

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF SALISBURY, MASSACHUSETTS

Report on Examination of the
Basic Financial Statements
and Additional Information Year
Ended June 30, 2020



TOWN OF SALISBURY, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Salisbury, 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 Salisbury, Massachusetts, (the "Town") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's 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 of 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 auditor's judgment, including the assessment of those 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 purposes 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 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.

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 our report dated December 23, 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 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
Certified Public Accountants
Woburn, Massachusetts 01801
December 23, 2020

Management's Discussion and Analysis

As the management of the Town of Salisbury, 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. 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 listed in the table of contents.

Financial Highlights

- The Town's 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 \$42.9 million (*total net position*). This represents an increase of approximately \$1.0 million from the prior year. The Town's net position in its governmental activities increased over \$0.5 million while its net position in its business-type activities increased approximately \$0.5 million.
- The Town continues to report a deficit in its unrestricted net position in its governmental activities. This deficit exceeded \$17.7 million at June 30, 2020. This deficit is due primarily to the recording of liabilities associated with the net OPEB and pension liabilities, which totaled almost \$28.4 million at June 30, 2020 in the aggregate. These liabilities are applied to the Town's unrestricted net position and represent actuarial estimates of future postemployment benefits payable by the Town for retiree medical insurance and pensions.
- The Town's Unassigned Fund Balance reported in the General Fund was over \$3.2 million (or approximately 11.9% of General Fund expenditures), this is available for spending at the government's discretion. The total fund balance in the General Fund was approximately \$3.8 million (or approximately 14.0% of General Fund expenditures). The Town also operates one major fund in addition to the General Fund; the fund set up to account for the future construction of the Town's Welcome Center has a restricted fund balance of almost \$0.2 million. The Town's aggregate Nonmajor funds include restricted balances of over \$1.5 million, unassigned deficits (to be funded from subsequent year grant receipts) of over \$0.2 million, committed fund balance of over \$0.1 million and a small portion classified as nonspendable as corpus of endowment of \$51,000.
- The Town's total long-term debt increased by almost \$4.8 million during the fiscal year as a result of new debt issuance exceeding regular scheduled maturities.
- The COVID-19 pandemic and its associated public/private enterprise shutdowns affected the Town in a variety of ways. The Town recognized that its revenue from sources such as recreation programs, property taxes, permits and other department revenues would not trend as anticipated.
- The Town received notice from the Commonwealth that it is entitled to approximately \$836,000 through the Federal Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act funds are restricted in their use; these funds can only be used for direct expenses related to COVID-19 and cannot be used as "revenue replacement" or other similar, unrestricted purposes.

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, deferred outflows of financial resources and liabilities and deferred inflows of financial resources, with the difference between the two groups 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 vacation leave.)

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, public works, education, community development, health and human services, culture and recreation, fringe benefits, and interest expense. The business-type activities of the Town include water and sewer enterprise funds.

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.

Governmental funds 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.

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

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

Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and Welcome Center Fund which are presented as major funds. Data from the other governmental funds are combined into a single, aggregated presentation entitled Nonmajor Funds.

The Town adopts an annual legally appropriated budget for its General Fund and both its Water and Sewer Enterprise Funds. 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 after the footnotes to the financial statements.

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 water and sewer activities.

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.

Government-wide Financial Analysis

The condensed comparative statements of net position for the two most recent years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<u>Assets</u>						
Current and other assets	\$ 8,691,659	\$ 7,124,779	\$ 16,738,134	\$ 15,518,208	\$ 25,429,793	\$ 22,642,987
Capital assets, net	40,448,648	39,887,001	38,143,315	37,267,136	78,591,963	77,154,137
Total assets	49,140,307	47,011,780	54,881,449	52,785,344	104,021,756	99,797,124
<u>Deferred Outflows of Resources</u>	5,868,081	3,352,133	716,271	441,741	6,584,352	3,793,874
<u>Liabilities</u>						
Long-term liabilities	41,563,883	38,040,569	19,527,846	13,960,110	61,091,729	52,000,679
Other liabilities	1,501,234	735,232	2,192,765	5,866,450	3,693,999	6,601,682
Total liabilities	43,065,117	38,775,801	21,720,611	19,826,560	64,785,728	58,602,361
<u>Deferred Inflows of Resources</u>	2,612,612	2,762,198	297,222	300,345	2,909,834	3,062,543
<u>Net Position</u>						
Net investment in capital assets	25,183,968	25,309,833	23,647,131	23,505,211	48,831,099	48,815,044
Restricted	1,893,286	1,947,222	1,314,861	1,314,861	3,208,147	3,262,083
Unrestricted	(17,746,595)	(18,431,141)	8,617,895	8,280,108	(9,128,700)	(10,151,033)
Total Net Position	\$ 9,330,659	\$ 8,825,914	\$ 33,579,887	\$ 33,100,180	\$ 42,910,546	\$ 41,926,094

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's 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 \$42.9 million (*total net position*). This reflects an increase from the preceding year of almost \$1.0 million which was split evenly between net position of both governmental activities and business-type activities as revenues exceeded expenses in both.

By far the largest portion (\$48.8 million) of the Town's 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 portion of the Town's net position (about \$3.2 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* is in deficit by approximately \$9.1 million. This is primarily the result of reporting related to net pension and net OPEB liabilities required under GASB 68 and GASB 75. The recognition of these liabilities had a significant negative impact on the Town's net position that is expected to continue into the foreseeable future.

The condensed comparative statements of activities for the two most recent fiscal years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 2,261,741	\$ 1,929,707	\$ 4,873,094	\$ 5,348,249	\$ 7,134,835	\$ 7,277,956
Operating grants and contributions	1,525,522	1,127,257	-	-	1,525,522	1,127,257
Capital grants and contributions	282,500	1,273,832	116,345	96,591	398,845	1,370,423
General revenues:						
Property taxes	22,515,507	21,593,651	-	-	22,515,507	21,593,651
Intergovernmental	1,037,542	973,614	-	-	1,037,542	973,614
Other	2,668,015	2,260,394	166,578	108,629	2,834,593	2,369,023
Total Revenues	30,290,827	29,158,455	5,156,017	5,553,469	35,446,844	34,711,924
<u>Expenses</u>						
General government	3,090,926	2,760,082	-	-	3,090,926	2,760,082
Public safety	8,926,850	8,102,651	-	-	8,926,850	8,102,651
Education	13,468,250	12,816,685	-	-	13,468,250	12,816,685
Public works	1,570,116	1,611,771	-	-	1,570,116	1,611,771
Health and human services	820,584	706,900	-	-	820,584	706,900
Culture and recreation	856,655	886,483	-	-	856,655	886,483
Community development	713,906	528,933	-	-	713,906	528,933
Interest expense	358,795	388,491	-	-	358,795	388,491
Water	-	-	2,133,628	2,132,040	2,133,628	2,132,040
Sewer	-	-	2,522,682	2,396,199	2,522,682	2,396,199
Total Expenses	29,806,082	27,801,996	4,656,310	4,528,239	34,462,392	32,330,235
Increase in net position before transfers	484,745	1,356,459	499,707	1,025,230	984,452	2,381,689
Transfers	20,000	20,000	(20,000)	(20,000)	-	-
Change in net position	504,745	1,376,459	479,707	1,005,230	984,452	2,381,689
Net position, beginning of year	8,825,914	7,449,455	33,100,180	32,094,950	41,926,094	39,544,405
Net position, end of year	<u>\$ 9,330,659</u>	<u>\$ 8,825,914</u>	<u>\$ 33,579,887</u>	<u>\$ 33,100,180</u>	<u>\$ 42,910,546</u>	<u>\$ 41,926,094</u>

Governmental Activities – Total revenues in fiscal year 2020 in the Town’s governmental activities increased over \$1.1 million from the prior year. The Town’s largest revenue source is property taxes, which represent approximately 74.3% and 74.1% of total fiscal year 2020 and 2019 revenues, respectively. In Massachusetts, a Town is allowed to assess taxes at an amount that is 2 ½% greater than the prior year plus new growth as well as assessed amounts allowed as part of a debt exclusion or override. The act is more commonly referred to as proposition 2 ½. Thus, the Town experienced an increase in property taxes that was expected. Property taxes increased over \$0.9 million or 4.3% in 2020 due to Prop 2 ½. No other revenue sources exceeded 10% of total revenues in either fiscal year 2020 or 2019.

Education represents the largest expense category for the Town and is provided through the Triton Regional School District. In total, education expenses represent approximately 45.2% and 46.1% of total fiscal year 2020 and 2019 expenses, respectively. In terms of gross dollars education expenses increased almost \$0.7 million in fiscal year 2020, which reflected the increase in the Town’s assessment for its regional school district. The District assesses the Town a portion of the total cost of providing education services to its students. This is typically assessed as a ratio based on school enrollment. Overall education costs continue to rise, especially benefits. Other major expenses were for general government and public safety which comprised about 10.4% and 30.0%, respectively, of total expenses; these ratios were consistent with the prior year. No other expenses exceeded 10% of total expenses in either fiscal year 2020 or 2019.

Business-type Activities. The primary revenue sources for both water and sewer activities are comprised of usage fees for metered services and system connections which represented approximately 94.5% of total revenues. Business-type revenues decreased approximately \$0.5 million from the prior year.

Water and sewer expenses represented 100% of total business-type expenses. Of the total expenses, approximately 63.5% pertains to direct operational costs with the remaining costs represented by debt service (approximately 7.5%) and current year depreciation (approximately 29.1%).

Financial Analysis of the Government's Funds

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. The Town presents a General Fund, Welcome Center Fund, and combined Nonmajor Funds.

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 over \$3.2 million, while total fund balance was approximately \$3.8 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 11.9% of total General Fund expenditures, while total fund balance represents approximately 14.0% of that same amount. The general fund balance increased by over \$0.8 million as conservative budget management led to unspent appropriations over \$0.9 million.

The Town maintains a Welcome Center Fund which was created to account for the construction of a Welcome/Visitors' Center with public restroom facilities at Salisbury Beach. The current year fund balance of about \$0.2 million represents a decrease of \$0.3 million from the prior year due to expenditures exceeding revenues by that amount.

The nature of Nonmajor Funds is the accumulation of resources through intergovernmental grants, user charges or contributions. These resources are typically restricted for specific purposes and over time are exhausted by their intended use and net to zero. Any residual balances at any one particular point in time or during the course of the year is merely the result of timing of revenues and expenditures; therefore, annual surpluses or deficits are not overly meaningful.

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 Water Fund was over \$7.3 million; and net position of the Sewer Fund amounted to nearly \$26.3 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were minor (less than 3.0%). The schedule of budgetary information is provided as *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 \$78.6 million (net of accumulated depreciation).

This investment in capital assets includes land, construction in process, buildings and improvements, infrastructure, machinery, equipment and vehicles and reflects a net increase of over \$1.4 million, as a result of over \$4.2 million of capital asset additions offset by over \$2.8 million of depreciation.

The Town has undergone significant capital improvements over the past several years. These include major improvements to its town hall, roads, and recreational facilities, the construction of a new library and police station, and the expansion of its wastewater treatment system and a water tank replacement. A significant portion of these improvements were funded by grants from the Federal government and the Commonwealth of Massachusetts.

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

Long-term Debt - At the end of the current fiscal year, the Town had total debt outstanding of approximately \$29.5 million. The Town's total long-term debt increased by approximately \$4.8 million during the fiscal year as new debt issuance exceeded regular scheduled maturities.

The last bond rating received by the Town was an "AA" as set by S&P for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total equalized valuation. The current debt limitation for the Town is over \$100.2 million, which is significantly in excess of the Town's outstanding general obligation debt.

The Town is also responsible for a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

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

Economic Factors and Next Year's Budgets and Rates

- The COVID-19 pandemic has had a catastrophic impact nationwide. With much of the country under lockdown measures during the 4th quarter, the impacts have caused significant reductions in revenue and thus an adverse impact on operations. The Town survived fiscal 2020 due to a strong first three quarters and conservative revenue estimates. However, future impacts are uncertain and thus the Town has taken a very conservative approach in estimating revenues for fiscal year 2021.
- 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 employments rates the hardest.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2020 represent approximately 82.2% of the entire property tax levy. The Town relies to a certain extent on its commercial, industrial, and personal property real estate tax base which comprise the remainder of the 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. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.
- Local housing prices have stabilized in recent years and are now rising. The Town expects housing prices to continue to remain stable in 2021.

- The Town anticipates state aid for 2021 to remain consistent with the prior year as the State has guaranteed aid to be level funded.

The above items were considered when the Town developed its budget for fiscal year 2021 which was approved at its Annual Town Meeting. The Town's tax rate was certified by the Department of Revenue on December 15, 2020.

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 requests for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 5 Beach Road, Salisbury, Massachusetts 01952.

TOWN OF SALISBURY, MASSACHUSETTS

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

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,210,052	\$ 14,151,425	\$ 19,361,477
Investments	1,132,428	-	1,132,428
Receivables (net):			
Property taxes	959,377	-	959,377
Excise taxes	179,122	-	179,122
User fees	-	1,117,219	1,117,219
Betterments	-	1,469,490	1,469,490
Intergovernmental	342,793	-	342,793
Tax foreclosures	867,887	-	867,887
Capital assets, not being depreciated	4,795,364	5,192,677	9,988,041
Capital assets, net of accumulated depreciation	35,653,284	32,950,638	68,603,922
Total Assets	49,140,307	54,881,449	104,021,756
Deferred Outflows of Resources			
Related to net other postemployment benefits liability	2,566,330	271,589	2,837,919
Related to net pension liability	3,301,751	444,682	3,746,433
Total Deferred Outflows of Resources	5,868,081	716,271	6,584,352
Liabilities			
Warrants and accounts payable	874,739	264,405	1,139,144
Accrued payroll and withholdings	541,585	15,827	557,412
Accrued interest expense	-	216,533	216,533
Other liabilities	20,410	-	20,410
Bond anticipation notes	64,500	1,696,000	1,760,500
Noncurrent liabilities:			
Due within one year	1,299,302	1,170,640	2,469,942
Due in more than one year	40,264,581	18,357,206	58,621,787
Total Liabilities	43,065,117	21,720,611	64,785,728
Deferred Inflows of Resources			
Related to net other postemployment benefits liability	1,893,947	200,432	2,094,379
Related to net pension liability	718,665	96,790	815,455
Total Deferred Inflows of Resources	2,612,612	297,222	2,909,834
Net Position			
Net investment in capital assets	25,183,968	23,647,131	48,831,099
Restricted:			
Nonexpendable permanent funds	51,000	-	51,000
Expendable permanent funds	212,887	-	212,887
Federal and State grants	116,792	-	116,792
Other purposes	1,512,607	1,314,861	2,827,468
Unrestricted	(17,746,595)	8,617,895	(9,128,700)
Total Net Position	\$ 9,330,659	\$ 33,579,887	\$ 42,910,546

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
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
Primary government:							
Governmental activities:							
General government	\$ 3,090,926	\$ 751,234	\$ 107,842	\$ 676	\$ (2,231,174)		\$ (2,231,174)
Public safety	8,926,850	1,315,655	203,999	-	(7,407,196)		(7,407,196)
Education	13,468,250	-	14,383	-	(13,453,867)		(13,453,867)
Public works	1,570,116	71,321	213,049	252,615	(1,033,131)		(1,033,131)
Health and human services	820,584	85,801	385,901	-	(348,882)		(348,882)
Culture and recreation	856,655	15,276	21,667	29,209	(790,503)		(790,503)
Community development	713,906	22,454	578,681	-	(112,771)		(112,771)
Interest expense	358,795	-	-	-	(358,795)		(358,795)
Total governmental activities	29,806,082	2,261,741	1,525,522	282,500	(25,736,319)		(25,736,319)
Business-type activities:							
Water	2,133,628	2,652,285	-	-		\$ 518,657	518,657
Sewer	2,522,682	2,220,809	-	116,345		(185,528)	(185,528)
Total business-type activities	4,656,310	4,873,094	-	116,345		333,129	333,129
Total Primary Government	<u>\$ 34,462,392</u>	<u>\$ 7,134,835</u>	<u>\$ 1,525,522</u>	<u>\$ 398,845</u>	<u>(25,736,319)</u>	<u>333,129</u>	<u>(25,403,190)</u>
<u>General Revenues:</u>							
Property taxes					22,515,507	-	22,515,507
Grants and contributions not restricted to specific programs					1,037,542	-	1,037,542
Motor vehicle and other excise					2,531,652	-	2,531,652
Penalties and interest on taxes					58,639	-	58,639
Unrestricted investment income					77,724	166,578	244,302
Transfers (net)					20,000	(20,000)	-
Total general revenues					26,241,064	146,578	26,387,642
Change in Net Position					504,745	479,707	984,452
<u>Net Position:</u>							
Beginning of year					8,825,914	33,100,180	41,926,094
End of year					<u>\$ 9,330,659</u>	<u>\$ 33,579,887</u>	<u>\$ 42,910,546</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

	<u>General Fund</u>	<u>Welcome Center</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 3,336,664	\$ 245,330	\$ 1,628,058	\$ 5,210,052
Investments	819,351	-	313,077	1,132,428
Receivables:				
Property taxes	959,377	-	-	959,377
Excise taxes	179,122	-	-	179,122
Intergovernmental	93,240	-	249,553	342,793
Tax foreclosures	867,887	-	-	867,887
Total Assets	<u>6,255,641</u>	<u>245,330</u>	<u>2,190,688</u>	<u>8,691,659</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 6,255,641</u></u>	<u><u>\$ 245,330</u></u>	<u><u>\$ 2,190,688</u></u>	<u><u>\$ 8,691,659</u></u>
Liabilities				
Warrants and accounts payable	\$ 203,311	\$ 58,790	\$ 612,638	\$ 874,739
Accrued payroll and withholdings	510,272	-	31,313	541,585
Bond anticipation notes	-	-	64,500	64,500
Other liabilities	20,386	-	24	20,410
Total Liabilities	<u>733,969</u>	<u>58,790</u>	<u>708,475</u>	<u>1,501,234</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	694,995	-	-	694,995
Unavailable revenue - excise taxes	179,122	-	-	179,122
Unavailable revenue - other	867,887	-	-	867,887
Total Deferred Inflows of Resources	<u>1,742,004</u>	<u>-</u>	<u>-</u>	<u>1,742,004</u>
Fund Balances				
Nonspendable	-	-	51,000	51,000
Restricted	-	186,540	1,537,975	1,724,515
Committed	545,512	-	117,771	663,283
Assigned	16,571	-	-	16,571
Unassigned	3,217,585	-	(224,533)	2,993,052
Total Fund Balances	<u>3,779,668</u>	<u>186,540</u>	<u>1,482,213</u>	<u>5,448,421</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u><u>\$ 6,255,641</u></u>	<u><u>\$ 245,330</u></u>	<u><u>\$ 2,190,688</u></u>	<u><u>\$ 8,691,659</u></u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

Total Governmental Fund Balances	\$ 5,448,421
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	40,448,648
Other long-term assets are not available to pay for current period expenditures and, therefore are reported as unavailable revenue in the funds.	1,742,004
Deferred outflows and (inflows) of resources to be recognized in future pension and benefits expense are not available resources and, therefore, are not reported in the funds:	
Deferred outflows related to net other postemployment benefits liability	2,566,330
Deferred outflows related to net pension liability	3,301,751
Deferred inflows related to net other postemployment benefits liability	(1,893,947)
Deferred inflows related to net pension liability	(718,665)
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	(13,517,000)
Unamortized bond premium	(1,065,511)
Capital lease obligations	(698,512)
Post-closing landfill monitoring costs	(164,500)
Compensated absences	(873,326)
Net other postemployment benefits liability	(8,912,557)
Net pension liability	<u>(16,332,477)</u>
Net Position of Governmental Activities	<u>\$ 9,330,659</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

	General Fund	Welcome Center	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 22,429,775	\$ -	\$ -	\$ 22,429,775
Intergovernmental	1,317,145	52,432	1,461,369	2,830,946
Excise taxes	2,476,006	-	20,787	2,496,793
Licenses and permits	408,411	-	-	408,411
Departmental and other revenue	1,014,176	-	698,636	1,712,812
Penalties and interest on taxes	58,639	-	-	58,639
Fines and forfeitures	140,518	-	-	140,518
Investment income	70,310	-	7,414	77,724
Contributions and donations	-	3,500	37,432	40,932
Total Revenues	<u>27,914,980</u>	<u>55,932</u>	<u>2,225,638</u>	<u>30,196,550</u>
Expenditures:				
Current:				
General government	1,725,339	-	454,556	2,179,895
Public safety	5,404,217	-	453,428	5,857,645
Education	13,463,774	-	-	13,463,774
Public works	1,276,492	368,646	923,942	2,569,080
Health and human services	461,819	-	199,472	661,291
Culture and recreation	461,579	-	73,461	535,040
Community development	-	-	639,437	639,437
Fringe and pension benefits	2,817,827	-	-	2,817,827
State and county tax assessments	147,932	-	-	147,932
Debt service:				
Principal	832,849	-	-	832,849
Interest	497,601	-	-	497,601
Total Expenditures	<u>27,089,429</u>	<u>368,646</u>	<u>2,744,296</u>	<u>30,202,371</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>825,551</u>	<u>(312,714)</u>	<u>(518,658)</u>	<u>(5,821)</u>
Other Financing Sources (Uses):				
Transfers in	106,987	-	122,500	229,487
Transfers out	(102,500)	-	(106,987)	(209,487)
Issuance of long-term debt	-	-	422,000	422,000
Capital leases	-	-	270,422	270,422
Total Other Financing Sources (Uses)	<u>4,487</u>	<u>-</u>	<u>707,935</u>	<u>712,422</u>
Net Change in Fund Balances	830,038	(312,714)	189,277	706,601
Fund Balances - Beginning	<u>2,949,630</u>	<u>499,254</u>	<u>1,292,936</u>	<u>4,741,820</u>
Fund Balances - Ending	<u>\$ 3,779,668</u>	<u>\$ 186,540</u>	<u>\$ 1,482,213</u>	<u>\$ 5,448,421</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 706,601**

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	\$ 2,010,443	
Depreciation expense	(1,448,796)	
Net effect of reporting capital assets		561,647

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 amount presented here as a reconciling item represents the following differences:

Repayments of debt principal	832,849	
Issuance of bonds and notes	(422,000)	
Additions to capital lease obligations	(270,422)	
Payments of minimum capital lease principal obligations	178,799	
Amortization of bond and note premiums	138,806	
Net effect of reporting long-term debt		458,032

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

The amount presented represents the difference in unavailable revenue. 94,277

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:

Post-closing landfill monitoring costs	20,000	
Other postemployment benefits	(289,365)	
Pension benefits	(1,046,447)	
Net effect of reporting long-term liabilities		(1,315,812)

Change in Net Position of Governmental Activities **\$ 504,745**

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,409,635	\$ 10,741,790	\$ 14,151,425
Receivables, net:			
User charges	427,702	689,517	1,117,219
Betterments	-	51,279	51,279
Total current assets	<u>3,837,337</u>	<u>11,482,586</u>	<u>15,319,923</u>
Noncurrent assets:			
Receivables, net:			
Betterments	-	1,418,211	1,418,211
Land	369,002	1,383,999	1,753,001
Construction in progress	125,143	3,314,533	3,439,676
Capital assets, net of depreciation	14,261,580	18,689,058	32,950,638
Total noncurrent assets	<u>14,755,725</u>	<u>24,805,801</u>	<u>39,561,526</u>
Total Assets	<u>18,593,062</u>	<u>36,288,387</u>	<u>54,881,449</u>
Deferred Outflows of Resources			
Related to net other postemployment benefits liability	-	271,589	271,589
Related to net pension liability	86,262	358,420	444,682
Total Deferred Outflows of Resources	<u>86,262</u>	<u>630,009</u>	<u>716,271</u>
Liabilities			
Current liabilities:			
Warrants and accounts payable	71,705	192,700	264,405
Accrued payroll and withholdings	-	15,827	15,827
Accrued interest expense	134,249	82,284	216,533
Bond anticipation notes payable	636,000	1,060,000	1,696,000
Bonds and notes payable	749,284	405,000	1,154,284
Compensated absences	-	16,356	16,356
Total current liabilities	<u>1,591,238</u>	<u>1,772,167</u>	<u>3,363,405</u>
Noncurrent liabilities:			
Bonds and notes payable	9,340,274	5,825,000	15,165,274
Compensated absences	-	49,067	49,067
Net other postemployment benefits liability	-	943,196	943,196
Net pension liability	426,703	1,772,966	2,199,669
Total noncurrent liabilities	<u>9,766,977</u>	<u>8,590,229</u>	<u>18,357,206</u>
Total Liabilities	<u>11,358,215</u>	<u>10,362,396</u>	<u>21,720,611</u>
Deferred Inflows of Resources			
Related to net other postemployment benefits liability	-	200,432	200,432
Related to net pension liability	18,776	78,014	96,790
Total Deferred Inflows of Resources	<u>18,776</u>	<u>278,446</u>	<u>297,222</u>
Net Position			
Net investment in capital assets	4,652,339	18,994,792	23,647,131
Restricted for debt service	-	1,314,861	1,314,861
Unrestricted	2,649,994	5,967,901	8,617,895
Total Net Position	<u>\$ 7,302,333</u>	<u>\$ 26,277,554</u>	<u>\$ 33,579,887</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
Operating Revenues:			
Charges for services	\$ 2,440,354	\$ 2,169,359	\$ 4,609,713
Access fees	211,931	51,450	263,381
Total Operating Revenues	<u>2,652,285</u>	<u>2,220,809</u>	<u>4,873,094</u>
Operating Expenses:			
Operating costs	1,444,708	1,509,686	2,954,394
Depreciation	486,843	866,940	1,353,783
Total Operating Expenses	<u>1,931,551</u>	<u>2,376,626</u>	<u>4,308,177</u>
Operating Income (Loss)	<u>720,734</u>	<u>(155,817)</u>	<u>564,917</u>
Nonoperating Revenues (Expenses):			
Interest income	43,341	123,237	166,578
Interest expense	(202,077)	(146,056)	(348,133)
Total Nonoperating Revenues (Expenses)	<u>(158,736)</u>	<u>(22,819)</u>	<u>(181,555)</u>
Income Before Capital Contributions and Transfers	<u>561,998</u>	<u>(178,636)</u>	<u>383,362</u>
Betterments	-	116,345	116,345
Transfers out	-	(20,000)	(20,000)
Change in Net Position	<u>561,998</u>	<u>(82,291)</u>	<u>479,707</u>
Total Net Position - Beginning	<u>6,740,335</u>	<u>26,359,845</u>	<u>33,100,180</u>
Total Net Position - Ending	<u>\$ 7,302,333</u>	<u>\$ 26,277,554</u>	<u>\$ 33,579,887</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

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

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from users	\$ 2,623,462	\$ 2,200,358	\$ 4,823,820
Payments to employees	-	(688,687)	(688,687)
Payments to vendors	(1,455,256)	(597,277)	(2,052,533)
Net Cash Provided By Operating Activities	1,168,206	914,394	2,082,600
Cash Flows from Noncapital Related Financing Activities:			
Net transfers	-	(20,000)	(20,000)
Net Cash (Used In) Noncapital Financing Activities	-	(20,000)	(20,000)
Cash Flows from Capital and Related Financing Activities:			
Issuances of bonds and other long-term notes	2,009,000	4,090,000	6,099,000
Issuance of bond anticipation notes	636,000	1,060,000	1,696,000
Payment of bond anticipation notes	(2,680,000)	(2,675,000)	(5,355,000)
Premiums from issuance of bonds and notes	(76,636)	-	(76,636)
Receipts from betterments	-	399,653	399,653
Acquisition and construction of capital assets	(474,067)	(1,755,895)	(2,229,962)
Principal payments on bonds and other long-term notes	(583,840)	(320,000)	(903,840)
Interest expense	(232,405)	(172,028)	(404,433)
Net Cash (Used In) Provided By Capital and Related Financing Activities	(1,401,948)	626,730	(775,218)
Cash Flows from Investing Activities:			
Interest income	43,341	123,237	166,578
Net Cash Provided By Investing Activities	43,341	123,237	166,578
Net Change in Cash and Cash Equivalents	(190,401)	1,644,361	1,453,960
Cash and Cash Equivalents:			
Beginning of year	\$ 3,600,036	9,097,429	12,697,465
End of year	\$ 3,409,635	\$ 10,741,790	\$ 14,151,425
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities:			
Operating income	\$ 720,734	\$ (155,817)	\$ 564,917
Depreciation expense	486,843	866,940	1,353,783
Changes in assets and deferred outflows and liabilities and deferred inflows:			
Receivables	(28,823)	(20,451)	(49,274)
Deferred outflows of resources	(7,491)	(267,039)	(274,530)
Deferred inflows of resources	11,507	-	11,507
Accounts payable, accrued expenses and other liabilities	(14,564)	490,761	476,197
Net Cash Provided By Operating Activities	\$ 1,168,206	\$ 914,394	\$ 2,082,600

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2020

	Affordable Housing Trust	Other Postemployment Benefits Trust	Agency Funds
Assets			
Cash and cash equivalents	\$ 130,606	\$ -	\$ 45,041
Investments	735,160	-	-
Money market mutual funds	-	1,674	-
Fixed income mutual funds	-	98,712	-
Equity mutual funds	-	229,774	-
Notes receivable	335,000	-	-
	<u>1,200,766</u>	<u>330,160</u>	<u>45,041</u>
Total Assets	<u>1,200,766</u>	<u>330,160</u>	<u>45,041</u>
Liabilities			
Warrants and accounts payable	350	-	1,690
Planning and performance bonds	-	-	43,351
	<u>350</u>	<u>-</u>	<u>43,351</u>
Total Liabilities	<u>350</u>	<u>-</u>	<u><u>\$ 45,041</u></u>
Net Position			
Held in trust for affordable housing purposes	1,200,416	-	
Restricted for other postemployment benefits	-	330,160	
	<u>-</u>	<u>330,160</u>	
Total Net Position	<u><u>\$ 1,200,416</u></u>	<u><u>\$ 330,160</u></u>	

See accompanying notes to basic financial statements.

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TOWN OF SALISBURY, MASSACHUSETTS

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

	Affordable Housing Trust	Other Postemployment Benefits Trust
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employer	\$ -	\$ 343,204
Other	114,839	-
	<u>114,839</u>	<u>-</u>
Total contributions	<u>114,839</u>	<u>343,204</u>
Investment income:		
Interest, dividends, realized gains/losses	17,331	8,274
Net investment earnings	17,331	8,274
	<u>17,331</u>	<u>8,274</u>
Total Additions	<u>132,170</u>	<u>351,478</u>
Deductions:		
Benefit payments	-	293,204
Public housing assistance	19,295	-
	<u>19,295</u>	<u>-</u>
Total Deductions	<u>19,295</u>	<u>293,204</u>
Change in Net Position	112,875	58,274
Net Position - Beginning	<u>1,087,541</u>	<u>271,886</u>
Net Position - Ending	<u><u>\$ 1,200,416</u></u>	<u><u>\$ 330,160</u></u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

I. Summary of Significant Accounting Policies

The basic financial statements of 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 in Essex County, approximately 40 miles north of Boston. The Town is bordered on its northern side by the State of New Hampshire and on its eastern side by the Atlantic Ocean. The Town was incorporated in 1638. The governing structure utilizes an open town meeting forum, with an elected five-member Board of Selectmen, and an appointed Town Manager who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12 through a regional school district, water and sewer services, street maintenance, and parks and recreational facilities. The water and sewer services are funded almost entirely with user charges and are provided via connections to Town owned 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 Triton Regional School District that provides educational services to three 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 \$12,819,205. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained from the District's administrative office located at 112 Elm Street, Byfield, MA 01922.

Approximately \$610,000 and \$34,866 was also paid to the Whittier Regional School District and the Essex North Shore Agricultural and Technical School, respectively. Both are technical high schools that service a much smaller portion of the Town's student population.

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. 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 have been 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*.

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

The Town considers property tax revenues to be available if they are 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 recognized as revenue at that time.

The Town applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the Town; 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 of Massachusetts (the “Commonwealth”).

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.

Welcome Center Fund – Accounts for all the activity associated with the construction of a Welcome/Visitors’ Center and public restrooms facility at Salisbury Beach.

Nonmajor Governmental Funds - consist of other special revenue 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.

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

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, assessments, 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:

Water Enterprise Fund – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed, or recovered primarily through user charges.

Sewer Enterprise Fund – is used to account for the operation of the sewer department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed, or recovered primarily through user charges.

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.

Affordable Housing Trust Fund – is used to account for funds held in trust for affordable housing purposes.

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future payments of other postemployment benefits, or OPEB, for retirees, such as health and life insurance.

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 for the Town are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of its 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 at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and sewer user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectibles for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectibles comprised of those outstanding amounts greater than five years old.

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.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g., roads, water and 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. Net 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 \$5,000 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	40 years
Machinery and equipment	5-7 years
Vehicles	5-10 years
Infrastructure	25-50 years

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

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 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 financial resources. This separate financial statement element 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 changes in the net other postemployment benefit liability. The deferred pensions and OPEB items will be recognized in pension expense and benefits expense in future years as more fully described in Note III Subsections A and C.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of financial resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that are reported on the government-wide statement of net position which relate to inflows from changes in the net pension liability and the net other postemployment benefit liability. The deferred pensions and OPEB items will be recognized in pension and benefits expense in future years as more fully described in Note III Subsections A and C. The Town also reports one type of item that arises under a modified accrual basis of accounting which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from three sources: (1) property taxes, (2) excise taxes, and (3) other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

Nonexpendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Expendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Federal and State grants represent position that have restrictions placed on them from federal and state granting agencies.

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

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

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

Nonspendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid) or (b) legally or contractually required to be maintained intact such as the corpus of an 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 formal action of the Town Meeting through Town Meeting Votes, which represent the most binding constraint that give rise to committed fund balance. 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 they are neither restricted nor committed. The Board of Selectmen has by ordinance authorized the Finance Director to assign fund balance. The Town Meeting may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$819,350 at June 30, 2020 and is reported as unassigned fund balance in the General Fund.

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 Finance Director 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 \$545,512 of encumbrances from Town Meeting votes in the general fund as committed. The Town also reports \$16,571 of encumbrances approved by the Finance Director from normal purchasing activity as assigned. There are no encumbrances reported in the other funds.

The following represent the categorizations of fund balance:

	General	Welcome Center Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 51,000	\$ 51,000
Restricted:				
General government	-	-	460,959	460,959
Public safety	-	-	330,862	330,862
Public works	-	186,540	283,243	469,783
Health and human services	-	-	222,284	222,284
Culture and recreation	-	-	136,494	136,494
Community development	-	-	104,133	104,133
Committed:				
General government	327,321	-	-	327,321
Public safety	180,890	-	-	180,890
Public works	20,000	-	-	20,000
Health and human services	17,301	-	-	17,301
Pension and fringe benefits	-	-	117,771	117,771
Assigned:				
General government	12,781	-	-	12,781
Public safety	2,790	-	-	2,790
Pension and fringe benefits	1,000	-	-	1,000
Unassigned	3,217,585	-	(224,533)	2,993,052
Totals	\$ 3,779,668	\$ 186,540	\$ 1,482,213	\$ 5,448,421

E. Excess of Expenditures Over Appropriations and Deficits

The Town incurred deficits in its Nonmajor Governmental funds in the aggregate amount of \$224,533. These deficits will be funded through future grant reimbursements.

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. 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.

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 year-end, the carrying amount of the Town's deposits was \$21,734,872 and the bank balance was \$19,697,313. Of the Town's bank balance, \$13,653,603 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town does maintain an investment policy for custodial credit risk relative to investment holdings. All securities not held directly the Town will be held in the Town's name and tax identification number by a third-party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The Town's investments in negotiable certificates of deposit are fully covered by federal depository insurance.

Fair Value of Investments – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors). The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

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

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

Investments	Fair Value Total	Time Until Maturity			
		< 1 Year	1 - 5 Years	6 - 10 Years	> 10 Years
Corp. Fixed Income Securities	\$ 761,997	\$ 148,352	\$ 613,645	\$ -	\$ -
Government Obligations	610,678	219,253	341,247	50,178	-
Fixed Income Mutual Funds	98,712	16,492	69,343	12,877	-
Certificates of Deposit	288,711	-	288,711	-	-
Total investments with maturities	1,760,098	\$ 384,097	\$ 1,312,946	\$ 63,055	\$ -
Other Investments:					
Equities	84,349				
Equity Mutual Funds	229,775				
Money Market Mutual Funds	123,526				
Total investment without maturities	437,650				
Total Investments	<u>\$ 2,197,748</u>				

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

Concentration of Credit Risk – The Town does not place a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town did not maintain balances in any single investment that would represent more than 5% of the Town's total investments.

Credit Risk – The Town has not adopted a formal policy related to credit risk. During the fiscal year, the Town limited its investments to money market accounts and bank deposits.

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

		Fair Value Measurements Using		
	Totals	Level 1	Level 2	Level 3
<u>Investments by fair value level</u>				
Debt securities:				
U.S. Government obligations	\$ 610,678	\$ 397,622	\$ 213,056	\$ -
Corporate bonds	761,997	-	761,997	-
Fixed income mutual funds	98,712	-	98,712	-
Negotiable certificates of deposit	288,711	-	288,711	-
Total debt securities	1,760,098	397,622	1,362,476	-
Equity securities:				
Common stock	84,349	84,349	-	-
Equity mutual funds	229,775	-	229,775	-
Total equity securities	314,124	84,349	229,775	-
Total investments by fair value level	2,074,222	\$ 481,971	\$ 1,592,251	\$ -
<u>Investments measured at amortized cost</u>				
Money market mutual funds	123,526			
Total investments measured at fair value	\$ 2,197,748			

At June 30, 2020, the credit quality ratings of investments were as follows:

Bond Ratings	Corporate Fixed Income	Government Obligations	Fixed Income Mutual Funds	Certificate of Deposit
Aaa	\$ -	\$ 610,678	\$ -	\$ -
Aa2	67,709	-	-	-
Aa3	-	-	-	-
A1	279,953	-	-	-
A2	102,612	-	-	-
A3	118,067	-	-	-
Baa1	88,448	-	-	-
Baa2	105,208	-	-	-
Not rated	-	-	98,712	288,711
	<u>\$ 761,997</u>	<u>\$ 610,678</u>	<u>\$ 98,712</u>	<u>\$ 288,711</u>

B. Receivables

Receivables as of year-end 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
Receivables and other asset type:			
Real estate and personal property taxes	\$ 585,411	\$ (146,148)	\$ 439,263
Tax deferrals	70,484	-	70,484
Tax liens	449,630	-	449,630
Excise taxes	179,122	-	179,122
Intergovernmental	342,793	-	342,793
Tax foreclosures	867,887	-	867,887
Total	<u>\$ 2,495,327</u>	<u>\$ (146,148)</u>	<u>\$ 2,349,179</u>

Receivables as of year-end for the Town's proprietary funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user fees	\$ 426,294	\$ -	\$ 426,294
Water liens	1,408	-	1,408
Sewer user fees	683,510	-	683,510
Sewer liens	6,007	-	6,007
Sewer betterments - apportioned	51,279	-	51,279
Sewer betterments - unapportioned	1,418,211	-	1,418,211
Total	<u>\$ 2,586,709</u>	<u>\$ -</u>	<u>\$ 2,586,709</u>

Unapportioned sewer betterments are amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

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

	General Fund	Nonmajor Governmental Funds	Total
Receivables and other asset type:			
Real estate and personal property taxes	\$ 174,881	\$ -	\$ 174,881
Tax deferrals	70,484	-	70,484
Tax liens	449,630	-	449,630
Excise taxes	179,122	-	179,122
Tax foreclosures	867,887	-	867,887
Total	<u>\$ 1,742,004</u>	<u>\$ -</u>	<u>\$ 1,742,004</u>

C. Capital Assets

Capital asset activity of the Town for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,818,550	\$ -	\$ -	\$ 2,818,550
Construction in process	1,300,609	1,222,833	(546,628)	1,976,814
Total capital assets not being depreciated	<u>4,119,159</u>	<u>1,222,833</u>	<u>(546,628)</u>	<u>4,795,364</u>
Capital assets being depreciated:				
Buildings and improvements	23,122,934	-	-	23,122,934
Land improvements	1,233,984	-	-	1,233,984
Infrastructure	17,874,215	793,897	-	18,668,112
Machinery and equipment	3,525,937	131,785	-	3,657,722
Vehicles	3,518,803	408,556	-	3,927,359
Total capital assets being depreciated	<u>49,275,873</u>	<u>1,334,238</u>	<u>-</u>	<u>50,610,111</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,362,482)	(548,631)	-	(3,911,113)
Land improvements	(77,124)	(30,850)	-	(107,974)
Infrastructure	(5,685,532)	(358,177)	-	(6,043,709)
Machinery and equipment	(1,707,058)	(302,159)	-	(2,009,217)
Vehicles	(2,675,834)	(208,980)	-	(2,884,814)
Total accumulated depreciation	<u>(13,508,030)</u>	<u>(1,448,797)</u>	<u>-</u>	<u>(14,956,827)</u>
Total capital assets being depreciated, net	<u>35,767,843</u>	<u>(114,559)</u>	<u>-</u>	<u>35,653,284</u>
Governmental activities capital assets, net	<u>\$ 39,887,002</u>	<u>\$ 1,108,274</u>	<u>\$ (546,628)</u>	<u>\$ 40,448,648</u>

As of July 1, 2020, the Town began utilizing a land improvements classification within the above presentation. The reclassification of certain assets resulted in some categorical beginning balance changes; however, the governmental activities capital assets, net amount remained unchanged.

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business Activities - All:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,753,001	\$ -	\$ -	\$ 1,753,001
Construction in process	3,826,236	1,738,264	(2,124,824)	3,439,676
Total capital assets not being depreciated	5,579,237	1,738,264	(2,124,824)	5,192,677
Capital assets being depreciated:				
Buildings and improvements	39,100	-	-	39,100
Infrastructure	58,708,467	2,616,522	-	61,324,989
Machinery and equipment	1,109,080	-	-	1,109,080
Vehicles	287,082	-	-	287,082
Total capital assets being depreciated	60,143,729	2,616,522	-	62,760,251
Less accumulated depreciation for:				
Buildings and improvements	(6,953)	(1,263)	-	(8,216)
Infrastructure	(27,534,366)	(1,274,498)	-	(28,808,864)
Machinery and equipment	(674,668)	(62,283)	-	(736,951)
Vehicles	(239,843)	(15,739)	-	(255,582)
Total accumulated depreciation	(28,455,830)	(1,353,783)	-	(29,809,613)
Total capital assets being depreciated, net	31,687,899	1,262,739	-	32,950,638
Business activities capital assets, net	<u>\$ 37,267,136</u>	<u>\$ 3,001,003</u>	<u>\$ (2,124,824)</u>	<u>\$ 38,143,315</u>
<u><i>Business-type Activities: Water</i></u>				
Capital assets not being depreciated:				
Land	\$ 369,002	\$ -	\$ -	\$ 369,002
Construction in process	2,124,824	125,143	(2,124,824)	125,143
Total capital assets not being depreciated	2,493,826	125,143	(2,124,824)	494,145
Capital assets being depreciated:				
Infrastructure	18,049,733	2,473,748	-	20,523,481
Machinery and equipment	622,748	-	-	622,748
Total capital assets being depreciated	18,672,481	2,473,748	-	21,146,229
Less accumulated depreciation for:				
Infrastructure	(5,912,720)	(456,172)	-	(6,368,892)
Machinery and equipment	(485,086)	(30,671)	-	(515,757)
Total accumulated depreciation	(6,397,806)	(486,843)	-	(6,884,649)
Total Water capital assets being depreciated, net	12,274,675	1,986,905	-	14,261,580

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities: Sewer</u>				
Capital assets not being depreciated:				
Land	1,383,999	-	-	1,383,999
Construction in process	1,701,412	1,613,121	-	3,314,533
Total capital assets not being depreciated	3,085,411	1,613,121	-	4,698,532
Capital assets being depreciated:				
Buildings	39,100	-	-	39,100
Infrastructure	40,658,734	142,774	-	40,801,508
Machinery and equipment	486,332	-	-	486,332
Vehicles	287,082	-	-	287,082
Total capital assets being depreciated	41,471,248	142,774	-	41,614,022
Less accumulated depreciation for:				
Buildings	(6,953)	(1,263)	-	(8,216)
Infrastructure	(21,621,646)	(818,326)	-	(22,439,972)
Machinery and equipment	(189,582)	(31,612)	-	(221,194)
Vehicles	(239,843)	(15,739)	-	(255,582)
Total accumulated depreciation	(22,058,024)	(866,940)	-	(22,924,964)
Total Sewer capital assets being depreciated, net	19,413,224	(724,166)	-	18,689,058
Total Business-type activities - capital assets, net	\$ 37,267,136	\$ 3,001,003	\$ (2,124,824)	\$ 38,143,315
Depreciation expense was charged to functions/programs as follows:				
<u>Governmental Activities:</u>		<u>Business-Type Activities:</u>		
General government	\$ 104,414	Water	\$ 486,843	
Public safety	660,573	Sewer	866,940	
Public works	441,649	Total Business-Type Activities	\$ 1,353,783	
Culture and recreation	242,161			
Total Governmental Activities	\$ 1,448,797			

D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In		
	General Fund	Nonmajor Funds	Total
General Fund	\$ -	\$ 102,500	\$ 102,500 (1)
Nonmajor Governmental Funds	106,987	-	106,987 (2)
Sewer Enterprise Fund	-	20,000	20,000 (3)
Total	<u>\$ 106,987</u>	<u>\$ 122,500</u>	<u>\$ 229,487</u>

(1) Transfer to nonmajor funds to supplement capital projects and other activities.

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

(3) Transfers to nonmajor funds to fund compensated absence reserve.

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 (TANS).

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 and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively. Temporary notes outstanding at June 30, 2020, are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
BAN	3.00%	Matured	\$ 153,000	\$ -	\$ (153,000)	\$ -
BAN	2.00%	09/11/20	-	64,500	-	64,500
Total Governmental Notes			<u>153,000</u>	<u>64,500</u>	<u>(153,000)</u>	<u>64,500</u>
BAN	3.00%	Matured	2,680,000	-	(2,680,000)	-
BAN	2.00%	09/11/20	-	636,000	-	636,000
Total Business-Type Notes - Water			<u>2,680,000</u>	<u>636,000</u>	<u>(2,680,000)</u>	<u>636,000</u>
BAN	3.00%	Matured	2,675,000	-	(2,675,000)	-
BAN	2.00%	09/11/20	-	1,060,000	-	1,060,000
Total Business-Type Notes - Sewer			<u>2,675,000</u>	<u>1,060,000</u>	<u>(2,675,000)</u>	<u>1,060,000</u>
Total Business-Type Notes - All			<u>5,355,000</u>	<u>1,696,000</u>	<u>(5,355,000)</u>	<u>1,696,000</u>
Total Notes Payable			<u>\$ 5,508,000</u>	<u>\$ 1,760,500</u>	<u>\$ (5,508,000)</u>	<u>\$ 1,760,500</u>

Temporary notes outstanding at year end were issued for park land improvements (\$64,500), water well project (\$636,000), wastewater treatment facility (\$410,000), and Lafayette road sewer planning (\$650,000).

F. Long-Term Obligations

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

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 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 reflects the activity in the long-term liabilities for the year ended June 30, 2020:

	Beginning Balance	Additions	Deductions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$ 13,840,000	\$ 422,000	\$ (745,000)	\$ 13,517,000	\$ 757,000
Notes from direct borrowings and placements	87,849	-	(87,849)	-	-
Unamortized bond premium	1,204,317	-	(138,806)	1,065,511	129,202
Capital lease obligations	606,889	270,422	(178,799)	698,512	174,769
Post-closure landfill monitoring	184,500	-	(20,000)	164,500	20,000
Compensated absences	873,326	218,332	(218,332)	873,326	218,331
Other postemployment benefits	5,803,935	5,312,930	(2,204,308)	8,912,557	-
Net pension liability	15,439,753	5,740,477	(4,847,753)	16,332,477	-
Total Governmental Activities	\$ 38,040,569	\$ 11,964,161	\$ (8,440,847)	\$ 41,563,883	\$ 1,299,302
Business-type Activities: Water					
Bond and note indebtedness	\$ 6,765,000	\$ 863,000	\$ (470,000)	\$ 7,158,000	\$ 528,000
Notes from direct borrowings and placements	1,542,563	1,146,000	(113,840)	2,574,723	151,961
Unamortized bond premium	433,471	-	(76,636)	356,835	69,323
Net pension liability	403,379	149,976	(126,652)	426,703	-
Total Business-type Activities: Water	9,144,413	2,158,976	(787,128)	10,516,261	749,284
Business-type Activities: Sewer					
Bond and note indebtedness	2,460,000	4,090,000	(320,000)	6,230,000	405,000
Compensated absences	65,423	16,536	(16,536)	65,423	16,356
Other postemployment benefits	614,217	562,254	(233,275)	943,196	-
Net pension liability	1,676,057	623,156	(526,247)	1,772,966	-
Total Business-type Activities: Sewer	4,815,697	5,291,946	(1,096,058)	9,011,585	421,356
Total Business-type Activities: All	\$ 13,960,110	\$ 7,450,922	\$ (1,883,186)	\$ 19,527,846	\$ 1,170,640

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the respective business-type funds.

Below is a summary of outstanding long-term debt obligations for the year ended June 30, 2020:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
<i><u>Governmental Activities:</u></i>					
General Obligation Bonds	2.0 - 5.0%	\$ 13,840,000	\$ 422,000	\$ (745,000)	\$ 13,517,000
MCWT Note Payable	Varies	87,849	-	(87,849)	-
Total Governmental Bond and Note Indebtedness		13,927,849	422,000	(832,849)	13,517,000
<i><u>Business-type Activities - Water</u></i>					
General Obligation Bonds	2.0 - 5.0%	-	863,000	-	863,000
General Obligation Refunding Bonds	3.5 - 5.0%	6,765,000	-	(470,000)	6,295,000
MCWT Note Payable	2.0%	1,542,563	-	(113,840)	1,428,723
USDA Loan	1.5%	-	1,146,000	-	1,146,000
Total Water Bond and Note Indebtedness		8,307,563	2,009,000	(583,840)	9,732,723
<i><u>Business-type Activities - Sewer</u></i>					
General Obligation Bonds	3.0 - 4.0%	2,340,000	4,090,000	(200,000)	6,230,000
General Obligation Refunding Bonds	3.5 - 4.0%	120,000	-	(120,000)	-
Total Sewer Bond and Note Indebtedness		2,460,000	4,090,000	(320,000)	6,230,000
Total Business-type Bond and Note Indebtedness		10,767,563	6,099,000	(903,840)	15,962,723
Total Long-Term Bond and Note Indebtedness - All		\$ 24,695,412	\$ 6,521,000	\$ (1,736,689)	\$ 29,479,723

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

<i><u>Governmental Activities - Total Bond and Note Indebtedness</u></i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2021	\$ 757,000	\$ -	\$ 757,000	\$ 467,357	\$ -	\$ 467,357	\$ 1,224,357
2022	800,000	-	800,000	441,310	-	441,310	1,241,310
2023	805,000	-	805,000	403,735	-	403,735	1,208,735
2024	810,000	-	810,000	373,385	-	373,385	1,183,385
2025	815,000	-	815,000	342,885	-	342,885	1,157,885
2026-2030	3,975,000	-	3,975,000	1,197,525	-	1,197,525	5,172,525
2031-2035	3,695,000	-	3,695,000	533,261	-	533,261	4,228,261
2036-2040	1,860,000	-	1,860,000	77,387	-	77,387	1,937,387
Total	\$ 13,517,000	\$ -	\$ 13,517,000	\$ 3,836,845	\$ -	\$ 3,836,845	\$ 17,353,845
<i><u>Business-type Activities: Water - Bond and Note Indebtedness</u></i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2021	\$ 528,000	\$ 151,961	\$ 679,961	\$ 193,383	\$ 44,654	\$ 238,037	\$ 917,998
2022	550,000	154,315	704,315	188,850	41,772	230,622	934,937
2023	565,000	156,718	721,718	166,100	38,845	204,945	926,663
2024	585,000	159,168	744,168	142,650	35,864	178,514	922,682
2025	610,000	161,668	771,668	118,300	32,836	151,136	922,804
2026-2030	3,265,000	847,662	4,112,662	299,650	116,956	416,606	4,529,268
2031-2035	855,000	334,426	1,189,426	38,750	55,875	94,625	1,284,051
2036-2040	200,000	179,065	379,065	12,000	40,288	52,288	431,353
2041-2045	-	179,065	179,065	-	26,859	26,859	205,924
2046-2050	-	179,065	179,065	-	13,429	13,429	192,494
2051-2052	-	71,610	71,610	-	1,611	1,611	73,221
Total	\$ 7,158,000	\$ 2,574,723	\$ 9,732,723	\$ 1,159,683	\$ 448,989	\$ 1,608,672	\$ 11,341,395

<i>Business-type Activities: Sewer - Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2021	\$ 405,000	\$ -	\$ 405,000	\$ 143,299	\$ -	\$ 143,299	\$ 548,299
2022	405,000	-	405,000	206,650	-	206,650	611,650
2023	405,000	-	405,000	188,400	-	188,400	593,400
2024	405,000	-	405,000	170,150	-	170,150	575,150
2025	400,000	-	400,000	152,000	-	152,000	552,000
2026-2030	1,980,000	-	1,980,000	490,850	-	490,850	2,470,850
2031-2035	1,215,000	-	1,215,000	166,800	-	166,800	1,381,800
2036-2040	1,015,000	-	1,015,000	60,600	-	60,600	1,075,600
Total	<u>\$ 6,230,000</u>	<u>\$ -</u>	<u>\$ 6,230,000</u>	<u>\$ 1,578,749</u>	<u>\$ -</u>	<u>\$ 1,578,749</u>	<u>\$ 7,808,749</u>

<i>Business-type Activities - Total Bond and Note Indebtedness</i>							
Year Ending June 30	Principal			Interest			Grand Total
	GO Bonds	Direct	Total	GO Bonds	Direct	Total	
2021	\$ 933,000	\$ 151,961	\$ 1,084,961	\$ 336,682	\$ 44,654	\$ 381,336	\$ 1,466,297
2022	955,000	154,315	1,109,315	395,500	41,772	437,272	1,546,587
2023	970,000	156,718	1,126,718	354,500	38,845	393,345	1,520,063
2024	990,000	159,168	1,149,168	312,800	35,864	348,664	1,497,832
2025	1,010,000	161,668	1,171,668	270,300	32,836	303,136	1,474,804
2026-2030	5,245,000	847,662	6,092,662	790,500	116,956	907,456	7,000,118
2031-2035	2,070,000	334,426	2,404,426	205,550	55,875	261,425	2,665,851
2036-2040	1,215,000	179,065	1,394,065	72,600	40,288	112,888	1,506,953
2041-2045	-	179,065	179,065	-	26,859	26,859	205,924
2046-2050	-	179,065	179,065	-	13,429	13,429	192,494
2051-2052	-	71,610	71,610	-	1,611	1,611	73,221
Total	<u>\$ 13,388,000</u>	<u>\$ 2,574,723</u>	<u>\$ 15,962,723</u>	<u>\$ 2,738,432</u>	<u>\$ 448,989</u>	<u>\$ 3,187,421</u>	<u>\$ 19,150,144</u>

Authorized and Unissued Debt – At June 30, 2020, the Town carried authorized and unissued debt as follows:

Project	Amount
Water DWS-07-09	\$ 62,838
Town Creek Culvert	152,292
Energy Conservation	68,585
Police Station Construction	300,000
Park Land Improvements	157,000
Partridge Brook Park Phase II	700,000
Rail Trail Extension	40,819
Lafayette Road Sewer System	16,000,000
Beach Visitor Center	5,200,000
Bridge Rd Water Main	3,000,000
Ring's Island Flood Mitigation	486,750
Total authorized and unissued	<u>\$ 26,168,284</u>

The current debt limitation for the Town is over \$100.2 million, which is significantly in excess of the Town's outstanding general obligation debt.

G. Capital Leases

The Town has entered into non-cancelable leases for the purchase of a car and three trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

Assets presently in use by the Town having been acquired through capital leases are as follows:

Asset	Governmental Activities
Police Interceptor	\$ 42,131
Fire Pumper Truck	498,799
DPW Dump Truck	182,220
Fire Pumper Truck	222,600
Police Truck	57,682
DPW Dump Truck	212,740
Less: accumulated depreciation	(326,069)
Total	<u>\$ 890,103</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2020, are as follows:

Fiscal Year Ended June 30,	Governmental Activities
2021	\$ 197,857
2022	158,928
2023	158,929
2024	95,534
2025	95,534
2026	57,368
Total minimum lease payments	764,150
Less: amounts representing interest	(65,638)
Present value of minimum lease payments	<u>\$ 698,512</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 contributions	1,210
Active participants	<u>2,892</u>
Total	<u><u>6,032</u></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 contributed \$1,579,792 to the System in fiscal year 2020, which was the actuarially determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 25.39% in fiscal year 2020.

Net Pension Liability – At June 30, 2020, the Town reported a liability of \$18,532,146 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. These figures were updated by the independent actuary as of December 31, 2019. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 4.399% at December 31, 2019.

Pension Expense – The Town recognized \$2,767,175 in pension expense in the statement of activities in fiscal year 2020.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the Town 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	\$ -	\$ 690,966
Changes in assumptions	1,852,242	-
Changes in proportion differences	1,891,648	36,417
Differences between expected and actual experience	2,543	88,072
	<u>\$ 3,746,433</u>	<u>\$ 815,455</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	\$ 1,035,378
2022	849,520
2023	871,128
2024	174,952
Total	<u>\$ 2,930,978</u>

Discount Rate – The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed plan member contributions 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.

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, 2020. The significant actuarial assumptions used in the January 1, 2020 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 Retiree 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 Developed Markets Equity	13.00%	6.78%
International Emerging Markets Equity	5.00%	8.65%
Core Fixed Income	15.00%	1.11%
High Yield Fixed Income	8.00%	3.51%
Real Estate	10.00%	4.33%
Commodities	4.00%	4.13%
Hedge Fund, GTAA, Risk Parity	11.00%	3.19%
Private Equity	13.00%	9.99%
	<u>100.00%</u>	

Sensitivity Analysis – The following presents the Town’s proportionate share 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
Net Pension Liability	7.30%	\$ 23,305,313	\$ 18,532,146	\$ 14,520,001

B. 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.

C. Other Postemployment Benefits (OPEB)

The Town administers a single-employer defined benefit healthcare plan (the “OPEB Plan”). The OPEB Plan provides health 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 a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements.

With respect to OPEB plan reporting, GASB issued GASB Statement No.’s 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No, 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Reporting requirements for governments who administer an OPEB plan as defined under the accounting standard are required to present disclosures under both GASB 74 and GASB 75.

GASB 74 requires specific disclosures and required supplementary information that relate directly to the fiduciary fund in which the OPEB Plan is recorded. GASB 75 address disclosures related to the net OPEB liability required to be recorded by the government in its applicable financial statements. A number of these disclosures are identical, especially if the measurement date under GASB 75 is the same as the plan year-end date. When a different measurement date is used different assumptions and calculations will result.

For the year-ended June 30, 2020 the Town elected to use a measurement date that was the same as the plan year-end date thus the majority of the same disclosures are used and will not be repeated.

GASB Statement No. 75

OPEB Plan disclosures that impact the Town’s net OPEB liability using a measurement date of June 30, 2020 are summarized as follows:

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

Active employees	84
Retirees and beneficiaries	67
Total	<u>151</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of premiums for both health and life insurance benefits. 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. 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 5.52% 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 at June 30, 2020 were as follows:

Total OPEB Liability	\$ 10,185,913
Plan fiduciary net position	<u>(330,160)</u>
	-
Net OPEB liability	<u>\$ 9,855,753</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.24%

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	6.65% per year, net of investment expenses
Municipal bond rate	2.66% as of June 30, 2020
Discount Rate	4.75%, net of OPEB plan investment expense including inflation.
Inflation	2.50% annually as of June 30, 2020 and for future periods
Health Care Trend Rate	4.5%
Salary Increases	3.0% annually as of June 30, 2020 and for future periods
Cost of Living Adjustment	Not applicable
Pre-Retirement Mortality	RP-2014 Blue Collar Employees Mortality Table with Scale MP-2016, fully generational
Post-Retirement Mortality	RP-2014 Blue Collar Healthy Annuitants Mortality Table with Scale MP-2016, fully generational
Disabled Mortality	RP-2014 Mortality Table for Blue Collar Healthy Annuitants, fully generational
Actuarial Cost Method	Individual Entry Age Normal

Discount Rate – The discount rate used to measure the total OPEB liability was 4.75%. There were no key changes in assumptions from the prior valuation.

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	21.25%	4.80%
Domestic Equity - Small/Mid Cap	19.25%	5.29%
International Equity - Developed market	12.50%	5.45%
International Equity - Emerging Market	8.00%	6.42%
Domestic Fixed Income	27.00%	2.05%
International Fixed Income	3.75%	3.00%
Alternatives	7.75%	6.50%
Real Estate	0.00%	6.25%
Cash	0.50%	0.00%
	<u>100.00%</u>	
Real rate of return		4.40%
Inflation assumption		2.50%
Total nominal rate of return		6.90%
Investment expense		0.25%
Net investment return		<u>6.65%</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:

	Discount Rate			
	Current Rate	1% lower	Current	1% greater
Net OPEB Liability	4.75%	\$ 11,563,056	\$ 9,855,753	\$ 8,493,555

	Health Care Rate			
	Current Rate	1% lower	Current	1% greater
Net OPEB Liability	4.50%	\$ 8,333,449	\$ 9,855,753	\$ 11,811,298

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	\$ 6,690,039	\$ 271,886	\$ 6,418,153
Changes for the year:			
Service cost	265,435	-	265,435
Interest	510,864	-	510,864
Difference between expected and actual experience	592,860	-	592,860
Change in assumptions	2,419,919	-	2,419,919
Net investment income	-	8,274	(8,274)
Employer contributions	-	343,204	(343,204)
Benefit payments withdrawn from trust	-	(293,204)	293,204
Benefit payments	(293,204)	-	(293,204)
Net changes	3,495,874	58,274	3,437,600
Balances at June 30, 2020	<u>\$ 10,185,913</u>	<u>\$ 330,160</u>	<u>\$ 9,855,753</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 \$2,374,073. 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 experience	\$ 775,759	\$ -
Differences between expected and actual earnings	17,422	-
Changes in assumptions	2,044,738	2,094,379
	<u>\$ 2,837,919</u>	<u>\$ 2,094,379</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:

Year Ended June 30,	Amount
2021	\$ (93,390)
2022	(94,417)
2023	(96,296)
2024	350,349
2025	467,097
Thereafter	210,197
Total	<u>\$ 743,540</u>

GASB Statement No. 74

OPEB Plan disclosures that impact the Town's net OPEB liability using a reporting date of June 30, 2020 are summarized in this section except disclosures under GASB 74 that are identical to GASB 75 are not repeated.

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 positive 3.04%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Tax Abatements

The Town enters into property tax abatements with local businesses as an incentive for economic growth, including expansion of current facilities and job opportunities for local residents. The agreements are commonly referred to as tax increment financing, or TIF, agreements. Under Massachusetts General Law Chapter 40, Section 59, property owners may be granted property tax abatements of up to 100% of the value of a tax increment for a maximum term of twenty years provided the property is located in a TIF zone. TIF zones are approved by the Massachusetts Economic Assistance Coordinating Council. Furthermore, the Town Meeting must approve all TIF agreements.

For the fiscal year ended June 30, 2020, the Town did not abate any property taxes under this program.

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 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.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these taxpayers, if any.

Furthermore, the Town cannot determine the likelihood of the taxpayers' success at the ATB. Therefore, no such loss provision has been made in the Town's basic financial statements.

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.

COVID-19 – In March 2020, the World Health Organization declared the breakout of the novel coronavirus ("COVID-19") a pandemic. This pandemic has caused travel restrictions, business closures and disruptions to municipal operations, negatively affecting the Town's financial condition in a variety of ways. While this disruption is currently believed to be temporary, there is uncertainty around its duration.

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 accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$164,500 has been recorded as a liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations. Debt related to closure activities was issued in the form of bonds and has been presented as bonded debt in the Governmental Funds.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementations –

None

B. 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. 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 for and reported. 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. 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. 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 obligations, among other matters. 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, 2020 (fiscal year 2021) for using the Libor as a benchmark and for periods ending after December 31, 2021 (fiscal 2022) for all other aspects of this pronouncement. 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 2023). 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 2023). 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.

TOWN OF SALISBURY, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS - UNAUDITED
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,					
	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	4.399%	4.147%	3.767%	3.737%	3.549%	3.657%
Town's proportionate share of the net pension liability	\$ 18,532	\$ 17,519	\$ 14,180	\$ 14,398	\$ 12,895	\$ 12,408
Town's covered payroll	\$ 6,221	\$ 5,717	\$ 5,495	\$ 4,885	\$ 4,756	\$ 4,576
Town's proportionate share of the net pension liability as a percentage of its covered payroll	297.9%	306.4%	258.1%	294.7%	271.1%	271.2%
Plan fiduciary net position as a percentage of the total pension liability	55.46%	51.89%	55.40%	51.12%	51.01%	52.27%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN

(dollar amounts are in thousands)

	Year Ended June 30,					
	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,579	\$ 1,486	\$ 1,266	\$ 1,169	\$ 1,055	\$ 1,006
Contributions in relation to the actuarially determined contribution	1,579	1,486	1,266	1,169	1,055	1,006
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ 6,221	\$ 5,717	\$ 5,495	\$ 4,885	\$ 4,756	\$ 4,576
Contributions as a percentage of covered-employee payroll	25.4%	26.0%	23.0%	23.9%	22.2%	22.0%

This schedule is presented to illustrate the requirement to show information for ten years.

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

See accompanying independent auditors' report.

TOWN OF SALISBURY, MASSACHUSETTS

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

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

	For Year Ended June 30,			
	2020	2019	2018	2017
Total OPEB liability:				
Service cost	\$ 265,435	\$ 165,480	\$ 325,851	\$ 325,851
Interest	510,864	478,108	386,192	368,705
Differences between expected and actual experience	592,860	-	531,654	-
Changes in assumptions	2,419,919	-	(4,051,744)	-
Benefit payments	(293,204)	(319,888)	(306,113)	(209,604)
Net change in total OPEB liability	3,495,874	323,700	(3,114,160)	484,952
Total OPEB liability - beginning of year	6,690,039	6,366,339	9,480,499	8,995,547
Total OPEB liability - end of year (a)	<u>\$ 10,185,913</u>	<u>\$ 6,690,039</u>	<u>\$ 6,366,339</u>	<u>\$ 9,480,499</u>
Plan fiduciary net position:				
Contributions - employer	\$ 343,204	\$ 369,888	\$ 356,113	\$ 259,604
Net investment income	8,274	11,789	(1,927)	341
Benefit payments	(293,204)	(319,888)	(306,113)	(209,604)
Net change in Plan fiduciary net position	58,274	61,789	48,073	50,341
Plan fiduciary net position - beginning of year	271,886	210,097	162,024	111,683
Plan fiduciary net position - end of year (b)	<u>\$ 330,160</u>	<u>\$ 271,886</u>	<u>\$ 210,097</u>	<u>\$ 162,024</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 9,855,753</u>	<u>\$ 6,418,153</u>	<u>\$ 6,156,242</u>	<u>\$ 9,318,475</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.24%	4.06%	3.30%	1.70%
Covered payroll	\$ 6,217,612	\$ 5,853,673	\$ 5,655,723	\$ 4,497,990
Net OPEB liability as a percentage of covered payroll	158.51%	109.64%	108.85%	207.17%

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.

See independent auditors' report.

TOWN OF SALISBURY, MASSACHUSETTS

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

**SCHEDULE OF CONTRIBUTIONS - OPEB PLAN
LAST 10 FISCAL YEARS**

	For Year Ended June 30,			
	2020	2019	2018	2017
Actuarially-determined contribution	\$ 860,162	\$ 643,587	\$ 712,043	\$ 694,556
Contributions in relation to the actuarially-determined contribution	(343,204)	(369,888)	(356,113)	(259,604)
Contribution deficiency (excess)	<u>\$ 516,958</u>	<u>\$ 273,699</u>	<u>\$ 355,930</u>	<u>\$ 434,952</u>
Covered payroll	\$ 6,217,612	\$ 5,853,673	\$ 5,655,723	\$ 4,497,990
Contribution as a percentage of covered payroll	5.52%	6.32%	6.30%	5.77%
Valuation Date	July 1, 2019	July 1, 2018	July 1, 2018	July 1, 2016
Amortization Period	30 years	30 years	30 years	30 years
Investment rate of return	6.65%	7.50%	7.50%	4.00%
Municipal Bond Rate	2.66%	2.79%	3.45%	3.13%
Discount Rate	4.75%	7.50%	7.50%	4.00%
Inflation	2.50%	2.00%	2.00%	2.75%
Healthcare cost trend rates	4.50%	4.50%	4.50%	5.50%
Salary increases	3.00%	3.25%	3.25%	4.00%
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 - OPEB PLAN
LAST 10 FISCAL YEARS**

	For Year Ended June 30,			
	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	3.04%	5.48%	-1.16%	0.25%

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 SALISBURY, MASSACHUSETTS

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

	Budgeted Amounts		Actual Budgetary Amounts	Continuing Appropriations and Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues:						
Property taxes	\$ 22,480,310	\$ 22,480,310	\$ 22,236,733	\$ -	\$ 22,236,733	\$ (243,577)
Intergovernmental	1,377,157	1,377,157	1,317,145	-	1,317,145	(60,012)
Motor vehicle and other excise	1,969,000	1,969,000	2,476,006	-	2,476,006	507,006
Departmental and other revenue	737,450	737,450	1,014,176	-	1,014,176	276,726
Licenses and permits	450,000	450,000	408,411	-	408,411	(41,589)
Penalties and interest	100,000	100,000	58,639	-	58,639	(41,361)
Fines and forfeitures	160,000	160,000	140,518	-	140,518	(19,482)
Investment income	41,500	41,500	49,258	-	49,258	7,758
Total Revenues	27,315,417	27,315,417	27,700,886	-	27,700,886	385,469
Expenditures:						
General government	2,284,310	2,420,988	1,936,887	340,102	2,276,989	143,999
Public safety	5,369,642	5,719,134	5,404,217	183,680	5,587,897	131,237
Education	13,447,408	13,463,774	13,463,774	-	13,463,774	-
Public works	1,617,728	1,742,728	1,402,210	20,000	1,422,210	320,518
Health and human services	533,076	550,962	461,819	17,301	479,120	71,842
Culture and recreation	489,694	489,694	461,579	-	461,579	28,115
Fringe and pension benefits	3,193,292	3,251,770	3,016,208	1,000	3,017,208	234,562
State and county tax assessments	149,218	149,218	147,932	-	147,932	1,286
Debt service	1,330,451	1,330,451	1,330,450	-	1,330,450	1
Total Expenditures	28,414,819	29,118,719	27,625,076	\$ 562,083	28,187,159	931,560
Other Financing Sources (Uses):						
Transfers in	672,572	672,572	672,572		672,572	-
Transfers out	(42,500)	(332,500)	(332,500)		(332,500)	-
Total Other Financing Sources (Uses)	630,072	340,072	340,072		340,072	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(469,330)</u>	<u>(1,463,230)</u>	<u>\$ 415,882</u>		<u>\$ (146,201)</u>	<u>\$ 1,317,029</u>
Other Budgetary Items:						
Prior year encumbrances	492,319	492,319				
Prior year appropriation deficit	(22,989)	(22,989)				
Free cash transfers	-	993,900				
Total Other Budgetary Items	469,330	1,463,230				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

TOWN OF SALISBURY, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2020

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Warrant Advisory Committee, and approved by the Town members at the Town’s annual meeting in May. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting or the Board of Selectmen however must approve any transfer of unencumbered appropriation balances between departments or agencies. 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 fiscal year 2020, Town Meeting approved \$0.7 million in supplemental budgetary changes which were funded from free cash and transfers from available funds.

The Finance Director 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:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 27,700,886
Interest earned by stabilization funds	\$ -	\$ 21,052	21,052
Property tax revenue recognition	193,042	-	193,042
Revenue on a GAAP basis	<u>\$ 193,042</u>	<u>\$ 21,052</u>	<u>\$ 27,914,980</u>
Expenditures on a budgetary basis			\$ 27,625,076
OPEB contribution	\$ -	\$ 30,000	30,000
Indirect cost allocations	-	(565,647)	(565,647)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (535,647)</u>	<u>\$ 27,089,429</u>
Transfers on a budgetary basis (net)			\$ 340,072
Stabilization transfers	\$ -	\$ 200,000	200,000
OPEB contribution	-	30,000	30,000
Nonmajor account closures	62	-	62
Indirect cost allocations	-	(565,647)	(565,647)
Transfers on a GAAP basis (net)	<u>\$ 62</u>	<u>\$ (335,647)</u>	<u>\$ 4,487</u>