



Bill Fraher, CPA

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Basic Financial Statements, Required Supplementary
Information and Supplementary Information

Year ended June 30, 2020

(With Independent Auditor's Report Thereon)

TOWN OF NORTHBOROUGH, MASSACHUSETTS
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Independent Auditor's Report

The Honorable Board of Selectman
Town of Northborough, Massachusetts:

Report on the Financial Statements

I 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 Northborough, Massachusetts, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 the risks of a material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Northborough, Massachusetts, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund 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 on pages 5 through 15, the pension schedules on pages 52 and 53, and the other post-employment (OPEB) schedules on pages 54 and 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing 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. I 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 regarding 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 obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Northborough's financial statements as a whole. The combining fund financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* I have also issued my report dated March 15, 2021 on my consideration of the Town of Northborough's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Bill Fraher, CPA
March 15, 2021



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

The Honorable Board of Selectmen
Town of Northborough, Massachusetts:

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Northborough, Massachusetts, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued my report thereon dated March 15, 2021.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Northborough's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Northborough's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

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

Compliance and Other Matters

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

I noted certain other matters that I reported to management of the Town of Northborough, Massachusetts, in a separate letter dated March 15, 2021.

Purpose of this Report

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



Bill Fraher, CPA
March 15, 2021

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

Required Supplementary Information

June 30, 2020

This section of the Town of Northborough's annual financial report presents a discussion and analysis of the Town's financial activities during the fiscal year ending June 30, 2020. Please read it in conjunction with the information in front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Town's Net Position is \$19,163,015 at the close of FY2020 (full accrual basis). The amount is composed of \$2,691,472 for Governmental Activities and \$16,471,543 for Business-type Activities (Water/Sewer Enterprise Funds). See below for a summary of the Town's primary component, Governmental Activities.

NET POSITION - GOVERNMENTAL ACTIVITIES				
FISCAL YEAR	<u>2019</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
<u>ASSETS</u>				
CURRENT ASSETS	29,383,424	29,360,886	(22,538)	(.08%)
NON-CURRENT ASSETS	72,035,762	70,151,282	(1,884,480)	(2.62%)
TOTAL ASSETS	101,419,186	99,512,168	(1,907,018)	(1.88%)
<u>DEFERRED OUTFLOWS</u>	3,492,510	3,185,572	(306,938)	(8.79%)
<u>LESS LIABILITIES</u>				
CURRENT LIABILITIES	8,243,766	7,634,540	(609,226)	(7.39%)
NONCURRENT LIABILITIES				
DEBT/OTHER	17,626,328	16,058,501	(1,567,827)	(8.89%)
PENSION	29,593,234	29,948,041	354,807	1.20%
OPEB	34,199,861	35,862,429	1,662,568	4.86%
TOTAL LIABILITIES	89,663,189	89,503,511	(159,678)	(.18%)
<u>LESS DEFERRED INFLOWS</u>	11,277,692	10,502,757	(774,935)	(6.87%)
<u>NET POSITION</u>				
INVESTED IN CAPITAL	50,590,033	51,075,282	485,249	.96%
RESTRICTED	11,242,158	9,531,850	(1,710,308)	(15.21%)
UNRESTRICTED	(57,861,376)	(57,915,660)	(54,284)	.09%
	3,970,815	2,691,472	(1,279,343)	(32.22%)

- At the end of FY2020, Unassigned Fund Balance of the General Fund was \$11,059,506 (modified accrual basis). See the table below for a comparison with the prior year.

FISCAL YEAR	<u>2019</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
GENERAL FUND	4,358,980	5,997,846	1,638,866	37.60%
STABILIZATION FUND	4,900,853	5,061,660	160,807	3.18%
	9,259,833	11,059,506	1,799,673	19.44%

TOWN OF NORTHBOROUGH, MASSACHUSETTS
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town of Northborough's basic financial statements are comprised of 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 report information about the Town with a broad overview of its finances using accounting methods similar to those used by a private-sector business.

The statement of net position presents information on all the Town's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as "Net Position." Because the reporting unit is seeking to report on ALL assets, deferred outflows, liabilities and deferred inflows, net position can be described as a measure of net worth. Over time, increases or decreases in net position may serve as a useful indicator of whether the overall financial health of the Town is improving or deteriorating on a long-term basis.

The statement of activities presents information showing how the Town's net position changed during the reporting period. All changes in net position are reported as soon as the underlying event causing the change takes place. Therefore, all of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid (e.g. uncollected taxes and vacation time earned but unused). The Town's OPEB (Other Post Employment Benefit) and Pension liabilities are recorded in the Government-wide financial statements.

The government-wide financial statements of the Town are divided into two categories:

- **Governmental activities** – Governmental activities of the Town such as general government, public works, public safety, public roads, education, health, recreation and culture are reported here. Property taxes, state aid and local fees and charges finance most of these activities.
- **Business-type activities** – The Town charges fees to users to help cover the cost of certain services it provides. The Town's water and sewer operations are included here.

The government-wide financial statements can be found on pages 16 - 17 of this report.

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 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, proprietary, and fiduciary funds.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

Required Supplementary Information

June 30, 2020

Governmental funds- Similar to the governmental activities in the government-wide financial statements, most of the Town's basic services are presented here. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of available resources. They also focus on the balance of available resources at the end of the fiscal year, and the difference between the assets, deferred outflows, liabilities and deferred inflows, or "fund balance," can be described as a measure of liquidity rather than net worth.

Because the focus of governmental funds is short-term and government-wide funds are long-term it is useful to compare similar information presented for governmental funds with governmental activities in the government-wide financial statements. This comparison may demonstrate the long-term implications of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Note that the Town's OPEB and pension liabilities are not recorded in the governmental fund financial statements while they are shown in the government-wide statements.

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 which is considered a major fund. Data from other governmental funds are combined into a single aggregated presentation. Individual fund data for each nonmajor governmental fund type is provided in the form of combining statements.

The Town adopts an annual budget for its general fund and its enterprise funds. A budgetary comparison schedule for the general fund is presented to show how actual results (on a budgetary basis of accounting) compared with the original and final budget. The governmental fund financial statements can be found on pages 18 - 19. Reconciliations to the entity wide statements appear on pages 20 - 21 and budget to actual information appears on page 22.

Proprietary funds- The Town uses enterprise funds (one type of proprietary fund) to account for water and sewer which are considered to be major funds. While the Town also accounts for solid waste as an enterprise fund, it is reported as a nonmajor governmental fund within the financial statements and not as proprietary, due to its specific circumstances. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 23 - 25.

Fiduciary funds- Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The Town is the trustee, or fiduciary. It is also responsible for other assets that because of a trust arrangement can be used only for the trust beneficiaries and the agency fund. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Town's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations. The accounting used for fiduciary funds is similar to that used for proprietary funds. The fiduciary fund financial statements are on pages 26 - 27.

Notes to the basic 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. The notes to the basic financial statements can be found on pages 28 - 51.

TOWN OF NORTHBOROUGH, MASSACHUSETTS
Management's Discussion and Analysis
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June 30, 2020

Other information- In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to pensions and OPEB on pages 52 - 57, and supplementary information, which pertains to nonmajor governmental funds, on pages 58 and 59.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's long-term financial health. The Town's overall net position (the amount by which assets and deferred outflows exceeded liabilities and deferred inflows) was \$19.2M at the close of FY2020, as compared to \$20.3M at the end of FY2019. Of the \$19.2M, (\$54.4M) is considered unrestricted (net deficit). Unrestricted net position generally reflects assets that are available to meet the ongoing obligations of an entity and in the case of a negative (deficit) it reflects the amounts that will be needed in the future for the entity to continue meeting its obligations. The negative unrestricted net position (deficit) of the Town's governmental activities at the end of FY2020, (\$57.9M), reflects the effect of the Town's full OPEB liability of \$35.9M, in addition to the Town's dedicated share of liability within the multiemployer cost-sharing Worcester Regional Retirement System (pension system) which amounts to \$29.9M. The unrestricted net position of the Town's business-type activities is a positive \$3.5M. See the Statement of Net Position, on page 16 for more detail.

The largest portion of the Town's net position reflect its investment in capital assets (e.g. land, buildings, infrastructure, furniture and equipment), less any outstanding debt issued to acquire those assets. The Town uses these capital assets, to provide services to its 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, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

During FY2020, total net position of the Town decreased by \$1.2M (-5.8%). In total, the net position of Governmental Activities decreased by \$1.3M (-32.2%) while net position of Business-Type Activities increased by \$95K (.6%). The following table provides a broad summary of the changes from the restated prior year, for both its primary component, Governmental Activities, and its Business-Type Activities.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

Required Supplementary Information

June 30, 2020

TWO YEAR COMPARISON – NET POSITION				
FISCAL YEAR	<u>2019</u>	<u>2020</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
ASSETS	101,419,186	99,512,168	(1,907,018)	(1.9%)
DEFERRED OUTFLOWS	3,492,510	3,185,572	(306,938)	(8.8%)
LESS LIABILITIES	89,663,189	89,503,511	(159,678)	(0.2%)
LESS DEFERRED INFLOWS	11,277,692	10,502,757	(774,935)	(6.9%)
NET POSITION	3,970,815	2,691,472	(1,279,343)	(32.2%)
<u>BUSINESS-TYPE ACTIVITIES</u>				
ASSETS	27,964,284	28,235,963	271,679	1.0%
DEFERRED OUTFLOWS	134,188	96,843	(37,345)	(27.8%)
LESS LIABILITIES	11,564,444	11,703,209	138,765	1.2%
LESS DEFERRED INFLOWS	157,109	158,054	945	0.6%
NET POSITION	16,376,919	16,471,543	94,624	0.6%
COMBINED NET POSITION	20,347,734	19,163,015	(1,184,719)	(5.8%)

The most significant percentage change in Governmental Activities on the balance sheet is the decrease in deferred outflows of \$307K (-8.8%), which is related to the implementation of GASB Statement 68 for the fifth year and Statement 75 for the third year. The Town belongs to a multi-employer cost sharing pension plan, the Worcester Regional Retirement System. The retirement system was required to determine through an actuarial study the share of its liability related to the Town's employees and retirees per GASB 67. Their study is audited, and the Town's liability is reported on the balance sheet per GASB 68. This reflects a \$31.0M liability at year-end (\$1.0M of this is allocated to the Business-Type Activities), which directly reduces Unrestricted Net Position. The liability related to the pension system will grow if the Retirement System's assets decrease in value, or if the system's investments do not perform as actuarially projected. The liability will also change depending on the actuarial assumptions used (e.g. mortality tables) and underlying demographics in place when studied. However, it should be noted that pursuant to Mass General Law, public pension systems are required to be fully funded by 2040. The Worcester Regional Retirement system has adopted a funding plan to be fully funded by 2036. See Note 11 starting on page 42 for more information on the pension liability.

Also significant is the recognition of the Town's OPEB liability pursuant to GASB 75. OPEB reflects an estimate of future benefit costs, primarily health insurance, owed to current employees and retirees after retirement. The figures come from a valuation performed by an actuary, and the total liability is shown on the government-wide financial statements. The recognized OPEB liability is \$36.3M (\$453K of this is allocated to the Business-Type Activities). Within Governmental Activities, the change in OPEB liability and related deferred inflow also contributed to the decline in Unrestricted Net Position. OPEB liabilities will continue to mount unless adequate resources are committed to an irrevocable trust fund to pre-fund future liability. The Town continues to pay as it goes, i.e. funding current year costs in the annual operating budget. In addition, following enabling trust fund legislation adopted in 2011, the Town made annual contributions to the trust of \$500K per year starting FY2015 through FY2019, and increased the transfer to \$550K in FY2020, though the Town has subsequently temporarily delayed contributing during the pandemic. For more information on the OPEB liability and the OPEB Trust Fund see Note 12 starting on page 45.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

Required Supplementary Information

June 30, 2020

Under GASB Statement 34 fixed assets (e.g. capital investments and infrastructure) are required to be valued and depreciated on the Town's financial statements. The residual value, net of debt related to the acquisition of the assets, is reflected in Net Position Invested in Capital Assets, and this totals \$63.5M at the close of FY2020. This reflects an increase of \$606K (1.0%) in this category, therefore investment in capital from current resources and payments toward related debt within the current year outpaced depreciation and issuance of new debt.

The Statement of Activities, on page 17, shows the results of operations that effected the changes to the balance sheet. Following is a table demonstrating a summary of those activities.

TWO YEAR COMPARISON – SUMMARIZED COMBINED ACTIVITIES				
FISCAL YEAR	<u>2019</u>	<u>2020</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
REVENUE				
PROGRAM REVENUE	16,789,935	17,383,752	593,817	3.5%
GENERAL REVENUE	56,302,797	58,788,029	2,485,232	4.4%
	<u>73,092,732</u>	<u>76,171,781</u>	<u>3,079,049</u>	<u>4.2%</u>
EXPENSES	<u>78,497,117</u>	<u>77,451,124</u>	<u>(1,045,993)</u>	<u>(1.3%)</u>
CHANGE IN NET POSITION	(5,404,385)	(1,279,343)		
<u>BUSINESS-TYPE ACTIVITIES</u>				
REVENUE				
WATER	2,407,118	2,580,008	172,890	7.2%
SEWER	2,978,024	2,689,771	(288,253)	(9.7%)
	<u>5,385,142</u>	<u>5,269,779</u>	<u>(115,363)</u>	<u>(2.1%)</u>
EXPENSES				
WATER	2,721,913	2,653,114	(68,799)	(2.5%)
SEWER	3,327,890	2,522,041	(805,849)	(24.2%)
	<u>6,049,803</u>	<u>5,175,155</u>	<u>(876,648)</u>	<u>(14.5%)</u>
CHANGE IN NET POSITION	(664,661)	94,624		

The preceding table reflects that revenue from the Town's total Governmental Activities totaled \$76.2M which is a 4.2% increase versus the prior year while expenditures were \$77.5M, a decrease of 1.3% from the prior year.

While examining the \$1.3M reduction in the Net Position of the Governmental Activities, it is important to note the GASB driven effect of the OPEB and pension system obligations as well as depreciation being included within expenses. Likewise, of the \$95K increase in the Net Position of the Business-Type Activities, OPEB and pension also played a role in reducing this result.

The following table demonstrates the largest source of revenue is Property Taxes, \$53.4M (70.2% of total). The second largest source of revenue in FY2020 are Operating Grants of \$13.5M (17.7%), which represents aid to the Town's schools, the majority of which is unrestricted state aid for education (Chapter 70) and the state's funding \$6.6M toward the Teachers' Retirement System (MTRS) on behalf of the Town. It should be noted that total revenue increased by \$3.1M from FY2019, the most significant change on a dollar basis was the \$2.6M increase in Property Taxes (5.1%).

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

Required Supplementary Information

June 30, 2020

TWO YEAR COMPARISON – GOVERNMENTAL ACTIVITIES REVENUE				
FISCAL YEAR	2019	2020	% TOTAL	% CHANGE
<u>Program Revenues</u>				
Charges for Services	3,951,782	2,915,708	3.8%	(26.2%)
Operating Grants/Contributions	11,826,351	13,481,162	17.7%	14.0%
Capital Grants/Contributions	1,011,802	986,882	1.3%	(2.5%)
	16,789,935	17,383,752	22.8%	3.5%
<u>General Revenues</u>				
Property Taxes	50,838,765	53,445,277	70.2%	5.1%
Excise Taxes	3,230,306	3,091,868	4.1%	(4.3%)
Payment in Lieu of Taxes	112,479	112,483	0.1%	0.0%
Intergovernmental	1,504,773	1,375,166	1.8%	(8.6%)
Unrestricted Investment Earnings	566,506	548,706	0.7%	(3.1%)
Miscellaneous	49,968	214,529	0.3%	329.3%
Transfers	0	0	0.0%	0%
	56,302,797	58,788,029	77.2%	4.4%
TOTAL REVENUE	73,092,732	76,171,781	100.0%	4.2%

In FY2020 the Town's expenditures totaled \$77.5M, a decrease of \$1.0M or 1.3% versus the prior year, due mainly to lower OPEB expense. The largest category of expenditure was Education at \$54.5M, which represents 70.3% of the total. General Government expenditures decreased by \$450K which accounts for the most significant change on a dollar basis versus the prior year.

TWO YEAR COMPARISON – GOVERNMENTAL ACTIVITIES EXPENDITURES				
FISCAL YEAR	2019	2020	% TOTAL	% CHANGE
General Government	5,062,014	4,611,957	6.0%	(8.9%)
Public Safety	8,846,550	8,583,064	11.1%	(3.0%)
Education	54,476,031	54,467,376	70.3%	0.0%
Public Works	5,415,865	5,404,830	7.0%	(0.2%)
Human Services	1,326,508	1,230,608	1.6%	(7.2%)
Recreation & Culture	2,588,281	2,475,170	3.2%	(4.4%)
Interest on Debt Service	781,868	678,119	0.9%	(13.3%)
	78,497,117	77,451,124	100.0%	(1.3%)

Business-type Activities- Total revenues from Water and Sewer were \$5.3M. Water revenues were \$2.6M and sewer revenues were \$2.7M. Water expenses exceeded revenues by \$73K, and Sewer revenues exceeded expenses by \$168K. The vast majority of Business-Type revenues, 98.1% were generated from charges for services (user fees and special assessments). See the Proprietary Statements, on pages 23 - 25 for more details.

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FINANCIAL ANALYSIS OF THE TOWN'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 the near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's short-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. See this statement on page 18.

Starting in FY2011, the governmental funds reflect changes in fund balance definitions following GASB 54. The intention of GASB 54 is to bring consistency to financial reporting across different governments. GASB seeks to clarify "Fund Balance" in order to demonstrate "the extent to which the government is bound to honor constraints on specific purposes for which amounts in the fund can be spent," rather than simply demonstrating what is available for appropriation. The following table reflects a comparison of year end fund balances for FY2018 and FY2019, and it should be understood that GASB 54 requires the "Stabilization Fund" to be included in the general fund.

GOVERNMENTAL FUND BALANCE SUMMARY				
<u>GENERAL FUND</u>	<u>2019</u>	<u>2020</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
Non-spendable	-	-	-	-
Restricted	-	-	-	-
Committed	675,000	-	(675,000)	(100.0%)
Assigned	709,666	997,877	288,211	40.6%
Unassigned*	9,259,833	11,059,506	1,799,673	19.4%
TOTAL FUND BALANCE	10,644,499	12,057,383	1,412,884	13.3%
<i>*Includes Stabilization Fund</i>	<i>4,900,853</i>	<i>5,061,660</i>	<i>160,807</i>	<i>3.3%</i>

The General Fund is the chief operating fund of the Town, and the preceding table shows that the General Fund's Unassigned Fund Balance increased by \$1.8M while total fund balance increased by \$1.4M.

At the end of FY2020, the Town's governmental funds reported combined ending fund balances of \$21.7M. With \$12.1M being the General Fund's fund balance and \$9.6M being other "Nonmajor" Governmental Funds. The Nonmajor Funds consist of other funds which have Governmental purposes but are required to be accounted for separate from the General Fund either by grantors or legislation. See Note 9 on page 41 for more information on the Nonmajor Funds.

Approximately 92% of the total General Fund fund balance will be available for spending at the Town's discretion (Unassigned fund balance). The remaining 8% is segregated into other classes of fund balance to show limitations or restrictions on those amounts: 1) Assigned, to liquidate contracts and encumbrances of the period, \$998K; 2) Committed, for specific purposes, \$0. The component defined as "Committed," would consist of amounts appropriated by the legislative body (Town Meeting) for use in the FY2021 operating budget (i.e. from "Free Cash"), however such

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appropriations were delayed due to the pandemic with Town Meeting being held after the close of the fiscal year.

Again, Unassigned Fund Balance of the General Fund was \$11.1M at the end of FY2020, while total fund balance was \$12.1M. As a measure of liquidity, it may be useful to compare both Unassigned Fund Balance and total fund balance to total fund expenditures, \$68.7M. Unassigned Fund Balance represents 16.1% of total General Fund expenditures (or 8.7% without stabilization), while total fund balance equals 17.5% of that same amount.

Proprietary funds- The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net position of the proprietary funds at the end of FY2020 totaled \$16.5M. Unrestricted net position totaled \$3.5M consisting of \$836K in the water fund and \$2.6M in the sewer fund. See pages 23 - 25 for more details.

Budgetary highlights- During FY2020, no additional appropriations were made, therefore the original budget was the same as the final in total, while there were reallocations of expense budgets made by transfers within categories. Since Massachusetts General Law requires the budget to be balanced, the final FY2020 budget was balanced using a total of \$675K allocated from Fund Balance, meaning appropriations were made above the revenues and operating transfers in expected in the current year (most of which related to one-time capital items).

Actual results yielded a \$875K increase to budgetary Fund Balance, which led to an overall \$1.5M favorable variance against budgeted amounts. So, rather than draw down fund balance with the planned "deficiency" of resources by \$675K, results in FY2020 instead increased fund balance by \$875K.

Actual revenues were greater than the budget by \$277K overall (.4%). The most significant source was Intergovernmental, amounting to a \$181K result above budget, which was mostly due to unbudgeted school Medicaid claims and a State reimbursement for a prior year legal expense. Another significant positive result was in investment income (\$105K, or 104.6% above budget).

Expenditures were less than budget by \$1.4M (2.2%) with many departments not expending the full amount of budgeted appropriations. However, the category most responsible for the favorable performance was "General Government" which released \$588K (17.7%), with \$175K of which being the Appropriations Committee Reserve Fund that was unused during FY2020. The second most significant source was "Employee Benefits," which released \$390K (4.3%), following health insurance coming less than budget due to conservative estimates.

The positive results of both Revenues and Expenditures were mitigated by budgeted transfers into the General Fund not being made in FY2020, which resulted in the overall positive results being reduced by \$145K. This is primarily due to mechanics of the Cable Franchise agreement, whereby the amount transferred to cover the Cable budget is reduced to balance to actual departmental spending within General Government (\$70K), as well as the Recreation Department's revolving fund transfer being reduced by \$75K to avoid a deficit following the cancellation of in-person programs due to the pandemic. See the comparison schedule on page 22, for a more detailed display of these figures, and see Note 2 starting on page 33 for further explanation.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

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June 30, 2020

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets- The Town's investment in capital assets for governmental and business-type activities as of June 30, 2020, amounts to \$87.8M, which is net of \$87.2M in accumulated depreciation. The investment in capital assets includes land; buildings; improvements; machinery and equipment; park facilities; streets; sidewalks; and water and sewer systems. Governmental Activities infrastructure includes improvements that were put in service after 1980. Following is a table summarizing the value by category.

SUMMARY OF FIXED ASSET VALUES			
Category	Governmental Activities	Business-type Activities	Total
Land	\$9,257,707	\$2,771,038	\$12,028,745
Buildings & improvements	67,021,273	7,342,936	\$74,364,209
Equipment & machinery	21,326,911	3,701,479	\$25,028,390
Infrastructure	39,016,436	22,850,910	\$61,867,346
Construction in progress	1,575,864	139,985	\$1,715,849
Accumulated depreciation	(68,046,909)	(19,108,501)	(\$87,155,410)
Total	\$70,151,282	\$17,697,847	\$87,849,129

The next table may be helpful in gaining an understanding of the effect of depreciation and capital additions made during FY2020 on the Government-wide statements.

TWO YEAR COMPARISON – FIXED ASSET VALUES				
FISCAL YEAR	2019	2020	\$ CHANGE	% CHANGE
<u>GOVERNMENTAL ACTIVITIES</u>				
Beginning Value	73,296,597	71,367,165	(1,929,432)	(2.6%)
Additions	2,738,642	3,369,333	630,691	
Deletions	176,983	243,461	66,478	
Net Additions	2,561,659	3,125,872	564,213	22.0%
Net Depreciation Expense	4,491,091	4,341,755	(149,336)	(3.3%)
Ending Value	71,367,165	70,151,282	(1,215,883)	(1.7%)
<u>BUSINESS-TYPE ACTIVITIES</u>				
Beginning Value	18,468,475	18,383,406	(85,069)	(.5%)
Net Additions	727,291	119,983	(607,308)	(83.5%)
Net Depreciation Expense	812,360	805,542	(6,818)	(.8%)
Ending Value	18,383,406	17,697,847	(685,559)	(3.7%)
COMBINED VALUE	89,750,571	87,849,129	(1,901,442)	(2.1%)

Additional information on the Town's capital assets may be found in Note 5 to the financial statements pages 37 - 38.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Management’s Discussion and Analysis

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Long-term obligations- At June 30, 2020 the Town had total noncurrent liabilities outstanding of \$87.1M, of which \$81.9M was from Governmental Activities and \$5.2M from Business-Type activities. Included in this amount is “Compensated Absences,” OPEB, Pension Liability, and “Bonds Payable,” which is the principal due on long term debt, \$19.6M (\$15.9M Governmental/ \$3.8M Business-Type).

All debt is a general obligation of the Town, although water and sewer debt service payments are made from the resources of the enterprise funds. The following table shows the principal amount of long-term debt outstanding, which includes current and noncurrent liabilities in conjunction with short term notes (BANS). In addition to the issued debt shown in the table below, the Town has authorized and unissued debt in the amount of \$7.6M, these are amounts that due to timing have not been issued, however the Town has the ability to issue without further action by the legislative body. It is important to consider these amounts in conjunction with issued debt to understand the long-term obligations as a whole. The table below shows a comparison of the debt outstanding along with authorized unissued debt at the end of FY2019 and FY2020:

OUTSTANDING & AUTHORIZED UNISSUED DEBT				
FISCAL YEAR	<u>2019</u>	<u>2020</u>	<u>\$ CHANGE</u>	<u>% CHANGE</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Long-term - Noncurrent	17,467,000	15,873,000	(1,594,000)	(9.1%)
Long-term – Current	1,996,500	1,594,000	(402,500)	(20.2%)
Short-term/Notes Payable	1,551,000	1,609,000	58,000	3.7%
Authorized Unissued Debt	3,833,324	3,518,324	(315,000)	(8.2%)
Total	24,847,824	22,594,324	(2,253,500)	(9.1%)
<u>BUSINESS-TYPE ACTIVITIES</u>				
Long-term - Noncurrent	4,450,089	3,763,633	(686,456)	(15.4%)
Long-term – Current	748,956	686,456	(62,500)	(8.3%)
Short-term/Notes Payable	866,000	821,000	(45,000)	(5.2%)
Authorized Unissued Debt	4,101,630	4,101,630	-	0.0%
Total	10,166,675	9,372,719	(793,956)	(7.8%)
<u>COMBINED</u>				
Outstanding Long-term Debt	24,662,545	21,917,089	(2,745,456)	(11.1%)
Outstanding Short-term Debt	2,417,000	2,430,000	13,000	.5%
Authorized Unissued Debt	7,934,954	7,619,954	(315,000)	(4.0%)
Total	35,014,499	31,967,043	(3,047,456)	(8.7%)

Moody’s Investor Services, Inc. rates the Town’s bonds Aa1. Additional information on the Town’s debt and long-term obligations can be found in Notes 6, 7, and 8 beginning on page 38.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Northborough, 63 Main Street, Northborough, Massachusetts 01532.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Net Position

June 30, 2020

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 16,058,162	8,550,353	24,608,515
Investments	10,324,732	-	10,324,732
Receivables (net of allowance for uncollectibles)	1,664,326	305,835	1,970,161
Unbilled revenue	-	1,236,799	1,236,799
Due from other governments	1,295,879	444	1,296,323
Other assets	17,787	-	17,787
Total current assets	29,360,886	10,093,431	39,454,317
Non-current assets:			
Special assessments	-	438,220	438,220
Due from other governments	-	6,465	6,465
Capital assets:			
Assets not being depreciated	9,759,535	2,911,023	12,670,558
Assets being depreciated, net	60,391,747	14,786,824	75,178,571
Total non-current assets	70,151,282	18,142,532	88,293,814
Total assets	99,512,168	28,235,963	127,748,131
Deferred Outflows of Resources			
Deferred amounts related to OPEB	518,262	5,248	523,510
Deferred amounts related to pensions	2,667,310	91,595	2,758,905
Total deferred outflows	3,185,572	96,843	3,282,415
Liabilities			
Current liabilities:			
Warrants and accounts payable	1,089,047	251,180	1,340,227
Accrued payroll and withholdings	2,795,226	18,125	2,813,351
Other accrued liabilities	115,095	-	115,095
Accrued interest payable	141,133	26,506	167,639
Due to other governments	-	4,626,579	4,626,579
Notes payable	1,609,000	821,000	2,430,000
Compensated absences	291,039	22,216	313,255
Bonds payable	1,594,000	686,456	2,280,456
Total current liabilities	7,634,540	6,452,062	14,086,602
Noncurrent liabilities:			
Compensated absences	185,501	6,000	191,501
Other post employment benefits	35,862,429	453,095	36,315,524
Net pension liability	29,948,041	1,028,419	30,976,460
Bonds payable	15,873,000	3,763,633	19,636,633
Total noncurrent liabilities	81,868,971	5,251,147	87,120,118
Total liabilities	89,503,511	11,703,209	101,206,720
Deferred Inflows of Resources			
Deferred amounts related to OPEB	9,344,708	118,287	9,462,995
Deferred amounts related to pensions	1,158,049	39,767	1,197,816
Total deferred inflows	10,502,757	158,054	10,660,811
Net Position			
Net investment in capital assets	51,075,282	12,438,868	63,514,150
Restricted for:			
Permanent funds - nonexpendable	829,147	-	829,147
Permanent funds - expendable	369,064	-	369,064
Capital projects	2,763,311	554,710	3,318,021
Grants and other	5,570,328	-	5,570,328
Unrestricted	(57,915,660)	3,477,965	(54,437,695)
Total net position	\$ 2,691,472	16,471,543	19,163,015

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental activities:							
General government	\$ 4,611,957	259,688	502,779	-	(3,849,490)	-	(3,849,490)
Public safety	8,583,064	1,218,711	346,726	-	(7,017,627)	-	(7,017,627)
Education	54,467,376	528,692	12,115,516	-	(41,823,168)	-	(41,823,168)
Public works	5,404,830	604,396	147,016	841,707	(3,811,711)	-	(3,811,711)
Human services	1,230,608	118,108	174,043	-	(938,457)	-	(938,457)
Recreation and culture	2,475,170	186,113	195,082	-	(2,093,975)	-	(2,093,975)
Interest on debt service	678,119	-	-	145,175	(532,944)	-	(532,944)
Total governmental activities	77,451,124	2,915,708	13,481,162	986,882	(60,067,372)	-	(60,067,372)
Business-type activities:							
Water	2,653,114	2,556,542	-	-	-	(96,572)	(96,572)
Sewer	2,522,041	2,610,997	-	-	-	88,956	88,956
Total business-type activities	5,175,155	5,167,539	-	-	-	(7,616)	(7,616)
Total government	\$ 82,626,279	8,083,247	13,481,162	986,882	(60,067,372)	(7,616)	(60,074,988)
General revenues:							
Property taxes					\$ 53,445,277	-	53,445,277
Excise taxes					3,091,868	-	3,091,868
Payments in lieu of taxes					112,483	-	112,483
Intergovernmental					1,375,166	-	1,375,166
Unrestricted investment earnings					548,706	100,361	649,067
Miscellaneous					214,529	1,879	216,408
Transfers					-	-	-
Total general revenues and transfers					58,788,029	102,240	58,890,269
Changes in net position					(1,279,343)	94,624	(1,184,719)
Net position - beginning of year					3,970,815	16,376,919	20,347,734
Net position - end of year					\$ 2,691,472	16,471,543	19,163,015

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2020

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 10,459,507	5,598,655	16,058,162
Investments	5,057,133	5,267,599	10,324,732
Receivables:			
Property taxes	902,937	9,110	912,047
Tax liens and foreclosures	673,894	4,061	677,955
Motor vehicle excise	290,700	-	290,700
Departmental	750	443,706	444,456
Less: allowance for abatements	(496,891)	-	(496,891)
Less: allowance for uncollectibles	(86,514)	(77,427)	(163,941)
Due from other governments	755,469	540,410	1,295,879
Inventory	-	17,787	17,787
	<u>17,556,985</u>	<u>11,803,901</u>	<u>29,360,886</u>
Total assets			
<u>Deferred Outflows of Resources</u>			
All deferred outflows	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	\$ <u>17,556,985</u>	<u>11,803,901</u>	<u>29,360,886</u>
<u>Liabilities</u>			
Warrants and accounts payable	\$ 975,252	113,795	1,089,047
Accrued payroll and withholdings	2,724,801	70,425	2,795,226
Notes payable	-	1,609,000	1,609,000
Other liabilities	113,556	1,539	115,095
	<u>3,813,609</u>	<u>1,794,759</u>	<u>5,608,368</u>
Total liabilities			
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	1,685,993	383,969	2,069,962
	<u>1,685,993</u>	<u>383,969</u>	<u>2,069,962</u>
<u>Fund balances</u>			
Nonspendable	-	846,934	846,934
Restricted	-	8,300,947	8,300,947
Committed	-	-	-
Assigned	997,877	477,292	1,475,169
Unassigned	11,059,506	-	11,059,506
	<u>12,057,383</u>	<u>9,625,173</u>	<u>21,682,556</u>
Total fund balances			
Total liabilities, deferred inflows of resources and fund balances	\$ <u>17,556,985</u>	<u>11,803,901</u>	<u>29,360,886</u>

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2020

	General Fund	Nonmajor Governmental Funds	Total
Revenues:			
Property taxes	\$ 52,677,535	627,166	53,304,701
Excise and local option taxes	3,061,183	-	3,061,183
Payments in lieu of taxes	112,483	-	112,483
Departmental charges for services	232,607	2,106,958	2,339,565
Licenses and permits	371,648	-	371,648
Intergovernmental	12,781,440	2,980,089	15,761,529
Fines and forfeits	101,880	965	102,845
Investment income	365,423	183,283	548,706
Other	57,396	748,565	805,961
	<u>69,761,595</u>	<u>6,647,026</u>	<u>76,408,621</u>
Total revenues			
	<u>69,761,595</u>	<u>6,647,026</u>	<u>76,408,621</u>
Expenditures:			
Current:			
General government	2,761,821	944,298	3,706,119
Public safety	5,137,766	1,045,756	6,183,522
Education	38,370,073	2,703,824	41,073,897
Public works	2,315,603	2,100,070	4,415,673
Human services	670,292	220,047	890,339
Recreation and culture	1,101,258	824,429	1,925,687
Intergovernmental	251,463	-	251,463
Employee benefits	15,222,860	-	15,222,860
Other	241,455	-	241,455
Debt service	2,666,160	33,384	2,699,544
	<u>68,738,751</u>	<u>7,871,808</u>	<u>76,610,559</u>
Total expenditures			
	<u>68,738,751</u>	<u>7,871,808</u>	<u>76,610,559</u>
Excess (deficiency) of revenues over expenditures	<u>1,022,844</u>	<u>(1,224,782)</u>	<u>(201,938)</u>
Other financing sources (uses):			
Proceeds from bond issuance	-	-	-
Operating transfers in	807,200	476,160	1,283,360
Operating transfers out	(417,160)	(866,200)	(1,283,360)
	<u>390,040</u>	<u>(390,040)</u>	<u>-</u>
Total other financing sources (uses)			
	<u>390,040</u>	<u>(390,040)</u>	<u>-</u>
Net changes in fund balances	1,412,884	(1,614,822)	(201,938)
Fund balance, beginning of year	<u>10,644,499</u>	<u>11,239,995</u>	<u>21,884,494</u>
Fund balance, end of year	<u>\$ 12,057,383</u>	<u>9,625,173</u>	<u>21,682,556</u>

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Reconciliation of the Governmental Fund Balance Sheet

To the Statement of Net Position

June 30, 2020

Total fund balances - governmental funds **\$ 21,682,556**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land and land improvements	9,257,707
Infrastructure assets	39,016,436
Buildings and building improvements	67,021,273
Construction in progress	1,575,864
Other capital assets	21,326,911
Accumulated depreciation	<u>(68,046,909)</u>

Total Capital Assets 70,151,282

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred or are not recorded in the funds 2,069,962

Deferred outflows and inflows related to pensions and OPEB are not reported in funds (7,317,185)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds. These liabilities consist of:

Bonds payable	(17,467,000)
Other post employment benefits	(35,862,429)
Accrued interest on bonds, net of reimbursement	(141,133)
Compensated absences	(476,540)
Net pension liability	<u>(29,948,041)</u>

Total long-term liabilities (83,895,143)

Net position of governmental activities **\$ 2,691,472**

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

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

Net changes in fund balances - governmental funds	\$ (201,938)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, these amounts are recorded as capital assets and depreciated over their estimated useful lives. This is the amount by which depreciation is less (more) than net capital outlays for the year.	(1,215,883)
Bond proceeds provide financial resources and bond payments are recorded as expenditures in governmental funds, while these are recorded as increases or decreases to long-term liabilities in the statement of net position. This is the amount by which long-term debt repayments were more (less) than bond proceeds and other debt activity for the year.	2,021,425
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds, while revenues previously accrued in the statement of activities may be recorded as revenue in the funds.	(236,840)
Some expenses in the Statement of Activities do not require the use of current financial resources are not reported in the funds.	
Compensated absences	(96,729)
Change in net OPEB obligation and deferrals	251,955
Change in net pension liability and deferrals	<u>(1,801,333)</u>
Changes in net position of governmental activities	\$ <u>(1,279,343)</u>

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance To Final Budget Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 52,579,600	52,579,600	52,588,582	8,982
Excise and local option taxes	3,009,000	3,009,000	3,061,183	52,183
Payments in lieu of taxes	112,000	112,000	112,483	483
Departmental charges for services	248,000	248,000	232,607	(15,393)
Licenses and permits	400,000	400,000	371,648	(28,352)
Intergovernmental	6,037,381	6,037,381	6,218,624	181,243
Fines and forfeits	130,000	130,000	101,880	(28,120)
Investment income	100,000	100,000	204,616	104,616
Other	55,920	55,920	57,396	1,476
Total revenues	<u>62,671,901</u>	<u>62,671,901</u>	<u>62,949,019</u>	<u>277,118</u>
Expenditures:				
General government	3,521,754	3,326,634	2,738,840	587,794
Public safety	5,056,886	5,201,780	5,128,328	73,452
Education	38,638,824	38,638,824	38,559,460	79,364
Public works	2,577,026	2,595,982	2,421,966	174,016
Human services	718,974	732,389	671,072	61,317
Recreation and culture	1,144,145	1,162,000	1,106,509	55,491
Debt service	2,666,815	2,666,815	2,666,161	654
Intergovernmental	229,744	229,744	251,463	(21,719)
Employee benefits	9,068,697	9,068,697	8,678,892	389,805
Other	258,959	258,959	241,455	17,504
Total expenditures	<u>63,881,824</u>	<u>63,881,824</u>	<u>62,464,146</u>	<u>1,417,678</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,209,923)</u>	<u>(1,209,923)</u>	<u>484,873</u>	<u>1,694,796</u>
Other financing sources (uses):				
Operating transfers in	952,083	952,083	807,200	(144,883)
Operating transfers out	<u>(417,160)</u>	<u>(417,160)</u>	<u>(417,160)</u>	<u>-</u>
Total other financing sources (uses)	<u>534,923</u>	<u>534,923</u>	<u>390,040</u>	<u>(144,883)</u>
Net changes in fund balances	<u>(675,000)</u>	<u>(675,000)</u>	<u>874,913</u>	<u>1,549,913</u>
Fund balance, beginning of year			<u>4,854,725</u>	
Fund balance, end of year			<u>5,729,638</u>	

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Net Position - Proprietary Funds

June 30, 2020

	<u>Water</u> <u>Enterprise Fund</u>	<u>Sewer</u> <u>Enterprise Fund</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,332,950	7,217,403	8,550,353
Receivables (net):			
User charges	141,610	138,131	279,741
Liens	13,736	11,348	25,084
Special Assessments	-	1,010	1,010
Unbilled revenue	629,556	607,243	1,236,799
Due from Commonwealth	-	444	444
	<u>2,117,852</u>	<u>7,975,579</u>	<u>10,093,431</u>
Total current assets			
Noncurrent assets:			
Special Assessments	35,700	402,520	438,220
Due from Commonwealth	-	6,465	6,465
Capital assets	21,789,427	15,016,921	36,806,348
Accumulated depreciation	(13,130,060)	(5,978,441)	(19,108,501)
	<u>8,695,067</u>	<u>9,447,465</u>	<u>18,142,532</u>
Total noncurrent assets			
Total assets	<u>\$ 10,812,919</u>	<u>17,423,044</u>	<u>28,235,963</u>
<u>Deferred Outflows of Resources</u>			
Deferred amounts related to OPEB	3,149	2,099	5,248
Deferred amounts related to pensions	54,902	36,693	91,595
	<u>58,051</u>	<u>38,792</u>	<u>96,843</u>
Total deferred outflows			
<u>Liabilities</u>			
Current Liabilities:			
Warrants and accounts payable	\$ 57,452	193,728	251,180
Accrued payroll and withholdings	10,875	7,250	18,125
Accrued interest payable	7,374	19,132	26,506
Due to other governments	-	4,626,579	4,626,579
Notes payable	-	821,000	821,000
Bonds payable	253,605	432,851	686,456
Compensated Absences	13,330	8,886	22,216
	<u>342,636</u>	<u>6,109,426</u>	<u>6,452,062</u>
Total current liabilities			
Noncurrent liabilities:			
Compensated Absences	3,600	2,400	6,000
Other post employment benefits	271,857	181,238	453,095
Net pension liability	616,432	411,987	1,028,419
Bonds payable	1,444,632	2,319,001	3,763,633
	<u>2,336,521</u>	<u>2,914,626</u>	<u>5,251,147</u>
Total noncurrent liabilities			
Total liabilities	<u>2,679,157</u>	<u>9,024,052</u>	<u>11,703,209</u>
<u>Deferred Inflows of Resources</u>			
Deferred amounts related to OPEB	70,972	47,315	118,287
Deferred amounts related to pensions	23,836	15,931	39,767
	<u>94,808</u>	<u>63,246</u>	<u>158,054</u>
Total deferred inflows			
<u>Net Position</u>			
Net investment in capital assets	6,961,130	5,477,738	12,438,868
Restricted	300,206	254,504	554,710
Unrestricted	835,669	2,642,296	3,477,965
	<u>\$ 8,097,005</u>	<u>8,374,538</u>	<u>16,471,543</u>
Total net position			

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2020

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 2,526,459	2,532,181	\$ 5,058,640
Special Assessments	30,083	78,816	108,899
Total operating revenues	2,556,542	2,610,997	5,167,539
Operating expenditures:			
Salaries, wages and employee benefits	380,893	260,057	640,950
Energy purchases	1,312,356	1,329,417	2,641,773
Other operating expenses	376,293	624,028	1,000,321
Depreciation	539,042	266,500	805,542
Total operating expenditures	2,608,584	2,480,002	5,088,586
Operating income	(52,042)	130,995	78,953
Nonoperating revenues (expenses):			
Interest income	23,466	76,895	100,361
Interest expense	(44,530)	(42,039)	(86,569)
Other	-	1,879	1,879
Total nonoperating revenues (expenses)	(21,064)	36,735	15,671
Income before transfers	(73,106)	167,730	94,624
Operating transfers in (out)	-	-	-
Changes in net position	(73,106)	167,730	94,624
Net position, beginning of year	8,170,111	8,206,808	16,376,919
Net position, end of year	\$ 8,097,005	8,374,538	\$ 16,471,543

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2020

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 2,378,374	2,551,204	4,929,578
Cash paid to suppliers	(1,647,401)	(862,567)	(2,509,968)
Cash paid to employees	(406,273)	(270,663)	(676,936)
Transfers (to) from other funds	-	-	-
	<u>324,700</u>	<u>1,417,974</u>	<u>1,742,674</u>
Cash flows from investing activities:			
Interest on deposits and investments	<u>23,466</u>	<u>76,895</u>	<u>100,361</u>
Cash flows from capital and related financing activities:			
Capital expenditures	(119,983)	-	(119,983)
Interest paid, net of subsidy	(46,117)	(163,570)	(209,687)
Principal repayments, net of subsidy	(272,855)	(469,370)	(742,225)
Proceeds of bonds, notes and premiums, net of note repayments	-	(45,000)	(45,000)
	<u>(438,955)</u>	<u>(677,940)</u>	<u>(1,116,895)</u>
Net cash provided by capital and related financing activities:	<u>(438,955)</u>	<u>(677,940)</u>	<u>(1,116,895)</u>
Net increase in cash and cash equivalents	(90,789)	816,929	726,140
Cash and cash equivalents, beginning of year	<u>1,423,739</u>	<u>6,400,474</u>	<u>7,824,213</u>
Cash and cash equivalents, end of year	<u>\$ 1,332,950</u>	<u>7,217,403</u>	<u>8,550,353</u>
Reconciliation of operating income to net cash provided			
By operating activities:			
Operating income (loss)	\$ (52,042)	130,995	78,953
Transfers (to) from other funds	-	-	-
Depreciation, bad debts & reserve	539,042	266,500	805,542
(Increase) Decrease in receivables and unbilled revenue	(178,167)	(59,792)	(237,959)
Increase (Decrease) in payables	46,350	164,862	211,212
Increase (Decrease) in due to other governments	-	929,417	929,417
Increase (Decrease) in OPEB & compensated absences	989	1,383	2,372
Increase (Decrease) in net pension liability & related deferrals	(31,472)	(15,391)	(46,863)
	<u>(31,472)</u>	<u>(15,391)</u>	<u>(46,863)</u>
Net cash provided by operating activities	<u>\$ 324,700</u>	<u>1,417,974</u>	<u>1,742,674</u>

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Net Position

Fiduciary Funds

June 30, 2020

	<u>OPEB Trust Fund</u>	<u>Agency</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents - unrestricted	-	40,954
Cash and cash equivalents - restricted	-	635,492
Investments	3,735,099	-
Receivables:		
Departmental	\$ -	10,851
Total assets	<u>3,735,099</u>	<u>687,297</u>
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	-	3,614
Accrued payroll	-	9,052
Other Liabilities	\$ -	674,631
Total liabilities	<u>-</u>	<u>687,297</u>
<u>Net Position</u>		
Held in trust for retiree insurance benefits	<u>3,735,099</u>	<u>-</u>
Total net position	<u>\$ 3,735,099</u>	<u>-</u>

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

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Statement of Changes in Fund Net Position

Fiduciary Funds

For the Year Ended June 30, 2020

	<u>OPEB Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	550,000
Employer - to pay for OPEB benefits	\$ <u>1,346,422</u>
Total contributions	<u>1,896,422</u>
Investment income:	
Interest	<u>71,059</u>
Total investment income	<u>71,059</u>
Total additions	<u>1,967,481</u>
<u>Deductions</u>	
Benefits	<u>1,346,422</u>
Total deductions	<u>1,346,422</u>
Change in net position held in trust for retiree insurance benefits	621,059
Net position - beginning of year	<u>3,114,040</u>
Net position - end of year	<u>\$ <u>3,735,099</u></u>

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

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 1. Reporting Entity and Significant Accounting Policies

A. Introduction

The Town of Northborough was incorporated as a town in 1766 under the statutes of the Commonwealth of Massachusetts. The Town operates with a selectmen-open Town meeting form of government and an elected five-member Board of Selectmen. The Town provides general municipal services including public safety, education, public works, health, culture and recreation. Water and sewer service are provided on an enterprise basis. The Town's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the standard setting body for governmental accounting and financial reporting.

B. Financial Reporting Entity

GAAP require that the accompanying financial statements present the Town (primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. In determining the financial reporting entity, the Town considered all potential component units and found that none exist.

Joint Ventures:

The Town is a participant in Algonquin Regional High School. The School was created to provide education to students in grades nine through twelve, from the Towns of Northborough and Southborough and is governed by a ten-member School Committee. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's assessment for fiscal year 2020 was \$12,873,955, which represents approximately 62% of the District's operating budget. A copy of the District's financial statement is available from the Superintendent's Office, 53 Parkerville Road, Southborough, MA 01772.

The Town is a participant in the Assabet Valley Regional Vocational School District (the District). The School was created to provide vocational technical education to students in Northborough and other communities and is governed by a board composed of the School Committees of member Towns. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's assessment for fiscal year 2020 was \$836,310, which represents approximately 7% of the School's operating budget. A copy of the School's financial statement is available from the Superintendent's Office, 215 Fitchburg Street, Marlborough, MA 01752.

C. Financial Statement Presentation

The financial condition and results of operations of the Town's funds are presented as of and for the year ended June 30, 2020. The accounting policies of the Town conform to GAAP.

D. Government-wide and Fund Financial Statements

The Town's basic financial statements include both government-wide and fund financial statements. The government-wide financial statements report information on all the non-fiduciary activities of the Town. For the most part, the effect of interfund activities has been removed from these statements.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 1. Reporting Entity and Significant Accounting Policies (continued)

D. Government-wide and Fund Financial Statements (continued)

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

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. GAAP requires that major individual governmental funds and major individual enterprise funds be reported as separate columns in the fund financial statements. The Town's general fund, school construction fund, water fund and sewer fund are reported as major funds. The Town reports the following fund financial statements:

Governmental Funds

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

Other Governmental Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Water Fund - This fund is used to account for the Town's water operations.

Sewer Fund - This fund is used to account for the Town's sewer operations.

Fiduciary Funds

Agency Funds - These funds are used to report resources held by the Town in a purely custodial capacity (assets equal liabilities).

OPEB Trust Fund - This fund is used to record assets set aside for future use related to the Town's Other Post Employment Benefits (OPEB) liability.

E. Measurement Focus and Basis of Accounting

The government-wide, propriety, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 1. Reporting Entity and Significant Accounting Policies (continued)

E. Measurement Focus and Basis of Accounting (continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Town considers revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes and interest associated with the current fiscal year are susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, however, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded when payment is due or expected to be liquidated by current expendable available resources. General capital asset acquisitions are reported as expenditures in governmental funds.

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

a. Deposits and Investments

State statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. The Town, with certain restrictions, can also purchase obligations of United States Government or its agencies, repurchase agreements, money market funds and units of the Massachusetts Municipal Depository Trust (MMDT), an investment pool established by the State Treasurer. In addition, certain other governmental funds have other investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

The Town pools cash to facilitate the management of cash. Each fund presents its pro rata share of the combined cash account as cash and cash equivalents in the accompanying basic financial statements. The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less. Investments are reported at fair value.

b. Property Taxes

The Town is responsible for assessing and collecting property taxes in accordance with enabling state laws. Property taxes are determined, each year, on the full and fair cash value of taxable properties as of January 1st. The tax levy is divided into two billings and is payable on a quarterly basis. The first billing is an estimate of the current year's levy based on the prior year's taxes. 50% is due on August 1st and 50% is due on November 1st. The second billing reflects adjustments to the current year's actual levy with 50% due on February 1st and 50% due on May 1st. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivable in the fiscal year billed.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2 1/2% of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2 %, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a Town-wide referendum vote.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

c. Inventories

The costs of inventories are not material and the purchase method is used in all funds except for the solid waste special revenue fund. The solid waste fund records trash bags purchased but not sold as inventory at purchased cost.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of the roadways and curbing assets that were acquired or that received substantial improvements after July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost 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 are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of five years. Such assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 30
Buildings	40
Building improvements	7 - 20
Vehicles and equipment	3 - 10
Infrastructure	30 - 100

e. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and certain sick leave absences. In the government-wide and proprietary fund financial statements, this liability is recognized when the associated benefit has been earned. For sick leave benefits, a liability is recognized when the sick leave benefit (primarily sick leave buy-back benefits) is fully vested.

f. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the entity wide and governmental fund statements may present deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an outflow (expense/expenditure) at that time. Deferred inflows of resources represent acquisition of net position that applies to a future period and will be recognized as an inflow (revenue) at that time. In the entity wide and proprietary fund statements, the Town has recorded certain amounts related to the pensions and OPEB liability as deferred outflows and deferred inflows of resources. In governmental funds, unavailable revenue is recorded as deferred inflows.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are (if material) deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

h. Pensions

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

i. Other Post-Employment Benefits

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

j. Fund Balances - Governmental Funds

In the governmental fund financial statements, fund balance is divided into five categories - nonspendable, restricted, committed, assigned and unassigned. Presented below is a discussion of each GASB 54 fund balance classification.

Nonspendable - Amounts that cannot be spent because they are either not in spendable form or must be kept intact for legal or contractual reasons. This category is utilized mainly for permanent fund principal and includes (if applicable) prepaid expenses, inventory and long-term portion of loans receivable (unless the purpose is restricted, committed or assigned).

Restricted - Amounts constrained to specific purpose by external parties, enabling legislation and constitutional provision. Enabling legislation means the government is authorized to collect revenue and other parties (citizens, courts) can compel the government to spend the funds only on the authorized purpose.

Committed - Amounts constrained to specific purpose by the highest level of decision-making authority (Town Meeting) and can be changed only by the same action.

Assigned - Amounts intended for use for a specific purpose by the Selectmen, Town Committee or Town management but do not meet the criteria to be classified as restricted or committed.

Unassigned - The residual classification of the Town's general fund only (and residual deficits in other governmental funds).

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

j. Fund Balances - Governmental Funds (continued)

Committed fund balance is created from Town Meeting action and must be uncommitted by similar action. There is no committed fund balance in the general fund at June 30, 2020. Assigned fund balance is created primarily from authorized actions of the Board of Selectmen or Town management. Assigned fund balance includes general fund encumbrances and article carry forwards of \$997,877.

Stabilization funds are obtained by Town Meeting authorization and are almost exclusively generated from transfers from the general fund budget. These funds are set aside for extraordinary or unforeseen purposes, must be approved by Town Meeting \$5,061,660 from the Town's general stabilization fund.

The Town's policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year via adjusting journal entries. It is possible for non-general funds to have negative unassigned fund balances when non-spendable amounts plus restricted, committed and assigned fund balances exceed the total positive fund balance in a specific fund. The Town's fund balance policy sets a reserve goal at 10% of general fund operating expenditures. Reserves are defined as general fund unassigned fund balance plus general fund committed (stabilization) fund balance.

k. Net Position

Net position appears in the Town's proprietary (enterprise) and fiduciary funds and the government wide financial statements. Net position is the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets less accumulated depreciation and outstanding debt (net of related debt subsidies from the state). Restricted net position consists of net position with constraints placed on the use either by grantors, creditors, contributors or laws and regulations of other governments or by constitutional provisions or enabling legislation.

l. Use of Estimates

In preparing the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Budgetary Information

Under the Town's by-laws, budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review. The Selectmen and the Finance Committee have until April, when the Town meeting is held, to make their recommendations regarding department requests. After approval of the budget at the annual Town meeting, the tax

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 2. Budgetary Information (continued)

recapitulation sheet is prepared. During this process the property tax rate is determined, and the recap sheet is sent to the Department of Revenue for approval. This process should generally be completed by November, so the actual tax bills can be mailed by January 1, due and payable by the taxpayer on February 1.

The Town must establish its tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures, state and county assessments, and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenues and transfers projected to be received by the Town, including available funds.

The final Town budget as presented in the Budgetary Comparison Schedule - General Fund was developed as follows:

Expenditures and transfers out	<u>\$64,298,984</u>
To be funded as follows:	
Budgeted revenue	\$62,671,901
Transfers from other funds	952,083
Allocation of surplus	<u>675,000</u>
Total funding	<u>\$64,298,984</u>

The Town's General Fund budget is prepared on a basis other than GAAP. The "actual" results column of the Budgetary Comparison Schedule - General Fund is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are:

- a. Property tax revenues are recorded when the cash is received as opposed to when susceptible to accrual (GAAP);
- b. Encumbrances and continuing appropriations are recorded as expenditures (budgetary) as opposed to a reservation of fund balance (GAAP); and
- c. On behalf payments for state teacher's retirement system and subsidized debt and stabilization fund activity is recognized for GAAP only.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the general fund for the year ended June 30, 2020:

Net changes in fund balances - Budgetary Basis	\$874,913
Adjustments:	
Record Revenues on a Modified Accrual Basis	88,953
On Behalf Payments, Net (Gross of \$6,562,816)	-
Stabilization Fund Investment Income	160,807
Adjustment for Encumbrances and Continuing Articles	<u>288,211</u>
Net changes in fund balances - GAAP Basis	<u>\$1,412,884</u>

Within the adopted budget a sum is allocated to provide funding for extraordinary or unforeseen expenditures. The Finance Committee can authorize transfers from this reserve fund. Any other modifications to the budget would require action by Town Meeting.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 3. Deposits and Investments

Cash Deposits - Unrestricted

Custodial risk on cash deposits is the risk that in the event of a depository failure, the Town will not be able to recover the value of its deposits or collateral securities that are in the possession of the depository. The Town attempts to limit custodial risk by placing funds in a variety of financial institutions and maximizing amounts insured or collateralized. At June 30, 2020, the Town's carrying amount of deposits was \$10,379,264 and the bank balance was \$11,383,580. Of the bank balances, \$9,048,482 was covered by Federal Deposit Insurance Corporation (FDIC) or other state insurance and \$2,335,098 was collateralized by securities held by a third-party bank. There were no uninsured or uncollateralized balances.

Cash Deposits - Restricted

The Town has certain restricted deposits that represent funds required from developers to guarantee completion of construction work. These restricted deposits appear only in the Town's agency fund. At June 30, 2020, the Town's carrying amount of restricted deposits was \$635,497 and the bank balance was \$635,497, with all balances insured by FDIC or other state insurance.

Investments

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

<u>Type of Investment</u>	<u>Fair Value</u>
<u>Debt Securities</u>	
US government and agency securities	\$4,316,548
Other fixed income securities	<u>5,766,066</u>
Total Debt Securities	\$10,082,614
 <u>Other Investments</u>	
PRIM - OPEB	3,735,099
Equities	242,118
Money market mutual funds (cash equivalents)	425,195
MMDT – cash portfolio (cash equivalents)	<u>13,844,507</u>
Total investments	<u>\$28,329,533</u>

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have an investment policy covering custodial credit risk. Of the investments listed above, \$3,735,099 is exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the counterparty. The remaining amount is not exposed to custodial credit risk because the securities are registered in the Town's name or represent balances not evidenced by securities that exist in physical or book form

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in interest rates. The Town does not have an investment policy covering interest rate risk. Maturities on the Town's investments subject to interest rate risk are as follows:

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 3. Deposits and Investments (continued)

	<u>Fair Value</u>	<u>Under One Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Thereafter</u>
US government & agencies	\$4,316,548	1,152,876	2,778,075	385,597	-
Other fixed income securities	<u>5,766,066</u>	<u>903,179</u>	<u>4,862,887</u>	-	-
Total	<u>\$10,082,614</u>	<u>2,056,055</u>	<u>7,640,962</u>	<u>385,597</u>	=

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Town does not have an investment policy which would limit its investment choices as to credit risk.

	<u>Fair Value</u>	<u>AA to A</u>	<u>BBB</u>	<u>Not Rated</u>
US government & agencies	\$4,316,548	4,316,548	-	-
Other fixed income securities	<u>5,766,066</u>	<u>2,351,307</u>	<u>1,015,371</u>	<u>2,399,388</u>
Total	<u>\$10,082,614</u>	<u>6,667,855</u>	<u>1,015,371</u>	<u>2,399,388</u>

The remaining investments are unrated.

Concentration of credit risk – The Town does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding US federal agency securities, and external investment pools, there are no securities or issuers which represent more than 5% of the total investments of the governmental funds or governmental activities.

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town’s mission, the Town determines that disclosures related to these investments only need to be disaggregated by major type. The Town chooses a narrative format for the fair value disclosures. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At June 30, 2020, US government and agency securities, mutual funds, equities and money market mutual funds are categorized as Level 1 and other fixed income securities are categorized as Level 2.

MMDT cash portfolio investments are valued at amortized cost. Under this method, an investment is initially valued at its cost and adjusted for the amount if income accrued each day over the investment term to account for the difference between the initial cost and the amount payable at maturity. If amortized cost is determined not to approximate fair value, the value will be established under procedures established by the investment advisor. PRIM investments are valued using the net asset value method. PRIM is an investment pool established by the Commonwealth of Massachusetts and administered by the Pension Reserve Investment Management Board. The fair values of the positions in each investment pool are the same as the value of each pool’s shares. The Town does not have the ability to control any investment decisions relative to its funds in PRIM.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 4. Receivables

At June 30, 2020, receivables for individual major and non-major funds, in the aggregate and including allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance</u>	<u>Net Amount</u>
Governmental activities:			
Real estate and personal property	\$912,047	(446,891)	465,156
Tax liens	677,955	(50,000)	627,955
Excise taxes	290,700	(86,514)	204,186
Departmental	444,456	(77,427)	367,029
	<u>2,325,158</u>	<u>(660,832)</u>	<u>1,664,326</u>
Business-type activities:			
Water user charges	\$155,346	-	155,346
Water betterments	35,700	=	35,700
	<u>\$191,046</u>	=	<u>191,046</u>
Sewer user charges	\$149,479	-	149,479
Sewer betterments	403,530	=	403,530
	<u>\$553,009</u>	=	<u>553,009</u>

Note 5. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$8,183,671	-	-	8,183,671
Construction in progress	530,743	1,259,521	214,400	1,575,864
Total capital assets not being depreciated	<u>8,714,414</u>	<u>1,259,521</u>	<u>214,400</u>	<u>9,759,535</u>
Capital assets being depreciated:				
Land improvements	1,074,036	-	-	1,074,036
Buildings and improvements	66,771,155	250,118	-	67,021,273
Equipment	20,499,937	1,070,435	243,461	21,326,911
Infrastructure	38,012,777	1,003,659	=	39,016,436
Total capital assets being depreciated	<u>126,357,905</u>	<u>2,324,212</u>	<u>243,461</u>	<u>128,438,656</u>
Less accumulated depreciation for:				
Land improvements	(772,184)	(34,090)	-	(806,274)
Buildings and improvements	(22,454,238)	(2,210,452)	-	(24,664,690)
Equipment	(15,340,954)	(953,638)	(243,461)	(16,051,131)
Infrastructure	(25,137,778)	(1,387,036)	=	(26,524,814)
Total accumulated depreciation	<u>(63,705,154)</u>	<u>(4,585,216)</u>	<u>(243,461)</u>	<u>(68,046,909)</u>
Capital assets being depreciated, net	<u>62,652,651</u>	<u>(2,261,004)</u>	=	<u>60,391,747</u>
Total governmental activities capital assets, net	<u>\$71,367,165</u>	<u>(1,001,483)</u>	<u>214,400</u>	<u>70,151,282</u>

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 5. Capital Assets (continued)

Depreciation expense was charged to functions as follows:		<u>Governmental</u>		
		<u>Activities</u>		
General government		\$178,064		
Public safety		465,460		
Education		1,742,277		
Public works		1,834,246		
Human services		142,840		
Recreation and culture		<u>222,329</u>		
Total governmental activities depreciation expense		<u>\$4,585,216</u>		
	<u>Beginning</u>		<u>Additions</u>	<u>Reductions</u>
	<u>Balance</u>			<u>Ending</u>
				<u>Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and land improvements	\$2,771,038	-	-	2,771,038
Construction in progress	<u>20,002</u>	<u>119,983</u>	=	<u>139,985</u>
Total capital assets not being depreciated	<u>2,791,040</u>	<u>119,983</u>	=	<u>2,911,023</u>
Capital assets being depreciated:				
Buildings and improvements	7,342,936	-	-	7,342,936
Equipment	3,701,479	-	-	3,701,479
Infrastructure	<u>22,850,910</u>	=	=	<u>22,850,910</u>
Total capital assets being depreciated	<u>33,895,325</u>	=	=	<u>33,895,325</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,378,642)	(203,404)	-	(3,582,046)
Equipment	(2,149,478)	(269,583)	-	(2,419,061)
Infrastructure	<u>(12,774,839)</u>	<u>(332,555)</u>	=	<u>(13,107,394)</u>
Total accumulated depreciation	<u>(18,302,959)</u>	<u>(805,542)</u>	=	<u>(19,108,501)</u>
Capital assets being depreciated, net	<u>15,592,366</u>	<u>(805,542)</u>	=	<u>14,786,824</u>
Total governmental activities capital assets, net	<u>\$18,383,406</u>	<u>(685,559)</u>	=	<u>17,697,847</u>
Depreciation expense was charged to functions as follows:		<u>Business-type Activities</u>		
Water		\$539,042		
Sewer		<u>266,500</u>		
Total business-type activities depreciation expense		<u>\$805,542</u>		

Note 6. Short-term Debt

Subject to state laws, the Town is authorized to issue general obligation debt on a temporary basis. The following classes of short-term loans can be issued:

Tax anticipation notes (TANs) - This debt is issued to provide funding for operations during lean periods in a fiscal cycle. They are repaid from subsequent collections of taxes or other revenues.

Bond anticipation notes (BANs) - This debt is issued to provide initial funding for capital projects. They are redeemed from the proceeds from the sale of the bonds.

Grant anticipation notes (GANs) - This debt is issued to provide funding for projects in anticipation of reimbursement from federal or state grants. They are repaid from subsequent distributions from the federal or state agency.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 6. Short-term Debt (continued)

Short-term debt activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Bond anticipation notes:				
Town capital projects and land purchase	\$1,551,000	1,609,000	1,551,000	1,609,000
	<u>\$1,551,000</u>	<u>1,609,000</u>	<u>1,551,000</u>	<u>1,609,000</u>
Business-type activities:				
Bond anticipation notes:				
Sewer projects	\$866,000	821,000	866,000	821,000
	<u>\$866,000</u>	<u>821,000</u>	<u>866,000</u>	<u>821,000</u>

Note 7. Long-term Obligations

The following is a summary of the changes in the Town's long-term obligation for the year ended June 30, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental activities:					
Compensated absences	\$379,811	96,729	-	476,540	291,039
Other post employment benefits	34,199,861	1,662,568	-	35,862,429	-
Net pension liability	29,593,234	354,807	-	29,948,041	-
Bonds payable	<u>19,463,500</u>	-	<u>1,996,500</u>	<u>17,467,000</u>	<u>1,594,000</u>
	<u>\$83,636,406</u>	<u>2,114,104</u>	<u>1,996,500</u>	<u>83,754,010</u>	<u>1,885,039</u>
Business-type activities:					
Compensated absences	\$19,407	8,809	-	28,216	22,216
Other post employment benefits	436,084	17,011	-	453,095	-
Net pension liability	1,137,020	-	14,875	1,122,145	-
Unamortized bond premium	118,696	-	118,696	-	-
Bonds payable	<u>5,199,045</u>	-	<u>748,956</u>	<u>4,450,089</u>	<u>686,456</u>
	<u>\$6,910,252</u>	<u>25,820</u>	<u>882,527</u>	<u>6,053,545</u>	<u>708,672</u>

Note 8. Bonds Payable

The Town's indebtedness consists of general obligation serial notes issued for funding various special projects. All bond issues must be approved by Town meeting. The outstanding governmental and business-type activities bonds are presented below.

<u>Governmental-Type Project</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at July 1, 2019</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2020</u>
School Construction	02/01/20	5.0%-6.25%	\$337,500	-	337,500	\$ -
Land	02/15/22	3.5%-4.5%	165,000	-	55,000	110,000
General Purpose	05/01/28	2.0%-5.0%	2,582,000	-	299,000	2,283,000
General Purpose	04/01/29	2.0%-5.0%	3,790,000	-	420,000	3,370,000
General Purpose	04/15/23	2.0%-5.0%	165,000	-	90,000	75,000
School Construction	06/15/35	2.0%-3.0%	5,910,000	-	370,000	5,540,000
School Construction	01/15/36	2.0%-5.0%	5,780,000	-	340,000	5,440,000
Church Street Bridge	06/01/28	5.0%	<u>734,000</u>	-	<u>85,000</u>	<u>649,000</u>
Totals			<u>\$19,463,500</u>	=	<u>1,996,500</u>	<u>\$17,467,000</u>

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 8. Bonds Payable (continued)

Business-Type Project	Maturity Date	Interest Rate	Outstanding at July 1, 2019	Issued	Redeemed	Outstanding at June 30, 2020
Sewer	02/01/20	5.0%-6.25%	38,250	-	38,250	-
Sewer	02/01/21	1.2%	42,579	-	21,289	21,290
Sewer	02/15/22	3.5%-4.5%	90,000	-	30,000	60,000
Sewer	05/15/25	3.5%-4.25%	180,000	-	30,000	150,000
Sewer	10/15/21	3.5%-4.25%	150,000	-	50,000	100,000
Sewer	07/15/20	0%	21,124	-	10,562	10,562
Sewer	05/01/29	2.0%-5.0%	760,000	-	76,000	684,000
Sewer Land	10/15/24	4.0%-6.5%	605,000	-	105,000	500,000
Sewer Pump Station Plan	06/01/23	5.00%	73,000	-	20,000	53,000
Sewer Pump Station	06/01/23	3.0%-5.0%	1,268,000	-	95,000	1,173,000
Water	02/01/20	5.0%-6.25%	19,250	-	19,250	-
Water	02/15/22	3.5%-4.5%	45,000	-	15,000	30,000
Water	05/15/25	3.5%-4.25%	180,000	-	30,000	150,000
Water	05/01/29	2.0%-5.0%	598,000	-	60,000	538,000
Water	04/01/29	2.0%-5.0%	260,000	-	30,000	230,000
Water	04/15/23	2.0%-5.0%	80,000	-	20,000	60,000
Water	05/15/27	0%	<u>788,842</u>	=	<u>98,605</u>	<u>690,237</u>
Totals			<u>5,199,045</u>	=	<u>748,956</u>	<u>4,450,089</u>

The annual debt service requirements of the Town's outstanding indebtedness at June 30, 2020 are:

Fiscal Year	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2021	\$1,594,000	591,434	686,457	163,327	2,280,457	754,761
2022	1,543,000	534,976	645,605	136,983	2,188,605	671,959
2023	1,483,000	476,691	545,605	113,041	2,028,605	589,732
2024	1,448,000	423,959	510,605	92,324	1,958,605	516,283
2025	1,448,000	371,529	510,605	72,569	1,958,605	444,097
2026 – 2030	6,071,000	1,100,921	1,286,212	166,319	7,357,212	1,267,240
2031 – 2035	3,540,000	369,150	265,000	15,750	3,805,000	384,900
2036	<u>340,000</u>	<u>10,200</u>	=	=	<u>340,000</u>	<u>10,200</u>
Totals	<u>\$17,467,000</u>	<u>3,878,860</u>	<u>4,450,089</u>	<u>760,312</u>	<u>21,917,089</u>	<u>4,639,172</u>

Of the total business-type activities debt service requirements of \$5,210,401, the Town is scheduled to receive \$7,529 as reimbursement from the Commonwealth of Massachusetts Water Pollution Abatement Trust. The amount of this reimbursement that is related to debt principal (\$6,465) has been recorded as an intergovernmental receivable in the financial statements.

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 8. Bonds Payable (continued)

normal debt limit without state approval; those under the double debt limit require the approval of the Commonwealth's Oversight Board. As of June 30, 2020, the Town may issue approximately \$149,921,540 of additional general obligation debt under the normal debt limit. The Town has \$14,608,237 of issued debt exempt from the debt limit. At June 30, 2020, the Town also has authorized and unissued debt of \$7,619,954 for water, sewer, and other purposes. In addition to the Town's outstanding debt, the Town is assessed its share of debt from other governmental entities (known as overlapping debt). For the Algonquin Regional High School, the Town's share of the school's \$6,045,000 debt at June 30, 2020 is 61.52% or \$3,603,424 (amounts based on current assessment percentages). For the Assabet Valley Regional Vocational School District, the Town's share of the school's \$22,600,000 debt at June 30, 2020 is .696% or \$1,572,960 (amounts based on current assessment percentages).

Note 9. Governmental Fund Balances

The detailed breakdown of fund balances for the Town's governmental funds appears below.

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
Inventory	\$ -	17,787	17,787
Permanent fund principal	-	829,147	829,147
Restricted:			
Permanent fund spendable amounts	-	369,064	369,064
Fire station project	-	1,380,366	1,380,366
Town offices project	-	767,738	767,738
Roadway projects	-	312,851	312,851
Other capital projects	-	302,356	302,356
Community preservation act projects	-	1,468,780	1,468,780
School grants	-	1,219,341	1,219,341
Conservation	-	362,352	362,352
EMS/Ambulance services	-	546,595	546,595
Cable access	-	504,212	504,212
Solid Waste	-	249,487	249,487
Other purposes - special revenue	-	817,805	817,805
Committed:			
Subsequent year's budget and articles	-	-	-
Assigned:			
Gifts and donations	-	477,292	477,292
General government encumbrances	134,415	-	134,415
Education encumbrances	362,382	-	362,382
Public works encumbrances	393,085	-	393,085
Other encumbrances	107,995	-	107,995
Unassigned:			
Stabilization fund	5,061,660	-	5,061,660
General fund residual balance	<u>5,997,846</u>	-	<u>5,997,846</u>
Total governmental fund balances	<u>\$12,057,383</u>	<u>9,625,173</u>	<u>\$21,682,556</u>

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 10. Inter-fund Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. For the year ended June 30, 2020, the general fund received transfers of \$91,917 from recreation revolving, \$325,252 from ambulance revolving, \$144,338 from other special revenue funds, \$233,429 from cable TV, and \$12,264 from cemetery perpetual care. These transfers were made to assist in funding certain items in the general fund budget and are done on an annual basis or to close out capital project balances funded from free cash. The general fund transferred \$417,160 to the solid waste fund for an operating subsidy. In addition, the ambulance fund transferred \$59,000 to the capital projects fund for a project BAN pay down.

Note 11. Pension Plans

Town employees participate in two cost sharing, multiple employer defined benefit plans. The systems are funded by contributions from participants, employer contributions and/or state appropriations. These systems are the Worcester Regional Retirement System, which covers most non-teaching employees of the Town and the Massachusetts Teachers Retirement System, which covers most teaching employees and some school administrative employees.

Worcester Regional Retirement System:

Plan Description: Town employees are provided with pensions through the Worcester Regional Retirement System, a cost sharing, multiple employer defined benefit plans administered by the Worcester Regional Retirement Board and regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). Chapter 32 of the Massachusetts General Laws (MGL) grants the authority to establish and amend benefit terms. The System issues an annual public report that can be obtained at worcesterregionalretirement.org.

Benefits Terms: Membership in the System is mandatory for all full-time employees and non-seasonal employees who, in general, regularly work more than twenty hours per week.

The System provides retirement, disability and death benefits. Retirement benefits are determined as follows. For employees hired prior to April 2, 2012, it is 2.5% of the employee's final three-year average compensation multiplied by the employee's years of service (a percentage lower than 2.5% is used if the employee retires prior to full retirement age which is normally 65). For employees hired on or after April 2, 2012, it is 2.5% of the employee's final five-year average compensation multiplied by the employee's years of service (a percentage lower than 2.5% is used if the employee retires prior to full retirement age which is normally 67). Employees may elect early retirement after 20 years of service or at any time after attaining age 55 (age 60 if hired on or after April 2, 2012) with 10 years eligible service.

System members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. Disability benefits are based on several factors, including the member's age, compensation, veteran status, years of service and whether or not the disability is work related. In addition, certain death benefits exist for beneficiaries who die in active service.

Cost of living adjustments (COLAs) granted between 1981 and 1997 are the responsibility of the Commonwealth. Beginning in 1998, funding COLAs became the responsibility of the System.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 11. Pension Plans (continued)

Contributions: Chapter 32 of MGL governs the contributions of plan members and member employers. Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; 8% of the first \$30,000 and 10% thereafter if first employed on or after January 1, 1984; and 9% of the first \$30,000 and 11% thereafter if first employed on or after January 1, 1998. The Town's contribution reflects its share of the system-wide actuarial determined contribution, in accordance with Chapter 32 Section 22D of MGL, apportioned among all System employers based on an annual employer normal cost and amortization payments to pay the unfunded net pension liability in full by fiscal year 2036. Contributions to the System by the Town for the year ended June 30, 2020 were \$2,118,897.

Return of Contributions: Employee contributions may be returned to the participants upon leaving Town employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

Net Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Town reported a liability of \$30,976,460 for its proportionate share of the net pension liability. The net pension liability was measured at 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, 2018 rolled forward to December 31, 2019. There were no material changes made in this update to the actuarial assumptions or to the retirement terms since the last actuarial valuation. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2019, the Town's proportion was 3.48%.

For the year ended June 30, 2020, the Town recognized pension expense of \$3,873,365. At June 30, 2020, the Town reported the following deferrals related to pensions: deferred outflows of 1) \$90,963 for the difference between expected and actual experience, 2) \$1,731,339 for changes in assumptions, and 3) \$936,604 in the change in allocated proportion, and deferred inflows of 4) \$850,819 for the net difference between projected and actual investment earnings, 5) \$161,407 for changes in employer proportion and 6) \$185,591 for the difference between expected and actual experience. Total net deferred outflows and inflows of \$1,561,089 (net outflows) will be recognized in pension expense as follows:

Fiscal year ended June 30:	
2020	\$ 650,407
2021	\$ 522,301
2022	\$ 364,919
2023	(\$ 172,949)
2024	<u>\$ 196,411</u>
Total	<u>\$1,561,089</u>

Actuarial Assumptions: The total pension liability in the January 1, 2018 actuarial valuation as updated to the December 31, 2019 measurement was determined using the following actuarial assumptions applied to all periods included in the measurement:

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 11. Pension Plans (continued)

Actuarial cost method	Entry age normal cost method
Inflation	2.4 percent
Salary increases	4.2%-6% for Group 1 and 4.75%-7% for Group 4
Amortization method	Payment increases 4.0% per year
Cost of living adjustments	3%

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

The long-term rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expenses 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 rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	39%	4.68%
Fixed Income	23%	1.90%
Private Equity	13%	8.50%
Real Estate	10%	3.70%
Timber/Natural Resources	4%	4.30%
Other	<u>11%</u>	3.40%
Total	<u>100%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employee contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of MGL. Based on those assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Town's proportionate share of the net pension liability of the System calculated using the discount rate of 7.65%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage-point higher (8.65%) than the current rate:

<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
\$37,799,346	\$30,976,460	\$25,214,725

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 11. Pension Plans (continued)

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a separately available audited financial statement available at worcesterregionalretirement.org. The System's fiduciary net position was determined using the accrual basis of accounting.

Massachusetts Teachers' Retirement System:

The Commonwealth of Massachusetts contributes, on behalf of the Town of Southborough, to the Massachusetts Teachers' Retirement System (MTRS) a cost-sharing multiple employer defined benefit plan with a special funding situation. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Management is invested in the Massachusetts Teacher's Retirement Board (MTRB), which consists of seven members – two are elected by MTRS members, one is chosen by the six other members, the State Auditor (or designee), the State Treasurer (or designee) a member appointed by the Governor and the Commissioner of Education (or designee) who serves ex-officio as the Chairman of the MTRB. The Commonwealth, a non-employer contributor, funds the plan through appropriations. Under MGLs, the Town is not required to contribute to the plan, which means that the Town is considered to be in a special funding situation under GASB 68. MTRS funding policies have been established by Chapter 32 of the Massachusetts General Laws (MGLs). The Commonwealth legislature has the authority to amend these policies. For the fiscal year ended June 30, 2019 (measurement date) the Commonwealth contributed \$1,443,710,000 to the plan. The Town's proportionate share of these contributions was \$3,098,733 (0.214537%).

At June 30, 2020, the Town reported no liability for its proportionate share of the net pension liability, as the Commonwealth provides 100% support to the Town through its appropriation to the MTRS. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. The total portion of the net pension liability that was associated with the Town and supported by the Commonwealth was \$54,118,575 (0.214537%). As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2019 (measurement date) was 0%.

For the year ended June 30, 2020, the Town recognized pension expense of \$6,562,816 and revenue of \$6,562,816 for support provided by the Commonwealth. At June 30, 2020, the Town reported no deferred outflows and no deferred inflows of resources related to this pension plan.

MTRS does not issue stand-alone financial statements but provides certain financial information at mass.gov/mtrs. Detailed information about the pension plan's fiduciary net position and other related matters is available in the Commonwealth of Massachusetts audited financial statement available at mass.gov/osc.

Note 12. Other Post-Employment Benefits (OPEB)

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

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 12. Other Post-Employment Benefits (OPEB) (continued)

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*, and 75. 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 same measurement date is used for both GASB 74 and GASB 75. When different measurement dates are used, differences in assumptions and calculations will result.

OPEB Plan disclosures that impact the Town's net OPEB liability using an actuarial study as July 1, 2018 and 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		218
Inactive employees		417
Total		635

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute between 25% to 49% of the set premium for health insurance, depending on the plan; 100% for dental, and 50% for life insurance. The remainder of the cost is funded by general revenues of the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. 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 6.9% of covered-employee 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, 2018. The components of the net OPEB liability of the Town at June 30, 2020 were as follows:

Total OPEB Liability		\$ 40,050,623
Plan fiduciary net position		(3,735,099)
Net OPEB liability		\$ 36,315,524
Plan fiduciary net position as a percentage of the total OPEB liability		9.33%

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 12. Other Post-Employment Benefits (OPEB) (continued)

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

Investment rate of return	7.01%, net of OPEB plan investment expense, including inflation.
Municipal bond rate	2.66% as of June 30, 2020
Discount Rate	6.25%, net of OPEB plan investment expense including inflation.
Inflation	2.5% as of July 1, 2020 and for future periods
Health Care Trend Rate	4.5%
Salary Increases	3.00% annually as of July 1, 2020 and for future periods
Pre-Retirement Mortality	RP-2014 Mortality Tables projected generationally with scale MP-2016 for males and females
Post-Retirement Mortality	RP-2014 Healthy Annuitant Tables projected generationally with scale MP-2016 for males and females
Disabled Mortality	RP-2014 Mortality Tables for Healthy Annuitants projected generationally with scale MP-2016 for males and females
Actuarial Cost Method	Individual entry age normal

Discount Rate – The discount rate used to measure the total OPEB liability was 6.25%. This was unchanged from June 30, 2019.

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:

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 12. Other Post-Employment Benefits (OPEB) (continued)

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

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		
	1% Decrease (5.25%)	Trend Rate (6.25%)	1% Increase (7.25%)
Net OPEB Liability	\$ 42,354,512	\$ 36,315,524	\$ 31,205,019
Service Cost	1,617,663	1,268,794	990,561
	Health Care Rate		
	1% Decrease (3.5%)	Current (4.5%)	1% Increase (5.6%)
Net OPEB Liability	\$ 30,809,592	\$ 36,315,524	\$ 43,227,299
Service Cost	1,029,507	1,268,794	1,587,742

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

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 12. Other Post-Employment Benefits (OPEB) (continued)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2019	\$ 37,749,985	\$ 3,114,040	\$ 34,635,945
Changes for the year:			
Service cost	1,268,794	-	1,268,794
Interest on liability, service cost and interest	2,397,236	-	2,397,236
Difference between expected and actual experience	(508,751)	-	(508,751)
Changes in assumptions	489,781	-	489,781
Net investment income	-	71,059	(71,059)
Employer contributions	-	1,896,422	(1,896,422)
Benefit payments withdrawn from trust	-	(1,346,422)	1,346,422
Benefit payments, implicit cost	(235,366)	-	(235,366)
Benefit payments, excluding implicit cost	(1,111,056)	-	(1,111,056)
Net changes	2,300,638	621,059	1,679,579
Balances at June 30, 2020	\$ 40,050,623	\$ 3,735,099	\$ 36,315,524

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2020, the Town recognized OPEB expense of \$1,638,031. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2020 were reported as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual earnings	\$ -	\$ 103,698
Changes in Assumptions	5,554,551	419,812
Difference between expected and actual experience	3,908,444	-
	\$ 9,462,995	\$ 523,510

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB (net inflow of \$8,939,485) will be recognized in OPEB expense (benefit) as follows:

June 30	
2021	\$ (1,790,754)
2022	\$ (1,790,754)
2023	\$ (1,772,314)
2024	\$ (1,774,856)
2025	\$ (1,808,098)
2026	\$ (2,709)
	\$ (8,939,485)

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 13. Sewage Treatment Litigation

The Town's sewage output is sent to the City of Marlborough's municipal treatment plant (the Plant). The Town has been utilizing the City's Plant under an inter-municipal agreement for many years. This agreement has expired, and the City and Town are currently in litigation regarding how recent and future sewage treatment will be charged. The City is currently charging the Town as an out of City commercial user, while the Town believes that charges must be based on a methodology like that provided for in the expired inter-municipal agreement. The Town has accrued a liability at June 30, 2020 of \$4,626,579 for a potential resolution of this issue based on the methodology the Town believes will be implemented as a result of this litigation. The City of Marlborough has provided the Town with an invoice that has an outstanding balance due from the Town at June 30, 2020 of approximately \$9,350,000, which the Town believes is significantly overstated based on the past inter-municipal agreement.

Note 14. Risk Management

Lawsuits may be pending or threatened against the Town, which arise from the ordinary course of operations, including actions commenced and claims asserted against it for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Town estimates that potential claims against the Town, not covered by insurance, resulting from such litigation, would not materially affect the financial statements.

The Town receives some financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and may be subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Town, although the Town expects that these amounts, if any, would be immaterial to the financial statements.

The COVID-19 outbreak has caused disruption to municipal operations and negatively impacted the Town's financial situation in various ways. This disruption is believed to be temporary, but there is uncertainty surrounding its duration and any potential future impacts on the Town's financial position. While the Commonwealth of Massachusetts has essentially level funded local aid for fiscal year 2021, it is unclear if any other revenue the Town receives from the state will be negatively impacted.

Note 15. Subsequent Events

The Town normally holds its annual Town Meeting in April of each year. Due to the COVID-19 outbreak, the 2021 Town Meeting was held in July, 2020. As a result, the amount the Town earmarked from available funds to offset items in the 2021 budget was not recorded as a reduction of unassigned fund balance prior to June 30, 2020. The amount that would have been deducted from unassigned fund balance in the general fund at June 30, 2020 would have been \$1,965,775. This amount would have either been recorded as committed fund balance in the general fund or transferred to the capital projects fund for approved capital improvements.

Town of Northborough, Massachusetts
Notes to the Financial Statements
June 30, 2020

Note 16. Implementation of new GASB Statements

During fiscal year 2020, the Town implemented the following GASB pronouncements:

- GASB Statement #95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was required to be implemented in fiscal year 2020. Due to COVID-19 restrictions, this Statement delayed the implementation date requirements of various GASB Statements and other guidance.

In future fiscal years, the Town will implement the following GASB pronouncements:

- GASB Statement #84 – *Fiduciary Activities*, which is required to be implemented in fiscal year 2022. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #87 – *Leases*, which is required to be implemented in fiscal year 2023. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in fiscal year 2023. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented in fiscal year 2022. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #91 – *Conduit Debt Obligations*, which is required to be implemented in fiscal year 2024. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #92 – *Omnibus 2020*, which is required to be implemented in fiscal year 2021 or 2023, depending on the provision. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #93 – *Replacement of Interbank Offered Rates*, which is required to be implemented in fiscal year 2022. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #94 – *Public-Private and Public-Public Partnerships of Availability Payment Arrangements*, which is required to be implemented in fiscal year 2024. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #96 – *Subscription-Based Information Technology Arrangements*, which is required to be implemented in fiscal year 2023. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #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*, which is required to be implemented in fiscal year 2022. The Town is currently evaluating the possible impact of this will have on its financial statements.

Town of Northborough, Massachusetts

Required Supplementary Information

Worcester Regional Retirement System

Town of Northborough's Proportionate Share of the System's Net Pension Liability

	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
December 31, 2019	3.480%	\$30,976,459	\$11,378,045	272.25%	47.36%
December 31, 2018	3.389%	\$30,730,253	\$10,399,313	295.50%	43.05%
December 31, 2017	3.358%	\$27,381,868	\$10,251,693	267.10%	46.40%
December 31, 2016	3.323%	\$27,829,488	\$10,509,931	264.79%	42.00%
December 31, 2015	3.302%	\$23,435,617	\$9,910,503	236.47%	44.52%
December 31, 2014	3.470%	\$20,649,958	\$9,529,330	216.70%	47.94%

Town of Northborough's Schedule of Contributions to the System

	<u>Actuarially Determined Contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
June 30, 2020	\$2,118,897	\$2,118,897	\$0.00	\$11,378,045	18.62%
June 30, 2019	\$1,886,814	\$1,886,814	\$0.00	\$10,399,313	18.14%
June 30, 2018	\$1,699,113	\$1,699,113	\$0.00	\$10,251,693	16.57%
June 30, 2017	\$1,613,924	\$1,613,924	\$0.00	\$10,509,931	15.36%
June 30, 2016	\$1,485,299	\$1,485,299	\$0.00	\$9,910,503	14.99%
June 30, 2015	\$1,371,384	\$1,371,384	\$0.00	\$9,529,330	14.39%

The above schedules are required for ten years. Additional years will be presented as they become available.

See notes to the required supplementary information

Town of Northborough, Massachusetts
Required Supplementary Information
Massachusetts Teachers' Retirement System

	<u>Commonwealth's 100% share of the Associated net pension liability</u>	<u>Expense and revenue recognized for the Commonwealth's support</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2020	\$54,118,575	\$6,562,816	53.95%
2019	\$51,131,147	\$5,181,401	54.84%
2018	\$49,779,824	\$5,195,665	54.25%
2017	\$49,388,653	\$5,037,966	52.73%
2016	\$44,647,492	\$3,621,309	55.38%
2015	\$34,824,664	\$3,285,388	61.64%

The above schedules are required for ten years. Additional years will be presented as they become available.

See notes to the required supplementary information

Town of Northborough, Massachusetts

Required Supplementary Information
Schedules of Changes in Net OPEB Liability
and Plan Fiduciary Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Total OPEB Liability (GASB 74)</u>				
Service cost	\$ 1,268,794	1,142,917	1,764,785	1,338,062
Interest on total OPEB liability	2,397,236	2,511,938	2,495,718	2,246,197
Changes in benefit terms	-	668,654	-	-
Difference between expected and actual plan experience	(508,751)	(4,861,321)	5,063,864	-
Changes in assumptions	489,781	(7,776,371)	-	-
Benefit payments, implicit cost	(235,366)	(219,979)	(181,372)	(168,980)
Benefit payments, including refunds of member contributions	(1,111,056)	(1,042,562)	(959,760)	(894,183)
Net change in total OPEB liability	2,300,638	(9,576,724)	8,183,235	2,521,096
Total OPEB liability - beginning of year	37,749,985	47,326,709	39,143,474	36,622,378
Total OPEB liability - end of year	\$ 40,050,623	37,749,985	47,326,709	39,143,474
<u>Plan Fiduciary Net Position (GASB 74)</u>				
Earnings from plan investments	71,059	175,450	203,867	183,516
Employer contributions	1,896,422	1,762,541	1,641,132	500,000
Benefit payments	(1,346,422)	(1,262,541)	(1,141,132)	-
Administrative expense	-	-	-	-
Net change in fiduciary plan net position	621,059	675,450	703,867	683,516
Plan fiduciary net position - beginning of year	3,114,040	2,438,590	1,734,723	1,051,207
Plan fiduciary net position - end of year	\$ 3,735,099	3,114,040	2,438,590	1,734,723
Net OPEB liability	\$ 36,315,524	34,635,945	44,888,119	37,408,751

These schedules are required for ten years. Additional years will be presented as they become available.

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

Town of Northborough, Massachusetts

Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Actuarially-determined contribution	\$ 3,818,668	\$ 3,574,860	\$ 4,143,197	\$ 3,775,994
Contributions in relation to the actuarially-determined contribution	<u>(1,896,422)</u>	<u>(1,762,541)</u>	<u>(1,641,132)</u>	<u>(1,563,163)</u>
Contribution deficiency (excess)	<u>\$ 1,922,246</u>	<u>\$ 1,812,319</u>	<u>\$ 2,502,065</u>	<u>\$ 2,212,831</u>
Covered-employee payroll	<u>\$ 27,498,288</u>	<u>\$ 26,697,367</u>	<u>\$ 24,956,701</u>	<u>\$ 24,956,700</u>
Contribution as a percentage of covered-employee payroll	<u>6.90%</u>	<u>6.60%</u>	<u>6.58%</u>	<u>6.26%</u>

SCHEDULE OF INVESTMENT RETURNS

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Annual money-weighted rate of return, net of investment expense	1.96%	6.24%	4.07%	10.67%

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 notes to the Required Supplementary Information and to the Town's financial statement for a summary of significant actuarial methods and assumptions.

Town of Northborough, Massachusetts
Notes to the Required Supplementary Information
June 30, 2020

Note A – Pension Plan Schedules

A. Schedule of the Town’s Proportionate Share of the Net Pension Liability

The Schedule of the Town’s Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Town’s Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member’s retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system’s funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the “total appropriation”. The pension fund appropriation is allocated to the Town based on covered payroll.

C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth’s 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan’s fiduciary net position as a percentage of the total liability.

D. Changes in Assumptions

The following assumption changes were reflected in the January 1, 2018 actuarial valuation:

- The investment rate of return assumption changed from 7.75% to 7.65%.

E. Changes in Plan Provisions

The following plan provision change was reflected in the January 1, 2018 actuarial valuation:

- None

Town of Northborough, Massachusetts
Notes to the Required Supplementary Information
June 30, 2020

Note B – Other Post-Employment Schedules

The Town administers a single-employer defined benefit healthcare plan (“The OPEB Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members.

A. Schedule of Changes in the Town’s Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the Town’s Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan’s total OPEB liability, changes in the Plan’s net position, and ending net OPEB liability. It also demonstrates the Plan’s net position as a percentage of the total liability and the Plan’s net other postemployment benefit liability as a percentage of covered employee payroll.

B. Schedule of the Town’s Contributions

The Schedule of the Town’s Contributions includes the Town’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

C. Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan’s other postemployment assets, net of investment expense. The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 9.33%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

D. Changes in Assumptions

Several changes in assumptions were made since the last valuation. The major changes are as follows: 1) the discount rate was increased from 5.25% to 6.25%; 2) mortality tables have been updated; and 3) long term medical trend was reduced from 5% to 4.5%.

E. Changes in Plan Provisions

There were no plan provision changes in the July 1, 2018 actuarial valuation.

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Balance Sheet - Nonmajor Governmental Funds

June 30, 2020

	<u>Special Revenue</u>				
	<u>School</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 1,248,884	1,224,704	3,078,311	46,756	5,598,655
Investments	-	4,113,930	-	1,153,669	5,267,599
Receivables:					
Property taxes	-	9,110	-	-	9,110
Tax liens and foreclosures	-	4,061	-	-	4,061
Departmental	-	443,706	-	-	443,706
Less: allowance for uncollectibles	-	(77,427)	-	-	(77,427)
Due From Commonwealth	8,872	531,538	-	-	540,410
Inventory	-	17,787	-	-	17,787
	<u>1,257,756</u>	<u>6,267,409</u>	<u>3,078,311</u>	<u>1,200,425</u>	<u>11,803,901</u>
Total assets					
	<u>1,257,756</u>	<u>6,267,409</u>	<u>3,078,311</u>	<u>1,200,425</u>	<u>11,803,901</u>
<u>Deferred Outflows of Resources</u>					
All deferred outflows	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources					
	<u>\$ 1,257,756</u>	<u>6,267,409</u>	<u>3,078,311</u>	<u>1,200,425</u>	<u>11,803,901</u>
<u>Liabilities</u>					
Warrants and accounts payable	\$ 38,415	74,521	-	859	113,795
Accrued payroll and withholdings	-	69,070	-	1,355	70,425
Notes payable	-	1,294,000	315,000	-	1,609,000
Other liabilities	-	1,539	-	-	1,539
	<u>38,415</u>	<u>1,439,130</u>	<u>315,000</u>	<u>2,214</u>	<u>1,794,759</u>
Total liabilities					
	<u>38,415</u>	<u>1,439,130</u>	<u>315,000</u>	<u>2,214</u>	<u>1,794,759</u>
<u>Deferred Inflows of Resources</u>					
Unavailable revenue	-	383,969	-	-	383,969
	<u>-</u>	<u>383,969</u>	<u>-</u>	<u>-</u>	<u>383,969</u>
<u>Fund balances</u>					
Nonspendable	-	17,787	-	829,147	846,934
Restricted	1,219,341	3,949,231	2,763,311	369,064	8,300,947
Committed	-	-	-	-	-
Assigned	-	477,292	-	-	477,292
Unassigned	-	-	-	-	-
	<u>1,219,341</u>	<u>4,444,310</u>	<u>2,763,311</u>	<u>1,198,211</u>	<u>9,625,173</u>
Total fund balances					
	<u>1,219,341</u>	<u>4,444,310</u>	<u>2,763,311</u>	<u>1,198,211</u>	<u>9,625,173</u>
Total liabilities, deferred inflows of resources and fund balances					
	<u>\$ 1,257,756</u>	<u>6,267,409</u>	<u>3,078,311</u>	<u>1,200,425</u>	<u>11,803,901</u>

TOWN OF NORTHBOROUGH, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2020

	<u>Special Revenue</u>				<u>Totals</u>
	<u>School</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Revenues:					
Property taxes	\$ -	627,166	-	-	627,166
Departmental charges for services	217,079	1,872,940	-	16,939	2,106,958
Licenses and permits	-	-	-	-	-
Intergovernmental	1,355,644	1,624,445	-	-	2,980,089
Fines and forfeits	-	965	-	-	965
Investment income	265	144,842	-	38,176	183,283
Other	-	707,977	-	40,588	748,565
Total revenues	1,572,988	4,978,335	-	95,703	6,647,026
Expenditures:					
Current:					
General government	-	877,201	67,097	-	944,298
Public safety	-	545,682	500,074	-	1,045,756
Education	1,566,346	966,820	170,658	-	2,703,824
Public works	-	1,732,776	367,294	-	2,100,070
Human services	-	220,047	-	-	220,047
Recreation and culture	-	765,651	-	58,778	824,429
Debt service	-	33,384	-	-	33,384
Total expenditures	1,566,346	5,141,561	1,105,123	58,778	7,871,808
Excess (deficiency) of revenues over expenditures	6,642	(163,226)	(1,105,123)	36,925	(1,224,782)
Other financing sources (uses):					
Proceeds from bond issuance	-	-	-	-	-
Operating transfers in	-	417,160	59,000	-	476,160
Operating transfers out	-	(853,936)	-	(12,264)	(866,200)
Net changes in fund balances	6,642	(600,002)	(1,046,123)	24,661	(1,614,822)
Fund balance, beginning of year	1,212,699	5,044,312	3,809,434	1,173,550	11,239,995
Fund balance, end of year	\$ 1,219,341	4,444,310	2,763,311	1,198,211	9,625,173