position</b>	<u>\$ 1,369,464</u>	<u>\$ 983,593</u>	<u>\$ 640,670</u>	<u>\$ - -</u>

See accompanying notes to basic financial statements.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2020**

	Other Postemployment Benefits Trust Fund	(Light Department) December 31, 2019	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>Additions</b>				
Contributions:				
Employer	\$ 534,676	\$ 59,143	\$ -	-
Other	- <hr/>	- <hr/>	- <hr/>	2,305 <hr/>
Total contributions	<hr/> 534,676	<hr/> 59,143	<hr/> 2,305	
Investment income:				
Interest and dividends	26,543	164,033	16,137	
<b>Total Additions</b>	<hr/> 561,219	<hr/> 223,176	<hr/> 18,442	
<b>Deductions</b>				
Education - scholarships	- <hr/>	- <hr/>	- <hr/>	2,500 <hr/>
Health and human services	- <hr/>	- <hr/>	- <hr/>	15,154 <hr/>
Retiree benefits	484,676	59,143	- <hr/>	- <hr/>
<b>Total Deductions</b>	<hr/> 484,676	<hr/> 59,143	<hr/> 17,654	
CHANGE IN NET POSITION	76,543	164,033	788	
<b>NET POSITION AT BEGINNING OF YEAR</b>	<hr/> 1,292,921	<hr/> 819,560	<hr/> 603,882	
<b>NET POSITION AT END OF YEAR</b>	<hr/> \$ 1,369,464	<hr/> \$ 983,593	<hr/> \$ 604,670	

See accompanying notes to basic financial statements.

## **TOWN OF MIDDLETON, MASSACHUSETTS**

### **NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2020**

---

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

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

##### **A. Reporting Entity**

The Town is located approximately twenty miles north of Boston. It is bordered by the Towns of North Reading, North Andover, Boxford, Topsfield, Danvers, Peabody and Lynnfield. The Town was settled in 1659 and incorporated as a Town in 1728; and uses the open town meeting form of government. It is governed by a five-member elected Board of Selectmen with an appointed Town Administrator. Members of the Town’s Board of Selectmen serve three-year terms.

The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, utility services, street maintenance, parks and recreational facilities.

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

The Town is a member community of the Masconomet Regional School District that provides educational services in grades 7 to 12 to the Towns of Middleton, Topsfield and Boxford. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2020, the Town’s share of the operating and debt service expenses was \$10,510,263. Complete audited financial statements can be obtained directly from the District’s administrative office located at 20 Endicott Road, Topsfield, Massachusetts 01983.

The Town is a member community of the Essex North Shore Agricultural and Technical School District that provides educational services in grades 9 to 12 to many area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2020, the Town’s share of the operating and debt service expenses was \$795,918. Complete audited financial statements can be obtained directly from the District’s administrative office located at 565 Maple Street, Hathorne, Massachusetts 01937.

The Town does not have an equity interest in either of the joint ventures.

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 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*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available*

when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

The government reports the following major governmental funds:

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

*Town Capital Projects Fund* – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

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

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

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 the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 are user charges and fees, while operating expenses consist of

salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Light Department – accounts for user charges collected to finance costs associated with providing electric power to the Town's residents and businesses.

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

The government reports the following fiduciary funds:

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations.

Private-Purpose Trust Fund – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used primarily for public assistance and scholarships.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is primarily used for private public safety details and developer deposits. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

#### **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity**

Deposits and Investments – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the Town are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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

Real estate taxes that are secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old. Departmental receivables are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in

both government-wide and fund financial statements. The Light Department's prepaid items represent a deposit used to facilitate timely payments of certain monthly power invoices.

**Capital Assets** – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	7 to 40 years
Land improvements	20 to 30 years
Machinery and equipment	3 to 10 years
Infrastructure	30 to 100 years

**Interfund Balances** – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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

**Investment Income** – Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the permanent funds and proprietary funds is retained in the funds.

**Compensated Absences** – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick-pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured. For governmental activities, the liability for compensated absences is not material and is therefore not reported in these financial statements.

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

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

*Deferred Outflows/Inflows of Resources* – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has two types of items that are reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability and the other postemployment benefit liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A. The deferred other postemployment benefits will be recognized in employee benefits expense in future years as more fully described in Note III, subsection C.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has three items that are reported as deferred inflows of resources. The first arises only under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items are reported on the government-wide statement of net position and relate to outflows from changes in the net pension liability and the other postemployment benefit liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A. The deferred other postemployment benefits will be recognized in employee benefits expense in future years as more fully described in Note III, subsection C.

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

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

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

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

*Grants and gifts* represent assets that have restrictions placed on them from federal and state granting agencies, donors and other outside parties for specific governmental programs and uses.

*Other specific purposes* represent assets that are restricted by third parties for specific governmental programs and uses.

**Fund Equity** – The Town presents its fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

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

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

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

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

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

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

**Encumbrances** – The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing

activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$161,405 of encumbrances from normal purchasing activity in the general fund as assigned and \$498,385 of encumbrances from Town Meeting Articles in the general fund as committed. There are no encumbrances reported in any other fund.

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

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
<b>Nonspendable:</b>				
Nonexpendable trust funds	\$ -	\$ -	\$ 183,296	\$ 183,296
<b>Restricted:</b>				
School revolving	-	-	651,480	651,480
Federal and state grants	-	-	326,420	326,420
Ambulance services	-	-	1,161,637	1,161,637
Gift funds	-	-	221,600	221,600
Septic betterments	-	-	61,463	61,463
Cable access programming	-	-	508,848	508,848
Water services	-	-	1,156,510	1,156,510
Community preservation	-	-	454,316	454,316
Other capital outlay	-	157,946	-	157,946
Cemetery trust funds	-	-	51,884	51,884
Other trust funds	-	-	83,930	83,930
Debt service	335,972	-	-	335,972
Other purposes	-	-	464,484	464,484
<b>Committed:</b>				
General government	308,313	-	-	308,313
Public works	104,670	-	-	104,670
Public safety	31,256	-	-	31,256
Education	49,027	-	-	49,027
Other purposes	5,119	-	-	5,119
<b>Assigned:</b>				
Purchase orders	161,405	-	-	161,405
Subsequent years' budget	882,267	-	-	882,267
<b>Unassigned</b>	<u>6,265,756</u>	<u>(3,655,294)</u>	<u>(52,111)</u>	<u>2,558,351</u>
	<u><u>\$ 8,143,785</u></u>	<u><u>\$ (3,497,348)</u></u>	<u><u>\$ 5,273,757</u></u>	<u><u>\$ 9,920,194</u></u>

**Stabilization Funds** – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. At June 30, 2020, the Town reported a balance in its stabilization fund of \$1,859,535, which is reported as unassigned in the general fund.

The Town maintains a special education stabilization fund, which may be used for any special education purpose upon a two-thirds vote of the Town Meeting. At June 30, 2020, the Town reported a balance in its special education stabilization fund of \$213,716, which is reported as unassigned in the general fund.

The Town maintains a capital stabilization fund, which may be used for any capital purpose upon a two-thirds vote of the Town Meeting. At June 30, 2020, the Town reported a balance in its capital stabilization fund of \$681,430, which is reported as unassigned in the general fund.

The Town maintains a retirement stabilization fund, which may be used for retirement costs upon a two-thirds vote of the Town Meeting. At June 30, 2020, the Town reported a balance in its retirement stabilization fund of \$284,146, which is reported as unassigned in the general fund.

#### **E. Excess of Expenditures Over Appropriations and Fund Deficits**

The Town incurred individual fund deficits totaling \$3,655,294 and \$52,111 in its capital projects major fund and the nonmajor governmental funds, respectively. These deficits will be funded in future fiscal years with bond proceeds, grant revenues or other available funds.

#### **F. Use of Estimates**

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

### **II. Detailed Notes to All Funds**

#### **A. Deposits and Investments**

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

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

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

*Custodial Credit Risk: Deposits* - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2020, the Town, excluding the Light Department, had bank deposits totaling \$4,044,640 with a carrying value of \$3,896,049. Of the bank balance, \$1,989,375 was not insured by the Federal Deposit Insurance Corporation ("FDIC"), the depositors' insurance fund or collateralization agreements and therefore exposed to custodial credit risk.

At year-end, the Light Department's carrying amount of segregated bank deposits was \$876,633. The bank balance of these Department segregated funds maintained by the Town Treasurer was \$887,897. In addition to the segregated funds, there was \$3,294,023 of operating cash pooled within various accounts maintained by the Town Treasurer. Bank deposits are pooled with, or in the same financial institution as, Town operated funds and therefore specific collateralization information on these deposits is not available.

*Custodial Credit Risk: Investments* – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town or Light Department may not be able to recover the full amount of its principal investment and/or investment earnings. The Town's investment in the MMDT and PRIT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Town's investments in United States governmental obligations, bond and equity mutual funds and other investment funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town's investments in negotiable certificates of deposit are fully insured by the FDIC. The Town's investment in a repurchase agreement is held by a counterparty, but not in the Town's name. The repurchase agreement is fully collateralized with U.S. government securities.

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

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

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

U.S government obligations, fixed income securities and equity mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The remaining investments are classified in Level 2. Negotiable certificates of deposit and repurchase agreements are valued using matrix pricing based on the securities' relationship to benchmark quoted prices. Other investment mutual funds are valued based on the published fair value per share (unit) for each fund. The State Treasurer's PRIT fund is valued based on the composition and fair value of the underlying investments contained within this pool, which can be determined using inputs other than quoted prices that are observable either directly or indirectly. The State Treasurer's investment pool (MMDT) is valued at amortized cost. The MMDT's investment advisor may value the pool using an alternative valuation method that more accurately reflects the fair value in accordance with the pools fair value pricing policies should amortized cost not approximate the fair value of the pool.

The following table presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2020:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Investments by fair value level</b>				
Debt securities:				
Corporate fixed income securities	\$ 1,417,240	\$ 1,417,240	\$ -	\$ -
U.S. government obligations	1,094,188	636,176	458,012	-
Negotiable certificates of deposit	516,652	-	516,652	-
Repurchase agreements	6,501,674	-	6,501,674	-
State treasurer's PRIT fund	1,369,463	-	1,369,463	-
Total debt securities	10,899,217	2,053,416	8,845,801	-
Equity securities:				
Common stock	716,155	716,155	-	-
Equity mutual funds	368,731	368,731	-	-
Other investment funds	90,335	-	90,335	-
Total equity securities	1,175,221	1,084,886	90,335	-
Total investments by fair value level	\$ 12,074,438	\$ 3,138,302	\$ 8,936,136	\$ -
<b>Investments measured at amortized costs</b>				
Massachusetts Municipal Depository Trust	2,198,737			
Total investments	<u>14,273,175</u>			

At December 31, 2019, the Light Department's investments are categorized as follows: Level 1 - \$210,953 US government securities, \$1,604,702 equities and \$5,077,680 mutual and money market funds; Level 2 - \$695,400 municipal bonds and \$1,053,227 corporate bonds; \$1,179,270 certificates of deposit are not classified.

*Interest Rate Risk: Deposits* – This is the risk that fair value losses may arise due to increasing interest rates. The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2020, the Town had the following investments with maturities:

Investments	Fair Value	Maturities in Years		
		Less than 1	1 - 5	6 - 10
Corporate fixed income securities	\$ 1,417,240	\$ 132,301	\$ 1,284,939	\$ -
U.S. government obligations	1,094,188	330,654	763,534	-
Negotiable certificates of deposit	516,652	152,331	364,321	-
Total investments with maturities	<u>\$ 3,028,080</u>	<u>\$ 615,286</u>	<u>\$ 2,412,794</u>	<u>\$ -</u>

The Light Department had investments as follows: 1) US Government Securities, \$210,953 beyond five years; 2) for certificates of deposit, \$250,367 less than one year, \$227,758 between one and two years, \$73,015 between two and five years and \$628,130 beyond five years; 3) for municipal bonds, \$695,400 beyond five years; and 4) for corporate bonds, \$121,897 less than one year and \$931,330 beyond five years.

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2020, Town has 15% of its investments in MMDT, 10% in the PRIT fund and 46% in repurchase agreements collateralized with U. S. government backed securities.

Credit Risk – The Town has not adopted a formal policy related to credit risk. The Town's investments in U.S. government obligations are rated Aaa by Moody's. Corporate bonds are rated \$249,504 as Aaa, \$499,405 as A1, \$178,370 as A2, \$339,664 as Baa1 and \$150,297 as Baa2. The Town's remaining investments are unrated.

The Light Department's U.S. government securities are rated Aaa by Moody's and AA+ by Standard and Poor's. Municipal bonds are rated \$234,743 as AAA, \$460,657 as AA to A and corporate bonds are rated \$101,605 as AAA, \$724,132 as AA to A and \$227,490 are rated BBB by Standards and Poor's. Mutual funds, money market funds and certificates of deposit are not rated.

## B. Receivables

Receivables as of June 30, 2020 for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<b>Receivables:</b>			
Real estate and personal property taxes	\$ 610,187	\$ -	\$ 610,187
Tax liens and deferrals	260,259	-	260,259
Community preservation surcharges	6,246	-	6,246
Motor vehicle and other excise taxes	234,012	-	234,012
User charges	9,946	-	9,946
Ambulance fees	586,491	(234,597)	351,894
Other	8,593	-	8,593
Intergovernmental	72,059	-	72,059
<b>Total</b>	<b>\$ 1,787,793</b>	<b>\$ (234,597)</b>	<b>\$ 1,553,196</b>

Receivables at year-end for the Town's Electric Light Department Enterprise Fund are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<b>Receivables:</b>			
Customer accounts receivable	\$ 1,365,945	\$ (70,324)	\$ 1,295,621
Other accounts receivable	237,529	-	237,529
Unbilled revenue	231,618	-	231,618
Purchased power credits receivable	3,208	-	3,208
<b>Total</b>	<b>\$ 1,838,300</b>	<b>\$ (70,324)</b>	<b>\$ 1,767,976</b>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental	Total
<b>Receivable and other asset types:</b>			
Real estate and personal property taxes	\$ 290,068	\$ -	\$ 290,068
Tax liens and deferrals	260,259	-	260,259
Motor vehicle and other excise taxes	234,012	-	234,012
Community preservation surcharges	-	6,246	6,246
User charges	-	9,946	9,946
Ambulance fees	-	351,894	351,894
Other	1,560	7,033	8,593
Tax foreclosures	468,461	-	468,461
<b>Total</b>	<b>\$ 1,254,360</b>	<b>\$ 375,119</b>	<b>\$ 1,629,479</b>

## C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020 (December 31, 2019 for Electric Light Department) was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 6,583,884	\$ 3,800,000	\$ -	\$ 10,383,884
Construction in process	<u>307,447</u>	<u>287,439</u>	<u>(170,225)</u>	<u>424,661</u>
Total capital assets not being depreciated	<u>6,891,331</u>	<u>4,087,439</u>	<u>(170,225)</u>	<u>10,808,545</u>
Capital assets being depreciated:				
Land improvements	1,957,468	9,525	-	1,966,993
Buildings and improvements	44,683,136	98,451	-	44,781,587
Machinery and equipment	7,389,766	511,107	(128,305)	7,772,568
Infrastructure	<u>30,894,840</u>	<u>849,689</u>	<u>-</u>	<u>31,744,529</u>
Total capital assets being depreciated	<u>84,925,210</u>	<u>1,468,772</u>	<u>(128,305)</u>	<u>86,265,677</u>
Less accumulated depreciation for:				
Land improvements	(1,055,467)	(62,251)	-	(1,117,718)
Buildings and improvements	(15,971,071)	(1,170,596)	-	(17,141,667)
Machinery and equipment	(4,816,940)	(535,961)	128,305	(5,224,596)
Infrastructure	<u>(15,454,981)</u>	<u>(632,277)</u>	<u>-</u>	<u>(16,087,258)</u>
Total accumulated depreciation	<u>(37,298,459)</u>	<u>(2,401,085)</u>	<u>128,305</u>	<u>(39,571,239)</u>
Total capital assets being depreciated, net	<u>47,626,751</u>	<u>(932,313)</u>	<u>-</u>	<u>46,694,438</u>
Total governmental activities capital assets, net	<u>\$ 54,518,082</u>	<u>\$ 3,155,126</u>	<u>\$ (170,225)</u>	<u>\$ 57,502,983</u>
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 2,219,869	\$ -	\$ -	\$ 2,219,869
Capital assets being depreciated:				
Buildings and improvements	1,285,958	-	-	1,285,958
Machinery and equipment	2,652,527	595,149	(131,000)	3,116,676
Infrastructure	<u>18,182,061</u>	<u>668,206</u>	<u>(83,413)</u>	<u>18,766,854</u>
Total capital assets being depreciated	<u>22,120,546</u>	<u>1,263,355</u>	<u>(214,413)</u>	<u>23,169,488</u>
Less accumulated depreciation for:				
Buildings and improvements	(631,397)	(25,719)	-	(657,116)
Machinery and equipment	(1,816,215)	(144,091)	131,000	(1,829,306)
Infrastructure	<u>(9,933,276)</u>	<u>(544,730)</u>	<u>83,413</u>	<u>(10,394,593)</u>
Total accumulated depreciation	<u>(12,380,888)</u>	<u>(714,540)</u>	<u>214,413</u>	<u>(12,881,015)</u>
Total capital assets being depreciated, net	<u>9,739,658</u>	<u>548,815</u>	<u>-</u>	<u>10,288,473</u>
Total business-type activities capital assets, net	<u>\$ 11,959,527</u>	<u>\$ 548,815</u>	<u>\$ -</u>	<u>\$ 12,508,342</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		<b>Business-Type Activities:</b>	
General government	\$ 99,541	Light Department	\$ 714,540
Public safety	307,370		<u>\$ 714,540</u>
Education	964,589		
Public works	819,109		
Health and human services	13,293		
Culture and recreation	197,183		
	<u>\$ 2,401,085</u>		

#### **D. Interfund Receivables, Payables and Transfers**

Interfund transfers for the fiscal year ended June 30, 2020 are summarized as follows:

<u>Transfers Out</u>	<u>Transfers In</u>
	General Fund
Nonmajor Governmental Funds	\$ 733,311 (1)
Electric Light Enterprise Fund	176,100 (1)
<u>Total</u>	<u>\$ 909,411</u>

(1) Transfers to general fund to supplement operating budgets.

#### **E. Temporary Debt**

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

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

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

Temporary notes are general obligations of the Town and generally carry maturity dates of less than one year and are interest bearing and will be paid through future issuance of general obligation bonds.

During the fiscal year, the Town renewed a \$3,745,000 BAN issued in the prior year at 3.0% for the South Main land acquisition and master plan project. The new \$3,745,000 BAN was issued at 1.46% and is due and payable on April 23, 2021.

## F. Long-Term Obligations

The following table reflects the activity in the Town's long-term liability accounts during the fiscal year ended June 30, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 13,840,000	\$ -	\$ (985,000)	\$ 12,855,000	\$ 1,005,000
Unamortized bond premium	286,766	-	(39,195)	247,571	36,496
Direct borrowings and placements	64,898	-	(16,063)	48,835	16,063
Landfill closure	840,000	-	(52,500)	787,500	52,500
Net pension liability	17,695,058	4,116,575	(4,664,295)	17,147,338	-
Net other postemployment benefits liability (a)	19,551,510	3,076,972	(4,691,269)	17,937,213	-
<b>Total Governmental Activities</b>	<b>\$ 52,278,232</b>	<b>\$ 7,193,547</b>	<b>\$ (10,448,322)</b>	<b>\$ 49,023,457</b>	<b>\$ 1,110,059</b>
<i>Business-Type Activities - MELD:</i>					
Compensated absences	\$ 69,697	\$ 11,271	\$ -	\$ 80,968	\$ -
Net pension liability	3,965,220	254,710	-	4,219,930	-
Net other postemployment benefits liability	586,441	-	(105,062)	481,379	-
<b>Total Business-Type Activities</b>	<b>\$ 4,621,358</b>	<b>\$ 265,981</b>	<b>\$ (105,062)</b>	<b>\$ 4,782,277</b>	<b>\$ -</b>

(a) As restated. See note IV.

The governmental activities liabilities will be liquidated by the General Fund. The business-type liabilities will be liquidated by the Electric Light Department Enterprise Fund.

## G. Long-Term Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities and equipment. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations related to personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of five percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a summary of outstanding long-term debt obligations as of June 30, 2020:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.30 - 5.00%	\$ 12,735,000	\$ -	\$ (880,000)	\$ 11,855,000
General Obligation Bonds	2.50 - 3.00%	1,105,000	-	(105,000)	1,000,000
Federal Home Loan Bonds	5.00%	34,600	-	(9,800)	24,800
Massachusetts Clean Water Trust Notes	3.00 - 5.25%	30,298	-	(6,263)	24,035
<b>Total Governmental Activities</b>		<b>13,904,898</b>	<b>-</b>	<b>(1,001,063)</b>	<b>12,903,835</b>
Add: Unamortized bond premium		286,766	-	(39,195)	247,571
<b>Total Governmental Activities, net</b>		<b>\$ 14,191,664</b>	<b>\$ -</b>	<b>\$ (1,040,258)</b>	<b>\$ 13,151,406</b>

Payments on long-term debt due in future years consist of the following:

Year Ending June 30,	<i>Governmental Activities</i>			
	General Obligation Bonds		Direct Borrowings and Placements	
	Principal	Interest	Principal	Interest
2021	\$ 1,005,000	\$ 403,142	\$ 16,063	\$ 1,665
2022	1,030,000	364,647	16,186	909
2023	1,060,000	324,700	11,586	265
2024	1,045,000	284,453	1,000	-
2025	1,070,000	250,253	1,000	-
2026 - 2030	4,950,000	780,753	3,000	-
2031 - 2033	2,695,000	122,925	-	-
Total	<u>\$ 12,855,000</u>	<u>\$ 2,530,873</u>	<u>\$ 48,835</u>	<u>\$ 2,839</u>

The following table summarizes authorized but unissued debt at June 30, 2020:

Project	Amount
<i>Governmental:</i>	
Septic loans	\$ 84,969
South Main Street	3,745,000
Equipment	308,000
Total Authorized and Unissued	<u>\$ 4,137,969</u>

### **III. Other Information**

#### **A. Retirement System**

Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Essex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2019 were issued and may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers MA 01923.

Membership – Membership in the System as of December 31, 2019, was as follows:

Retired participants and beneficiaries receiving benefits	1,930
Inactive participants with a vested right to retirement benefits or entitled to a return of their employee	1,210
Active participants	2,892
Total	<u>6,032</u>

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

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

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

Contributions Requirements – The System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040 (the System’s current funding schedule allows for full funding by June 30, 2035). Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town (including the Light Department) contributed \$1,821,792 to the System in fiscal year 2020, which equaled the actuarially-determined contribution requirement for the year.

Net Pension Liability – At June 30, 2020, the Town reported a liability of \$21,367,268 for its proportionate share of the net pension liability. The net pension liability reported by the System at December 31, 2019 (used for fiscal year end June 30, 2020) is \$21,354,095. The difference between these two figures is attributable to the difference in fiscal year ends between the Town and Light Department, which results in a one-year lag.

The Town’s (excluding the Light Department) net pension liability was measured as of December 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. These figures were updated by the independent actuary as of December 31, 2019. The Light Department’s net pension liability was measured as of December 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. These figures were updated by the independent actuary as of December 31, 2018. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System’s benefit terms since the actuarial valuation.

The Town’s proportion of the net pension liability is based on a projection of the Town’s long-term share of contributions to the System relative to the projected contributions of all employers. The Town’s and Light Department’s proportionate share were approximately 5.068% at December 31, 2019.

Pension Expense – The Town (excluding the Light Department) recognized \$2,125,823 in pension expense in the statement of activities in fiscal year 2020; and the HMLP recognized \$519,623.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the Town (excluding the Light Department) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	\$ -	\$ 639,334
Changes in assumptions	1,713,833	-
Changes in proportion differences	274,565	-
Differences between expected and actual experience	2,354	81,491
Changes in proportion differences	-	415,626
	<hr/>	<hr/>
	<u>\$ 1,990,752</u>	<u>\$ 1,136,451</u>

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

Year Ended June 30,	Amount
2021	\$ 428,541
2022	278,477
2023	253,725
2024	<u>(106,442)</u>
Total	<u>\$ 854,301</u>

At December 31, 2019, the Light Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	\$ 217,047	\$ -
Changes in assumptions	223,723	-
Changes in proportion differences	-	-
Differences between expected and actual experience	-	36,601
Changes in proportion differences	<u>104,853</u>	<u>16,572</u>
	<hr/>	<hr/>
	<u>\$ 545,623</u>	<u>\$ 53,173</u>

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

Year Ended December 31,	Amount
2020	\$ 179,874
2021	130,275
2022	93,821
2023	<u>88,480</u>
 Total	 <u>\$ 492,450</u>

Actuarial Valuation – The measurement of the System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2019. The significant actuarial assumptions used in the January 1, 2019 actuarial valuation included:

Investment rate of return	Full prefunding: 7.3% per year, net of investment expenses
Discount Rate	7.30%
Inflation	2.75%
Salary Increases	7.5% decreasing to 3.75% after 5 years of service
Cost of Living Adjustment	2% of first \$14,000 in 2021 and 3% of first \$14,000 thereafter
Pre-Retirement Mortality	RP-2014 Employee Mortality Table projected generationally with Scale MP 2019
Post-Retirement Mortality	RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP 2019
Disabled Mortality	RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally with Scale MP 2019

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and projected arithmetic real rates of return for each major asset class after deducting inflation, but before investment expenses, are summarized in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity	21.00%	6.15%
International Equity	13.00%	6.78%
International Emerging Markets	5.00%	8.65%
Core fixed income	15.00%	1.11%
High Yield Fixed Income	8.00%	3.51%
Real Estate	10.00%	4.33%
Commodities	4.00%	4.13%
Hedge Fund, GTAA, Risk Parity	11.00%	3.19%
Private Equity	13.00%	9.99%
	<u>100.00%</u>	

**Discount Rate** – The discount rate used to measure the Town’s and Light Department’s pension liability was 7.30% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on those assumptions, the Retirement System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity Analysis** – The following presents the Town’s and Light Department’s proportionate shares of the net pension liability calculated using the current discount rate as well as using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Discount Rate			
	Current Rate	1% lower	Current	1% greater
Town	7.30%	\$ 21,563,832	\$ 17,147,338	\$ 13,434,999
Light Department	7.50%	\$ 5,217,152	\$ 4,219,930	\$ 3,380,946

## B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the Town’s school department participate in the Massachusetts Teachers’ Retirement System (“MTRS”), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth’s legislature has the authority to amend or modify the MTRS’s funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2020, (measured as of June 30, 2019) the Commonwealth contributed \$1,274,394 to the MTRS on behalf of the Town. The Town's proportionate share of the collective MTRS net pension liability at this reporting date was 0.088272%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town's proportionate share of the following (dollar amounts are in thousands):

	Commonwealth Portion	Paid (or assumed) On Behalf of the Town	Town Portion
Net pension liability	\$ 22,256,968	\$ (22,256,968)	\$ —
Pension expense	2,699,044	(2,699,044)	—

The Town recognized \$2,699,044 in intergovernmental revenue and pension expense relative to this arrangement.

### C. Other Postemployment Benefits

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

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

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2020:

Active employees	225
Inactive employees	84
Total	<u>309</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 40% of the set premium for medical; 25% for dental, and 50% for life insurance. The remainder of the cost is funded by general revenues of the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis and also pays 60% of a retiree's Medicare Part B premium. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2020, the Town's average contribution rate was approximately 3.75% of covered payroll.

**Net OPEB Liability** – The Town’s net OPEB liability was measured as of June 30, 2020 using an actuarial valuation as of July 1, 2019. The components of the net OPEB liability of the Town as of June 30, 2020 were as follows:

Total OPEB Liability	\$ 19,306,677
Plan fiduciary net position	<u>(1,369,464)</u>
Net OPEB liability	<u><u>\$ 17,937,213</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.1%

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

Investment rate of return	7.01%, net of OPEB plan investment expense, including inflation.
Municipal bond rate	2.66% as of June 30, 2019
Discount Rate	4.75%, net of OPEB plan investment expense including inflation. Using a blend of the Municipal Bond Index Rate for unfunded periods and the Investment Rate of Return.
Inflation	2.50% annually as of June 30, 2020 and for future periods
Health Care Trend Rate	4.5%
Salary Increases	3.00% annually as of July 1, 2019 and for future periods
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement Mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled Mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Actuarial Cost Method	Individual Entry Age Normal

**Discount Rate** – The discount rate used to measure the total OPEB liability was 4.75%. The only two key changes in assumptions from the prior year was the increase of this discount rate from 4.50% to 4.75% and the decrease in health care trend rate from 5.0% to 4.5%.

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity - Large Cap	14.50%	4.80%
Domestic Equity - Small/Mid Cap	3.50%	5.29%
International Equity - Developed Market	16.00%	5.45%
International Equity - Emerging Market	6.00%	6.42%
Domestic Fixed Income	20.00%	2.05%
International Fixed Income	3.00%	3.00%
Alternatives	23.00%	6.50%
Real Estate	14.00%	6.25%
Cash	0.00%	0.00%
	<u>100.00%</u>	
Real rate of return		5.01%
Inflation assumption		2.50%
Total nominal rate of return		7.51%
Investment expense		-0.50%
Net investment return		<u>7.01%</u>

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

	Current Rate	Discount Rate		
		1% Decrease	At Current Rate	1% Increase
Net OPEB liability	4.75%	\$ 20,850,617	\$ 17,937,213	\$ 15,574,364
Health Care Trend Rate				
Net OPEB liability	4.50%	\$ 15,615,528	\$ 17,937,213	\$ 20,849,302

*Changes in the Net OPEB Liability* – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2020:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2019	\$ 25,729,182	\$ 1,292,921	\$ 24,436,261
Prior period adjustment	(4,884,751)		(4,884,751)
Changes for the year:			
Service cost	785,898	-	785,898
Interest	962,580	-	962,580
Change in assumptions	424,641	-	424,641
Difference between expected and actual experience	(3,226,197)	-	(3,226,197)
Net investment income	-	26,543	(26,543)
Employer contributions	-	534,676	(534,676)
Benefit payments withdrawn from trust	-	(484,676)	484,676
Benefit payments	(484,676)	-	(484,676)
Net changes	<u>(1,537,754)</u>	<u>76,543</u>	<u>(1,614,297)</u>
Balances at June 30, 2020	<u>\$ 19,306,677</u>	<u>\$ 1,369,464</u>	<u>\$ 17,937,213</u>

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB* – For the year ended June 30, 2020, the Town recognized OPEB expense of \$1,507,823. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2020 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	\$ 59,242	\$ 20,022
Changes of Assumptions	1,509,907	-
Differences between actual and expected experience	-	2,836,567
	<u>\$ 1,569,149</u>	<u>\$ 2,856,589</u>

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

June 30,	
2021	\$ (148,298)
2022	(148,296)
2023	(138,286)
2024	(124,575)
2025	(327,761)
thereafter	<u>(400,224)</u>
	<u><u>\$ (1,287,440)</u></u>

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

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

Investment Rate of Return – For the year ended June 30, 2020 the annual money-weighted rate of return on investments, net of investment expense, was 1.99%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Electric Light Department OPEB – Electric Light Department OPEB, which is not material to the overall financial statements, may be reviewed in detail in the Electric Light Department financial statements.

#### **D. Risk Financing**

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

#### **E. Commitments and Contingencies**

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2020, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2020.

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

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

Electric Light Department - MELD is a Town owned utility responsible for the purchase and distribution of electric power throughout the Town of Middleton. MELD has its own Board of Commissioners elected at large by citizenry of the Town of Middleton.

MELD is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop bulk power supply for its Members and other utilities.

MMWEC is authorized to construct, own or purchase ownership interest in, and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has the Nuclear Mix One project, Nuclear Project Three, Nuclear Project Four, Nuclear Project Five and Project Six, which comprise an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. The operating license for Seabrook Station extends to March 15, 2050. The operating license for Millstone Unit 3 extends to November 25, 2045.

On July 19, 2019, MMWEC sold its 3.7% interest in W.F. Wyman Unit No. 4 plant, which is owned and operated by its majority owner, FPL Energy Wyman IV, LLC.

MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). The Department has entered into PSAs with MMWEC. Under the PSAs, the Department is required to make certain payments to MMWEC solely from Department revenues. Among other things, PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project. In addition, should a Project Participant fail to make any payment when due, other Project Participants may be required to increase (step-up) their payments and correspondingly their Participant's share of Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs. Under the PSAs each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

Pursuant to the PSAs, the MMWEC Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. The Seabrook and Millstone Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. Originally enacted in 1957, the Act has been renewed several times. In July, 2005, Congress extended the Act until the end of 2025.

At December 31, 2019, MMWEC has no debt service obligations outstanding relating to the Projects. MMWEC is involved in various legal actions, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

The total capital expenditures and annual capacity, fuel and transmission costs (which include debt service and decommissioning expenses discussed above) associated with the Department's Project Capability of the Projects in which it participates was \$34,784,996 for the year ended December 31, 2019.

The MELD purchases its power through contracts with various power suppliers, including MMWEC. These contracts are subject to certain market factors. Based on current market conditions, the MELD anticipates some stability to its power cost expenses over the next few years.

## **F. Landfill Closure and Post-Closure Care Costs**

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In addition, the Town acquired a parcel of land in fiscal year 2009 that was formerly used as a landfill and is responsible for post-closure testing and monitoring. Finally, the Town acquired another parcel of land that was formerly used as the Town landfill and is also responsible for the post-closure testing and monitoring of the site.

In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring and other post-closure liabilities for these three parcels, \$787,500, has been recorded as a governmental activities' liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

## **G. Implementation of New GASB Pronouncements**

### *Current Year Implementations –*

None

### *Future Implementations –*

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2024). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2024). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The objective of this Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

#### **IV. Restatement**

A prior period restatement was required to increase the governmental activities net position due to a change in the method of treatment for Medicare Part B payments that were reported incorrectly in prior years.

The impact is illustrated in the table below:

	Governmental
Net position at June 30, 2019, as reported	\$ 15,406,585
Error in applying assumptions	4,884,751
	<hr/>
Net position at June 30, 2019, as restated	<hr/> <u>\$ 20,291,336</u>

**TOWN OF MIDDLETON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2020**

---

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

*(dollar amounts are in thousands)*

	Year Ended June 30,				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Town's proportion of the net pension liability (asset)	5.07%	5.22%	5.23%	5.06%	4.93%
Town's proportionate share of the net pension liability (asset)	* \$ 21,354	\$ 22,036	\$ 19,679	\$ 19,507	\$ 17,900
Town's covered payroll	\$ 7,652	\$ 7,695	\$ 7,388	\$ 7,060	\$ 6,129
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	279.1%	286.4%	266.4%	276.3%	292.1%
Plan fiduciary net position as a percentage of the total pension liability	55.5%	51.9%	55.4%	51.1%	51.0%

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN**

*(dollar amounts are in thousands)*

	Year Ended June 30,				
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 1,820	\$ 1,743	\$ 1,628	\$ 1,467	\$ 1,258
Contributions in relation to the actuarially determined contribution	<u>1,822</u>	<u>1,745</u>	<u>1,630</u>	<u>1,468</u>	<u>1,258</u>
Contribution deficiency (excess)	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>	<u>\$ -</u>
Town's covered payroll	\$ 7,652	\$ 7,695	\$ 7,388	\$ 7,060	\$ 6,129
Contributions as a percentage of covered payroll	23.8%	22.7%	22.1%	20.8%	20.5%

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

\* The net pension liability as reported in the basic financial statements differs from this schedule due to the Light Department implementing GASB #68 one year later than the Town.

See accompanying independent auditor's report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2020**

---

**SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY**  
**MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM**  
(*dollar amounts are in thousands*)

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 25,214,020	\$ 23,711,289	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643
Commonwealth's actuarially determined contribution	\$ 1,443,710	\$ 1,314,783	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

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

See accompanying independent auditor's report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**  
**YEAR ENDED JUNE 30, 2020**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**LAST 10 FISCAL YEARS**

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB liability:</b>				
Service cost	\$ 785,898	\$ 1,055,101	\$ 883,961	\$ 845,336
Interest	962,580	1,048,772	1,087,561	1,012,331
Difference between expected and actual plan experience	(3,226,197)	-	302,431	-
Changes of assumptions	424,641	1,682,663	-	-
Benefit payments	(484,676)	(609,902)	(565,578)	(510,717)
Net change in total OPEB liability	(1,537,754)	3,176,634	1,708,375	1,346,950
Total OPEB liability - beginning of year	20,844,431	17,667,797	15,959,422	14,612,472
Total OPEB liability - end of year (a)	<u>\$ 19,306,677</u>	<u>\$ 20,844,431</u>	<u>\$ 17,667,797</u>	<u>\$ 15,959,422</u>
<b>Plan fiduciary net position:</b>				
Contributions - employer	\$ 534,676	\$ 684,902	\$ 615,578	\$ 610,717
Net investment income	26,543	72,264	96,789	109,117
Benefit payments	(484,676)	(609,902)	(565,578)	(510,717)
Net change in Plan fiduciary net position	76,543	147,264	146,789	209,117
Plan fiduciary net position - beginning of year	1,292,921	1,145,657	998,868	789,751
Plan fiduciary net position - end of year (b)	<u>\$ 1,369,464</u>	<u>\$ 1,292,921</u>	<u>\$ 1,145,657</u>	<u>\$ 998,868</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 17,937,213</u>	<u>\$ 19,551,510</u>	<u>\$ 16,522,140</u>	<u>\$ 14,960,554</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.09%	6.20%	6.48%	6.26%
Covered payroll	\$ 14,252,396	\$ 11,055,578	\$ 10,733,570	\$ 10,700,000
Net OPEB liability as a percentage of covered payroll	125.85%	176.85%	153.93%	139.82%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: An error in assumptions was discovered during fiscal year 2020. The error, totalling \$4,884,751, was applied to all periods presented and reduced the net OPEB liability.

See independent auditors' report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**  
**YEAR ENDED JUNE 30, 2020**

---

**SCHEDULE OF CONTRIBUTIONS**  
**LAST 10 FISCAL YEARS**

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Actuarially-determined contribution	\$ 1,868,286	\$ 2,490,680	\$ 2,189,164	\$ 2,033,068
Contributions in relation to the actuarially-determined contribution	<u>(534,676)</u>	<u>(684,902)</u>	<u>(615,578)</u>	<u>(610,717)</u>
Contribution deficiency (excess)	<u><u>\$ 1,333,610</u></u>	<u><u>\$ 1,805,778</u></u>	<u><u>\$ 1,573,586</u></u>	<u><u>\$ 1,422,351</u></u>
Covered payroll	\$14,252,396	\$11,055,578	\$10,733,570	\$ 10,700,000
Contribution as a percentage of covered payroll	3.75%	6.20%	5.74%	5.71%
Valuation Date	July 1, 2019	July 1, 2017	July 1, 2017	July 1, 2017
Amortization Period	30 years	30 years	30 years	30 years
Investment rate of return	7.01%	7.04%	7.04%	7.04%
Municipal Bond Rate	2.66%	2.79%	3.45%	3.16%
Single Equivalent Discount Rate	4.75%	4.50%	5.00%	4.75%
Inflation	2.50%	2.75%	2.75%	2.75%
Healthcare cost trend rates	4.50%	5.00%	5.00%	5.00%
Salary increases	3.00%	3.00%	3.00%	3.00%
Actuarial Cost Method	Individual Entry Age Normal (for all years presented)			
Asset Valuation Method	Market Value of Assets as of Reporting Date (for all years presented)			

**SCHEDULE OF INVESTMENT RETURNS**  
**LAST 10 FISCAL YEARS**

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Annual money-weighted rate of return, net of investment expense	1.99%	6.14%	9.46%	10.92%

Note: These schedules are presented to illustrate the requirement to show information for 10 years.

However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

**TOWN OF MIDDLETON, MASSACHUSETTS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts	Actual	Encumbrances	Actual	Variance	
	Original Budget	Final Budget	Budgetary Amounts	and continuing appropriations	Budgetary Adjusted	Positive (Negative)
<b>REVENUES</b>						
Real estate and personal property taxes, net	\$29,997,858	\$30,134,858	\$ 30,031,543	\$30,031,543	\$ (103,315)	
Intergovernmental	2,410,059	2,410,059	2,370,778	2,370,778	(39,281)	
Motor vehicle and other excises	2,395,000	2,395,000	2,388,365	2,388,365	(6,635)	
Payments in lieu of taxes	130,000	130,000	139,096	139,096	9,096	
License and permits	500,000	500,000	595,093	595,093	95,093	
Departmental and other revenue	539,044	539,044	588,098	588,098	49,054	
Penalties and interest on taxes	90,000	90,000	121,012	121,012	31,012	
Fines and forfeitures	12,000	12,000	13,269	13,269	1,269	
Investment income	80,000	80,000	100,811	100,811	20,811	
<b>Total Revenues</b>	<b>36,153,961</b>	<b>36,290,961</b>	<b>36,348,065</b>	<b>\$ -</b>	<b>36,348,065</b>	<b>57,104</b>
<b>EXPENDITURES</b>						
General government	2,454,987	2,503,861	1,891,774	319,076	2,210,850	293,011
Public safety	4,528,952	4,847,953	4,505,395	35,280	4,540,675	307,278
Education	24,577,466	24,577,466	23,797,757	557,872	24,355,629	221,837
Public works	2,103,808	2,130,433	1,876,183	121,716	1,997,899	132,534
Health and human services	549,683	549,683	465,872	5,250	471,122	78,561
Culture and recreation	626,314	626,314	588,008	-	588,008	38,306
Pension and employee benefits	2,506,142	2,543,642	2,356,809	9,670	2,366,479	177,163
State and county tax assessments	338,391	338,391	330,070	-	330,070	8,321
Debt service	1,481,095	1,481,095	1,439,571	-	1,439,571	41,524
<b>Total Expenditures</b>	<b>39,166,838</b>	<b>39,598,838</b>	<b>37,251,439</b>	<b>1,048,864</b>	<b>38,300,303</b>	<b>1,298,535</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	971,408	971,408	971,411	-	971,411	3
Transfers out	(150,000)	(915,000)	(915,000)	-	(915,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>821,408</b>	<b>56,408</b>	<b>56,411</b>	<b>\$ -</b>	<b>\$ 56,411</b>	<b>3</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE</b>						
	<b>(2,191,469)</b>	<b>(3,251,469)</b>	<b>\$ (846,963)</b>			<b>\$1,355,642</b>
Other Budgetary Items:						
Undesignated surplus (free cash)	1,053,762	2,113,762				
Overlay surplus	199,027	199,027				
Prior year encumbrances	938,680	938,680				
<b>Net Budget</b>	<b>\$ -</b>	<b>\$ -</b>				

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

## TOWN OF MIDDLETON, MASSACHUSETTS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

---

#### I. Budgetary Basis of Accounting

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

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During the fiscal year, Town Meeting increased appropriations approximately \$1.2 million. The increases were primarily for public safety purposes (\$319k) and stabilization transfers (\$765k).

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2020, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 36,348,065
Stabilization revenue	\$ -	\$ 48,225	48,225
Change in revenue recognition	320,119	-	320,119
On behalf payments	2,699,044	-	2,699,044
Revenues on a GAAP basis	<u>\$ 3,019,163</u>	<u>\$ 48,225</u>	<u>\$ 39,415,453</u>
Expenditures on a budgetary basis			\$ 37,251,439
Change in expenditure recognition	\$ 14,847	\$ -	14,847
On behalf payments	2,699,044	-	2,699,044
Expenditures on a GAAP basis	<u>\$ 2,713,891</u>	<u>\$ -</u>	<u>\$ 39,965,330</u>
Other financing sources (uses) on a budgetary basis			\$ 56,411
Stabilization transfers, net	\$ -	\$ 853,000	853,000
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ 853,000</u>	<u>\$ 909,411</u>



## ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park

Suite 4900

Woburn, MA 01801

Telephone: (781) 933-0073

[www.roselliclark.com](http://www.roselliclark.com)

### INDEPENDENT AUDITORS' 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*

The Honorable Members of the Board of Selectmen  
Town of Middleton, Massachusetts

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, 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 (except for the Middleton Electric Light Department "the Light Department", which is as of December 31, 2019) and have issued our report thereon September 16, 2020.

We did not audit the financial statements of the Light Department, a Town Department reported as an enterprise fund and part of the Town's business-type funds. The Light Department represents 100% of each of the assets, net position, and operating revenues of the Town's business-type activities. The accompanying financial statements do not include all disclosures for the Light Department, as required by generally accepted accounting principles. Such information can be found in separately issued financial statements for the year-ended December 31, 2019, which was audited by the other auditors.

#### **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) to determine the 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 of 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 determination of financial statement amounts. 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.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
September 16, 2020