



TOWN OF SOUTHAMPTON, MASSACHUSETTS

Financial Statements
For the Year Ended June 30, 2020

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Select Board
Town of Southamptton, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Southamptton, Massachusetts (the Town), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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Greenfield, Massachusetts
Ellsworth, Maine

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circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2022 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over



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

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

Greenfield, Massachusetts
January 18, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Southampton (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows and inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

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

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

Fiduciary Funds

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

Notes to Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

Financial Highlights

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$12,916,841 (i.e., net position), a change of \$(110,752) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,488,107, a change of \$1,283,541 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$748,538, a change of \$687 in comparison to the prior year.

Government-Wide Financial Analysis

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

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	\$ 6,429,268	\$ 6,014,551	\$ 3,124,196	\$ 1,109,042	\$ 9,553,464	\$ 7,123,593
Capital assets	<u>14,430,381</u>	<u>14,470,861</u>	<u>11,854,583</u>	<u>10,325,547</u>	<u>26,284,964</u>	<u>24,796,408</u>
Total assets	20,859,649	20,485,412	14,978,779	11,434,589	35,838,428	31,920,001
Deferred outflows of resources	8,372,302	1,624,139	100,694	41,863	8,472,996	1,666,002
Liabilities						
Current liabilities	1,691,650	2,485,061	2,752,164	400,333	4,443,814	2,885,394
Noncurrent liabilities	<u>19,908,874</u>	<u>14,267,115</u>	<u>2,200,424</u>	<u>1,312,709</u>	<u>22,109,298</u>	<u>15,579,824</u>
Total liabilities	21,600,524	16,752,176	4,952,588	1,713,042	26,553,112	18,465,218
Deferred inflows of resources	4,778,047	2,063,155	63,424	30,037	4,841,471	2,093,192
Net Position						
Net investment in capital assets	12,616,363	12,383,501	9,334,682	9,093,862	21,951,045	21,477,363
Restricted	3,388,055	3,082,306	-	-	3,388,055	3,082,306
Unrestricted	<u>(13,151,038)</u>	<u>(12,171,587)</u>	<u>728,779</u>	<u>639,511</u>	<u>(12,422,259)</u>	<u>(11,532,076)</u>
Total net position	\$ <u>2,853,380</u>	\$ <u>3,294,220</u>	\$ <u>10,063,461</u>	\$ <u>9,733,373</u>	\$ <u>12,916,841</u>	\$ <u>13,027,593</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$12,916,841, a change of \$(110,752) in comparison to the prior year.

The largest portion of net position, \$21,951,045, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$3,388,055, represents resources that are subject to external restrictions and internal designations on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(12,422,259), primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION						
	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Program revenues:						
Charges for services	\$ 856,845	\$ 945,748	\$ 1,131,813	\$ 931,542	\$ 1,988,658	\$ 1,877,290
Operating grants and contributions	4,787,052	5,082,449	-	-	4,787,052	5,082,449
Capital grants and contributions	297,871	96,481	-	-	297,871	96,481
General revenues:						
Property taxes	12,946,942	12,442,819	-	-	12,946,942	12,442,819
Excises	991,873	1,035,059	-	-	991,873	1,035,059
Penalties, interest and other taxes	205,730	266,590	-	-	205,730	266,590
Grants and contributions not restricted to specific programs	686,589	674,495	-	-	686,589	674,495
Investment income	46,109	33,984	2,809	2,205	48,918	36,189
Miscellaneous	77,960	4,005	56,313	62,171	134,273	66,176
Total Revenues	20,896,971	20,581,630	1,190,935	995,918	22,087,906	21,577,548
Expenses						
General government	1,054,315	913,412	-	-	1,054,315	913,412
Public safety	3,107,821	2,766,068	-	-	3,107,821	2,766,068
Education	14,939,716	13,972,905	-	-	14,939,716	13,972,905
Public works	1,482,419	1,178,164	-	-	1,482,419	1,178,164
Health and human services	215,774	195,910	-	-	215,774	195,910
Culture and recreation	284,713	379,520	-	-	284,713	379,520
Interest on long-term debt	64,775	65,186	-	-	64,775	65,186
Intergovernmental	188,278	123,965	-	-	188,278	123,965
Water	-	-	686,269	808,415	686,269	808,415
Transfer station	-	-	174,578	164,704	174,578	164,704
Total Expenses	21,337,811	19,595,130	860,847	973,119	22,198,658	20,568,249
Change in Net Position	(440,840)	986,500	330,088	22,799	(110,752)	1,009,299
Net Position - Beginning of Year	3,294,220	2,307,720	9,733,373	9,710,574	13,027,593	12,018,294
Net Position - End of Year	\$ 2,853,380	\$ 3,294,220	\$ 10,063,461	\$ 9,733,373	\$ 12,916,841	\$ 13,027,593

Governmental Activities

Governmental activities for the year resulted in a change in net position of \$(440,840). Key elements of this change are as follows:

General fund operations	\$ (54,404)
Major fund - Community preservation fund revenues in excess of expenditures	366,530
Non-major fund revenues, bond and note issuances and transfers in, in excess of expenditures	971,415
Depreciation expense in excess of principal debt service	(263,920)
Capital assets purchases from grant and general resources	400,290
Issuance of debt	(1,044,194)
Change in net pension liability, net of deferrals	(40,991)
Change in net OPEB liability, net of deferrals	(790,536)
Other timing differences	<u>14,970</u>
Total	\$ <u>(440,840)</u>

Business-Type Activities

Business-type activities for the year resulted in a change in net position of \$330,088. Key elements of this change are as follows:

Water operations	\$ 292,388
Transfer station operations	<u>37,700</u>
Change in Net Position	\$ <u>330,088</u>

Financial Analysis of the Town's Funds

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,488,107, a change of \$1,283,541 in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed below	\$ (54,404)
Major fund - Community preservation fund revenues in excess of expenditures	366,530
Non-major fund revenues, bond and note issuances and transfers in, in excess of expenditures	<u>971,415</u>
Total	<u>\$ 1,283,541</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$748,538, while total fund balance was \$1,033,096. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% of Total 2020 General Fund Expenditures *</u>
Unassigned Fund Balance	\$ 748,538	\$ 747,851	\$ 687	4.3%
Total Fund Balance	\$ 1,033,096	\$ 1,087,500	\$ (54,404)	5.9%

* Expenditure amount used to calculate the above percentages have been adjusted to exclude the on-behalf payment from the Commonwealth of Massachusetts Teachers Retirement System of \$608,348.

The total fund balance of the general fund changed by \$(54,404) during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Shortfall of tax collections compared to budget	\$ (10,216)
State and local revenues over budget	(48,507)
Budgetary appropriations unspent by departments	294,369
Transfers in, in excess of budget	470
Transfers out under budget	14,201
Use of free cash and overlay surplus as a funding source	(369,283)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	12,418
Other source	(28,324)
Budget variance	61,854
Change in Stabilization funds	<u>18,614</u>
Total	<u>\$ (54,404)</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>
Ambulance stabilization fund	\$ 89,995	\$ 77,736	\$ 12,259
Capital stabilization fund	154,580	206,294	(51,714)
Operating stabilization fund	<u>444,528</u>	<u>386,459</u>	<u>58,069</u>
Total	<u>\$ 689,103</u>	<u>\$ 670,489</u>	<u>\$ 18,614</u>

Proprietary Funds

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$728,779, a change of \$89,268 in comparison to the prior year.

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

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$341,229. Major reasons for these amendments include:

Transfers to:	
Capital stabilization fund	\$ 126,502
Operating stabilization fund	108,431
Contribution to OPEB trust fund	36,143
Increase in general government budget	8,825
Increase in public safety budget	25,000
Increase in public works budget	5,000
Increase in health and human services budget	16,328
Increase in employee benefits budget	<u>15,000</u>
Total	<u>\$ 341,229</u>

All of this increase was funded by free cash.

Capital Asset and Debt Administration

Capital Assets

Total investment in capital assets for governmental and business-type activities at year end amounted to \$26,284,964 (net of accumulated depreciation). This investment in capital assets

includes land, construction in progress, buildings and improvements, and machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Depreciation expense - governmental activities	\$ (440,770)
Depreciation expense - business-type activities	(171,759)
Buildings and improvement	
Education	126,298
Culture and recreation	36,400
Departmental vehicles and equipment	
Public safety	184,970
Construction in progress	
Governmental activities	52,622
Water	1,700,795

Long-Term Debt

At the end of the current fiscal year, total long-term debt outstanding was \$4,174,394 , all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the notes to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Town of Southampton’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Southampton
210 College Highway
Southampton, MA 01073

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Statement of Net Position
June 30, 2020

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 4,136,154	\$ 3,023,237	\$ 7,159,391
Investments	1,757,838	-	1,757,838
Receivables, net of allowance for uncollectible:			
Property taxes	196,199	-	196,199
Excises	99,353	-	99,353
User fees	40,989	100,959	141,948
Loans	9,822	-	9,822
Noncurrent:			
Property taxes	147,425	-	147,425
Loans	41,488	-	41,488
Land and construction in progress	9,818,251	2,249,295	12,067,546
Capital assets, net of accumulated depreciation	4,612,130	9,605,288	14,217,418
Deferred Outflows of Resources			
Related to pensions	909,777	32,704	942,481
Related to OPEB	<u>7,462,525</u>	<u>67,990</u>	<u>7,530,515</u>
Total Assets and Deferred Outflows of Resources	29,231,951	15,079,473	44,311,424
Liabilities			
Current:			
Warrants and accounts payable	604,189	351,942	956,131
Accrued payroll	523,056	-	523,056
Other liabilities	87,982	731,300	819,282
Notes payable	190,658	1,488,037	1,678,695
Current portion of long-term liabilities:			
Notes payable	68,065	-	68,065
Bonds payable	217,700	170,000	387,700
Other	-	10,885	10,885
Noncurrent:			
Notes payable, net of current portion	136,129	-	136,129
Bonds payable, net of current portion	1,782,500	1,800,000	3,582,500
Net pension liability	6,443,000	231,608	6,674,608
Net OPEB liability	11,376,681	103,651	11,480,332
Other, net of current portion	170,564	65,165	235,729
Deferred Inflows of Resources			
Related to pensions	741,230	26,646	767,876
Related to OPEB	<u>4,036,817</u>	<u>36,778</u>	<u>4,073,595</u>
Total Liabilities and Deferred Inflows of Resources	26,378,571	5,016,012	31,394,583
Net Position			
Net investment in capital assets	12,616,363	9,334,682	21,951,045
Restricted for:			
Grants and other statutory restrictions	2,868,362	-	2,868,362
Permanent funds:			
Nonexpendable	365,317	-	365,317
Expendable	154,376	-	154,376
Unrestricted	<u>(13,151,038)</u>	<u>728,779</u>	<u>(12,422,259)</u>
Total Net Position	<u>\$ 2,853,380</u>	<u>\$ 10,063,461</u>	<u>\$ 12,916,841</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Statement of Activities
For the Year Ended June 30, 2020

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities							
General government	\$ 1,054,315	\$ 147,361	\$ 281,207	\$ -	\$ (625,747)	\$ -	\$ (625,747)
Public safety	3,107,821	564,750	29,989	-	(2,513,082)	-	(2,513,082)
Education	14,939,716	132,361	4,379,430	-	(10,427,925)	-	(10,427,925)
Public works	1,482,419	9,865	22,983	81,709	(1,367,862)	-	(1,367,862)
Health and human services	215,774	2,508	60,008	-	(153,258)	-	(153,258)
Culture and recreation	284,713	-	13,435	216,162	(55,116)	-	(55,116)
Interest	64,775	-	-	-	(64,775)	-	(64,775)
Intergovernmental	<u>188,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(188,278)</u>	<u>-</u>	<u>(188,278)</u>
Total Governmental Activities	21,337,811	856,845	4,787,052	297,871	(15,396,043)	-	(15,396,043)
Business-Type Activities							
Water services	686,269	930,260	-	-	-	243,991	243,991
Transfer station services	<u>174,578</u>	<u>201,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,975</u>	<u>26,975</u>
Total Business-Type Activities	<u>860,847</u>	<u>1,131,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,966</u>	<u>270,966</u>
Total	<u>\$ 22,198,658</u>	<u>\$ 1,988,658</u>	<u>\$ 4,787,052</u>	<u>\$ 297,871</u>	(15,396,043)	270,966	(15,125,077)
			General Revenues				
			Property taxes		12,946,942	-	12,946,942
			Excises		991,873	-	991,873
			Penalties, interest and other taxes		205,730	-	205,730
			Grants and contributions not restricted to specific programs		686,589	-	686,589
			Investment income		46,109	2,809	48,918
			Miscellaneous		<u>77,960</u>	<u>56,313</u>	<u>134,273</u>
			Total General Revenues		<u>14,955,203</u>	<u>59,122</u>	<u>15,014,325</u>
			Change in Net Position		(440,840)	330,088	(110,752)
			Net Position				
			Beginning of Year		<u>3,294,220</u>	<u>9,733,373</u>	<u>13,027,593</u>
			End of Year		<u>\$ 2,853,380</u>	<u>\$ 10,063,461</u>	<u>\$ 12,916,841</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Governmental Funds
Balance Sheet
June 30, 2020

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and short-term investments	\$ 1,687,011	\$ 714,309	\$ 1,734,834	\$ 4,136,154
Investments	89,346	1,157,144	511,348	1,757,838
Receivables:				
Property taxes	190,278	5,921	-	196,199
Tax liens	147,425	-	-	147,425
Excises	99,353	-	-	99,353
User fees, net of allowance for uncollectible	-	-	40,989	40,989
Loans	-	-	51,310	51,310
Total Assets	<u>\$ 2,213,413</u>	<u>\$ 1,877,374</u>	<u>\$ 2,338,481</u>	<u>\$ 6,429,268</u>
Liabilities				
Warrants and accounts payable	\$ 272,589	\$ -	\$ 331,600	\$ 604,189
Accrued payroll	470,672	-	52,384	523,056
Notes payable	-	-	190,658	190,658
Other liabilities	-	-	87,982	87,982
Total Liabilities	743,261	-	662,624	1,405,885
Deferred Inflows of Resources				
Unavailable revenues	437,056	5,921	92,299	535,276
Fund Balances				
Nonspendable	-	-	365,317	365,317
Restricted	-	-	1,559,699	1,559,699
Committed	244,575	1,871,453	36,797	2,152,825
Assigned	39,983	-	-	39,983
Unassigned	748,538	-	(378,255)	370,283
Total Fund Balances	<u>1,033,096</u>	<u>1,871,453</u>	<u>1,583,558</u>	<u>4,488,107</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,213,413</u>	<u>\$ 1,877,374</u>	<u>\$ 2,338,481</u>	<u>\$ 6,429,268</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Reconciliation of Total Governmental Fund Balances to Net Position of
Governmental Activities in the Statement of Net Position
June 30, 2020

Total Governmental Fund Balances	\$ 4,488,107
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	14,430,381
Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible) and are not deferred until collection.	535,276
Long-term liabilities, including bonds payable, net pension liability and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.	(16,429,820)
Other.	<u>(170,564)</u>
Net Position of Governmental Activities	\$ <u><u>2,853,380</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 12,639,156	\$ 253,455	\$ -	\$ 12,892,611
Excises	990,269	-	-	990,269
Penalties, interest and other taxes	166,268	39,462	-	205,730
Charges for services	103,373	-	522,629	626,002
Intergovernmental	4,008,641	165,521	933,245	5,107,407
Licenses and permits	227,325	-	4,810	232,135
Fines and forfeitures	5,172	-	-	5,172
Investment income	30,909	-	15,200	46,109
Miscellaneous	<u>3,311</u>	<u>-</u>	<u>74,649</u>	<u>77,960</u>
Total Revenues	18,174,424	458,438	1,550,533	20,183,395
Expenditures				
Current:				
General government	653,025	34,441	58,506	745,972
Public safety	1,851,963	-	510,113	2,362,076
Education	11,843,866	-	653,988	12,497,854
Public works	825,729	-	376,999	1,202,728
Health and human services	130,796	932	32,852	164,580
Culture and recreation	160,683	54,565	57,669	272,917
Employee benefits	2,268,018	-	-	2,268,018
Debt service	241,625	-	-	241,625
Intergovernmental	<u>188,278</u>	<u>-</u>	<u>-</u>	<u>188,278</u>
Total Expenditures	<u>18,163,983</u>	<u>89,938</u>	<u>1,690,127</u>	<u>19,944,048</u>
Excess (Deficiency) of Revenues Over Expenditures	10,441	368,500	(139,594)	239,347
Other Financing Sources (Uses)				
Bond proceeds	-	-	840,000	840,000
Note proceeds	-	-	204,194	204,194
Transfers in	211,618	-	278,433	490,051
Transfers out	<u>(276,463)</u>	<u>(1,970)</u>	<u>(211,618)</u>	<u>(490,051)</u>
Total Other Financing Sources (Uses)	<u>(64,845)</u>	<u>(1,970)</u>	<u>1,111,009</u>	<u>1,044,194</u>
Change in Fund Balance	(54,404)	366,530	971,415	1,283,541
Fund Balance, at Beginning of Year, as reclassified	<u>1,087,500</u>	<u>1,504,923</u>	<u>612,143</u>	<u>3,204,566</u>
Fund Balance, at End of Year	\$ <u><u>1,033,096</u></u>	\$ <u><u>1,871,453</u></u>	\$ <u><u>1,583,558</u></u>	\$ <u><u>4,488,107</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Funds \$ 1,283,541

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	400,290
Depreciation	(440,770)

The issuance of long-term debt (e.g., bonds and long-term notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Issuance of debt	(1,044,194)
Repayments of debt	176,850

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectible.

33,501

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Net pension liability and related deferred outflows and inflows of resources	(40,990)
Net OPEB liability and related deferred outflows and inflows of resources	(790,536)
Other.	<u>(18,532)</u>

Change in Net Position of Governmental Activities \$ (440,840)

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Proprietary Funds
Statement of Net Position
June 30, 2020

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Assets			
Current:			
Cash and short-term investments	\$ 2,966,010	\$ 57,227	\$ 3,023,237
User fees, net of allowance for uncollectible	<u>100,959</u>	<u>-</u>	<u>100,959</u>
Total Current Assets	3,066,969	57,227	3,124,196
Noncurrent:			
Land	2,069,695	179,600	2,249,295
Capital assets, net of accumulated depreciation	<u>9,599,202</u>	<u>6,086</u>	<u>9,605,288</u>
Total Noncurrent Assets	11,668,897	185,686	11,854,583
Deferred Outflows of Resources			
Related to pensions	27,709	4,995	32,704
Related to OPEB	<u>67,990</u>	<u>-</u>	<u>67,990</u>
Total Assets and Deferred Outflows of Resources	14,831,565	247,908	15,079,473
Liabilities			
Current:			
Warrants and accounts payable	339,002	12,940	351,942
Other liabilities	731,300	-	731,300
Notes payable	1,488,037	-	1,488,037
Current portion of long-term liabilities:			
Bonds payable	170,000	-	170,000
Other	<u>-</u>	<u>10,885</u>	<u>10,885</u>
Total Current Liabilities	2,728,339	23,825	2,752,164
Noncurrent:			
Bonds payable, net of current portion	1,800,000	-	1,800,000
Net pension liability	196,233	35,375	231,608
Net OPEB liability	103,651	-	103,651
Other, net of current portion	<u>10,740</u>	<u>54,425</u>	<u>65,165</u>
Total Noncurrent Liabilities	2,110,624	89,800	2,200,424
Deferred Inflows of Resources			
Related to pensions	22,576	4,070	26,646
Related to OPEB	<u>36,778</u>	<u>-</u>	<u>36,778</u>
Total Liabilities and Deferred Inflows of Resources	4,898,317	117,695	5,016,012
Net Position			
Net investment in capital assets	9,148,996	185,686	9,334,682
Unrestricted	<u>784,252</u>	<u>(55,473)</u>	<u>728,779</u>
Total Net Position	<u>\$ 9,933,248</u>	<u>\$ 130,213</u>	<u>\$ 10,063,461</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2020

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Operating Revenues			
Charges for services	\$ 883,040	\$ 201,553	\$ 1,084,593
Other	<u>47,220</u>	<u>-</u>	<u>47,220</u>
Total Operating Revenues	930,260	201,553	1,131,813
Operating Expenses			
Salaries and benefits	142,457	26,664	169,121
Other operating expenses	283,358	146,848	430,206
Depreciation	<u>171,258</u>	<u>501</u>	<u>171,759</u>
Total Operating Expenses	<u>597,073</u>	<u>174,013</u>	<u>771,086</u>
Operating Income	333,187	27,540	360,727
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	45,606	10,707	56,313
Investment income	2,791	18	2,809
Interest expense	<u>(89,196)</u>	<u>(565)</u>	<u>(89,761)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(40,799)</u>	<u>10,160</u>	<u>(30,639)</u>
Change in Net Position	292,388	37,700	330,088
Net Position, at Beginning of Year	<u>9,640,860</u>	<u>92,513</u>	<u>9,733,373</u>
Net Position, at End of Year	<u>\$ 9,933,248</u>	<u>\$ 130,213</u>	<u>\$ 10,063,461</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2020

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 938,191	\$ 201,553	\$ 1,139,744
Payments to vendors and employees	<u>(119,880)</u>	<u>(182,573)</u>	<u>(302,453)</u>
Net Cash Provided By Operating Activities	818,311	18,980	837,291
Cash Flows From Noncapital Financing Activities			
Intergovernmental receipt	<u>45,606</u>	<u>10,707</u>	<u>56,313</u>
Net Cash Provided By Noncapital Financing Activities	45,606	10,707	56,313
Cash Flows From Capital and Related Financing Activities			
Acquisition and construction of capital assets	(1,700,795)	-	(1,700,795)
Issuance of bonds and notes	3,097,493	-	3,097,493
Principal payments on bonds and notes	(136,185)	(20,000)	(156,185)
Interest expense	<u>(113,276)</u>	<u>(565)</u>	<u>(113,841)</u>
Net Cash (Used For) Capital and Related Financing Activities	1,147,237	(20,565)	1,126,672
Cash Flows From Investing Activities			
Investment income	<u>2,791</u>	<u>18</u>	<u>2,809</u>
Net Cash Provided By Investing Activities	<u>2,791</u>	<u>18</u>	<u>2,809</u>
Net Change in Cash and Short-Term Investments	2,013,945	9,140	2,023,085
Cash and Short Term Investments, Beginning of Year	<u>952,065</u>	<u>48,087</u>	<u>1,000,152</u>
Cash and Short Term Investments, End of Year	<u>\$ 2,966,010</u>	<u>\$ 57,227</u>	<u>\$ 3,023,237</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities			
Operating income (loss)	\$ 333,187	\$ 27,540	\$ 360,727
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	171,258	501	171,759
Changes in assets, liabilities, and deferred outflows/inflows:			
User fees	7,931	-	7,931
Deferred outflows - related to pensions	1,268	230	1,498
Deferred outflows - related to OPEB	(60,329)	-	(60,329)
Warrants payable and accrued liabilities	317,061	2,939	320,000
Landfill liability	-	(10,885)	(10,885)
Net pension liability	(20,754)	(3,754)	(24,508)
Net OPEB liability	37,711	-	37,711
Deferred inflows - related to pensions	13,366	2,409	15,775
Deferred inflows - related to OPEB	<u>17,612</u>	<u>-</u>	<u>17,612</u>
Net Cash Provided By Operating Activities	<u>\$ 818,311</u>	<u>\$ 18,980</u>	<u>\$ 837,291</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2020

	Other Post- Employment Benefits <u>Trust Fund</u>	Agency Funds
Assets		
Cash and short-term investments	\$ 1,456	\$ 28,197
Investments in:		
Certificates of deposit	-	12,607
Corporate bonds	-	70,440
Corporate equities	186,120	12,919
Federal agency securities	-	17,811
Mutual funds	82,442	-
U.S. Treasury notes	<u>-</u>	<u>26,586</u>
Total Investments	<u>268,562</u>	<u>140,363</u>
Total Assets	270,018	168,560
Liabilities		
Other liabilities	<u>-</u>	<u>168,560</u>
Total Liabilities	<u>-</u>	<u>\$ 168,560</u>
Net Position		
Restricted for OPEB purposes	<u>\$ 270,018</u>	

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

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

	<u>Other Post- Employment Benefits Trust Fund</u>
Additions	
Contributions	\$ 266,916
Interest income	<u>7,486</u>
Total Additions	274,402
 Deductions	
Benefit payments to plan members and beneficiaries	<u>230,772</u>
Net Increase	43,630
 Net Position Restricted for OPEB Purposes:	
Beginning of Year	<u>226,388</u>
End of Year	\$ <u><u>270,018</u></u>

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

Town of Southamptton, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Southamptton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2020, it was determined that no entities met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity* (as amended) criteria of component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* is a fund authorized by Massachusetts General Laws Chapter 44B, under which the Town receives State aid and assesses taxpayers a surcharge on real property. Within certain limits, the Town may appropriate funds from this account for various purposes that fall under the categories of open space, historic preservation or community housing.

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

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

The Town reports the following major proprietary funds:

- The *Water Enterprise Fund*, which accounts for operations of the Town's water delivery system.
- The *Transfer Station Enterprise Fund*, which accounts for the operations of the Town's landfill.

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

The Town reports the following fiduciary funds:

- The *Other Post-Employment Benefits Trust Fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *Agency Funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

Cash and Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments".

The interest earnings attributable to each fund type is included under investment income.

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

Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments that are required to be presented using the net asset value (NAV). The NAV per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

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

Property Tax Limitations

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5% (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2020 tax levy reflected an excess capacity of \$335.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	40
Building improvements	40
Water infrastructure	100
Vehicles and equipment	5 - 10

Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance

Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is

reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

Use of Estimates

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

2. Stewardship, Compliance and Accountability

Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

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

Deficit Fund Equity

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

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues and transfers from other funds.

3. Deposits and Investments – Town

State statutes, Massachusetts General Law (MGL) Chapter 44, Section 55 place certain limitation on the nature of deposits and investments available to the Town. Deposits, including demand deposits, money markets, certificates of deposits in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the institution involved. Investments may be made in unconditionally guaranteed U.S. government obligations have maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consists of such obligations. Other allowable investments include certificates of deposits having a maturity date of up to 3 years from the date of purchase, national banks and Massachusetts Municipal Depository Trust (MMDT). MGL Chapter 44, Section 54 provides additional investment options for certain special revenue, trust and OPEB funds.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned. The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2020, none of the Town’s bank balance of \$7,175,847 was exposed to custodial credit risk as uninsured and uncollateralized.

Investment Summary

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

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposit	\$ 170,494
Corporate bonds	952,597
Corporate equities	174,711
Federal agency securities	240,862
U.S. Treasury notes	<u>359,537</u>
Total Investments	\$ <u>1,898,201</u>

Custodial Credit Risk – Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Town will not be able to recover the value of its investment or collateral securities that are in possession of another party. The Town does not have a formal investment policy related to credit risk.

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

Credit Risk – Investments of Debt Securities

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. The Town does not have formal investment policies related to credit risk.

As of June 30, 2020, the credit quality ratings, as rated by Moody’s Investors Service, Inc of the Town’s debt securities are as follows (U.S. Treasury notes have an implied rating of AAA):

<u>Investment Type</u>	<u>Amount</u>	<u>Unrated</u>	<u>Rating as of Year End</u>		
			<u>Aaa</u>	<u>A1/A2/A3</u>	<u>Baa1/2</u>
Certificates of deposit	\$ 170,494	\$ 170,494	\$ -	\$ -	\$ -
Corporate bonds	<u>952,597</u>	<u>-</u>	<u>88,608</u>	<u>496,039</u>	<u>367,950</u>
Total	\$ <u>1,123,091</u>	\$ <u>170,494</u>	\$ <u>88,608</u>	\$ <u>496,039</u>	\$ <u>367,950</u>

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of the Town’s investment in a single issuer. The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have a formal investment policy related to concentration of credit risk exposure.

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

Interest Rate Risk – Investments of Debt Securities

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>
Certificates of deposit	\$ 170,494	\$ -	\$ 170,494	\$ -
Corporate bonds	952,597	174,831	777,766	-
Federal agency securities	240,862	-	200,800	40,062
U.S. Treasury notes	<u>359,537</u>	<u>174,155</u>	<u>185,382</u>	<u>-</u>
Total	\$ <u>1,723,490</u>	\$ <u>348,986</u>	\$ <u>1,334,442</u>	\$ <u>40,062</u>

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy for foreign currency risk.

Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The Town has the following fair value measurements as of June 30, 2020:

<u>Description</u>	<u>Amount</u>	in active markets for identical assets <u>(Level 1)</u>	Significant observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Investments by fair value level:				
Corporate bonds	\$ 952,597	\$ -	\$ 952,597	\$ -
Corporate equities	174,711	174,711	-	-
Federal agency securities	240,862	-	240,862	-
U.S. Treasury notes	<u>359,537</u>	<u>-</u>	<u>359,537</u>	<u>-</u>
Total	\$ <u>1,727,707</u>	\$ <u>174,711</u>	\$ <u>1,552,996</u>	\$ <u>-</u>

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

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

4. Investments – OPEB Trust Fund

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

<u>Investment Type</u>	<u>Amount</u>
Corporate equities	\$ 186,120
Mutual funds	<u>82,442</u>
Total Investments	\$ <u>268,562</u>

Custodial Credit Risk

The OPEB Trust Fund's investment policy on custodial credit risk is to review the financial institution’s financial statements to limit the Town’s exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town, will be held in the Town’s name and tax identification number by a third-party custodian.

As of June 30, 2020, none of the OPEB Trust Fund’s total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the OPEB Trust Fund’s brokerage firm, which is also the counterparty to these securities.

Credit Risk – Investments of Debt Securities

The Town adopted an investment policy specific to OPEB trust fund investments in March 2018. The Town's OPEB Trust Fund’s investment policies related to credit risk are to only purchase investment grade securities. There is no limit on the amount of U.S. Treasury and U.S government agency obligations.

All of the Town's investments in mutual funds and corporate equities are exempt from credit risk disclosure.

Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund's investment policy manages concentration of credit risk by diversifying the investment portfolio.

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

Interest Rate Risk

The OPEB Trust Fund's policy related to interest rate risk limits and monitors investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

All of the Town's investments in mutual funds and corporate equities are exempt from interest rate risk disclosure.

Fair Value

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

<u>Description</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Corporate equities	\$ 186,120	\$ 186,120	\$ -	\$ -
Mutual funds	<u>82,442</u>	<u>82,442</u>	<u>-</u>	<u>-</u>
Total	\$ <u>268,562</u>	\$ <u>268,562</u>	\$ <u>-</u>	\$ <u>-</u>

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

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

5. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Property taxes and excises receivable at June 30, 2020 consist of the following:

	<u>Total</u>
Real estate taxes	\$ 189,899
Personal property taxes	793
Community preservation act	5,507
Tax liens	<u>147,425</u>
Total Property Taxes	343,624
Less current portion:	<u>(196,199)</u>
Noncurrent Taxes Receivable	\$ <u><u>147,425</u></u>
Motor vehicle excise	98,324
Other excise	<u>1,029</u>
Total Excises	\$ <u><u>99,353</u></u>

6. User Fee Receivables

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

	Gross <u>Amount</u>	Allowance for Doubtful <u>Accounts</u>	Net <u>Amount</u>
Governmental Activities			
Ambulance	\$ <u>156,663</u>	\$ <u>(115,674)</u>	\$ <u>40,989</u>
Business-Type Activities			
Water charges	\$ 90,884	\$ -	\$ 90,884
Water liens/tax title	<u>10,075</u>	<u>-</u>	<u>10,075</u>
Total	\$ <u>100,959</u>	\$ <u>-</u>	\$ <u>100,959</u>

7. Intergovernmental Receivables

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

8. Loans Receivable

This balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

9. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 27,672,557	\$ 162,698	\$ -	\$ 27,835,255
Machinery, equipment and furnishings	3,823,810	184,970	-	4,008,780
Infrastructure	<u>67,699</u>	<u>-</u>	<u>-</u>	<u>67,699</u>
Total capital assets, being depreciated	31,564,066	347,668	-	31,911,734
Less accumulated depreciation for:				
Buildings and improvements	(23,837,051)	(212,285)	-	(24,049,336)
Machinery, equipment and furnishings	(3,008,243)	(225,100)	-	(3,233,343)
Infrastructure	<u>(13,540)</u>	<u>(3,385)</u>	<u>-</u>	<u>(16,925)</u>
Total accumulated depreciation	<u>(26,858,834)</u>	<u>(440,770)</u>	<u>-</u>	<u>(27,299,604)</u>
Total capital assets, being depreciated, net	4,705,232	(93,102)	-	4,612,130
Capital assets, not being depreciated:				
Land	9,536,082	-	-	9,536,082
Construction in progress (CIP)	<u>229,547</u>	<u>52,622</u>	<u>-</u>	<u>282,169</u>
Total capital assets, not being depreciated	<u>9,765,629</u>	<u>52,622</u>	<u>-</u>	<u>9,818,251</u>
Governmental activities capital assets, net	<u>\$ 14,470,861</u>	<u>\$ (40,480)</u>	<u>\$ -</u>	<u>\$ 14,430,381</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,341,348	\$ -	\$ -	\$ 1,341,348
Machinery, equipment and furnishings	134,663	-	-	134,663
Infrastructure	<u>12,441,266</u>	<u>-</u>	<u>-</u>	<u>12,441,266</u>
Total capital assets, being depreciated	13,917,277	-	-	13,917,277
Less accumulated depreciation for:				
Buildings and improvements	(1,199,485)	(32,317)	-	(1,231,802)
Machinery, equipment, and furnishings	(70,465)	(15,029)	-	(85,494)
Infrastructure	<u>(2,870,280)</u>	<u>(124,413)</u>	<u>-</u>	<u>(2,994,693)</u>
Total accumulated depreciation	<u>(4,140,230)</u>	<u>(171,759)</u>	<u>-</u>	<u>(4,311,989)</u>
Total capital assets, being depreciated, net	9,777,047	(171,759)	-	9,605,288
Capital assets, not being depreciated:				
Land	<u>548,500</u>	<u>1,700,795</u>	<u>-</u>	<u>2,249,295</u>
Total capital assets, not being depreciated	<u>548,500</u>	<u>1,700,795</u>	<u>-</u>	<u>2,249,295</u>
Business-type activities capital assets, net	<u>\$ 10,325,547</u>	<u>\$ 1,529,036</u>	<u>\$ -</u>	<u>\$ 11,854,583</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities	
General government	\$ 125,999
Public safety	143,719
Education	51,660
Public works	71,289
Health and human services	5,431
Culture and recreation	<u>42,672</u>
Total Governmental Activities	\$ <u>440,770</u>
Business-Type Activities	
Water	\$ 171,258
Transfer Station	<u>501</u>
Total Business-Type Activities	\$ <u>171,759</u>

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes.

11. Warrants and Accounts Payable

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

12. Notes Payable

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

<u>Purpose</u>	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance</u>
Bond anticipation	1.20%	05/20/20	05/20/21	\$ 190,658
MCWT DWP-18-12	2.00%	09/15/19	05/11/21	<u>1,488,037</u>
Total				\$ <u>1,678,695</u>

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

Purpose	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 414,985	\$ 190,658	\$ (414,985)	\$ 190,658
Land acquisition	1,060,000	-	(1,060,000)	-
Revenue anticipation note	-	151,844	(151,844)	-
MCWT septic program note	150,000	-	(150,000)	-
MCWT DWP-18-12	-	1,488,037	-	1,488,037
Total	\$ <u>1,624,985</u>	\$ <u>1,830,539</u>	\$ <u>(1,776,829)</u>	\$ <u>1,678,695</u>

13. Long-Term Debt

General Obligation Bonds and Loans

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

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2020
Governmental Activities			
<i>General Obligation Bonds</i>			
Dump Truck	05/15/28	2.0 - 3.0	\$ 250,000
Pomeroy Meadow	05/15/30	2.0 - 3.0	440,000
Larrabee Renovation	06/30/30	2.0 - 5.0	<u>1,085,000</u>
Total general obligation bonds			1,775,000
<i>Loans - Direct Borrowings</i>			
MCWT - Title V Loans	08/01/20	1.0 - 2.0	10,200
MCWT - Septic Betterments	07/15/25	-	45,000
MCWT - Septic Betterments	07/15/27	-	20,000
MCWT - Septic Betterments	01/14/40	-	<u>150,000</u>
Total loans - direct borrowings			225,200
<i>Long-Term Notes Payable</i>			
Ambulance *	04/01/23	1.25	<u>204,194</u>
Total Governmental Activities			\$ <u>2,204,394</u>
Business-Type Activities			
<i>General Obligation Bonds</i>			
Water system expansion (refunded)	05/15/33	2.0 - 3.0	\$ 277,000
Water system expansion # 3 (refunded)	05/15/36	2.0 - 3.0	458,000
Water system improvements	05/15/36	2.0 - 3.0	<u>1,030,000</u>
Total general obligation bonds			1,765,000
<i>Loans - Direct Borrowings</i>			
MWPAT - Water system upgrade	08/01/22	1.0 - 2.0	<u>205,000</u>
Total Business-Type Activities			\$ <u>1,970,000</u>

* This borrowing is a combination of several short-term notes intended to finance this purchase over a period of time. This is being accomplished by rolling over short-term notes for lesser amounts each year. The interest rate reported is the interest rate for the short-term note issued in fiscal year 2020 and due in fiscal year 2021.

Future Debt Service

The annual payments to retire all general obligation bonds, long-term notes payable and notes from direct borrowings outstanding as of June 30, 2020 are as follows:

Governmental	General Obligation Bonds and Notes			Notes from Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 190,000	\$ 63,312	\$ 253,312	\$ 27,700	\$ -	\$ 27,700
2022	190,000	55,668	245,668	17,500	-	17,500
2023	185,000	48,848	233,848	17,500	-	17,500
2024	185,000	42,220	227,220	17,500	-	17,500
2025	185,000	35,568	220,568	17,500	-	17,500
2026 - 2030	840,000	82,578	922,578	52,500	-	52,500
2031 - 2030	-	-	-	37,500	-	37,500
Thereafter	-	-	-	37,500	-	37,500
Total	\$ <u>1,775,000</u>	\$ <u>328,194</u>	\$ <u>2,103,194</u>	\$ <u>225,200</u>	\$ <u>-</u>	\$ <u>225,200</u>

Business-Type	General Obligation Bonds			Notes from Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 105,000	\$ 41,269	\$ 146,269	\$ 65,000	\$ 1,963	\$ 66,963
2022	110,000	38,700	148,700	70,000	818	70,818
2023	110,000	35,400	145,400	70,000	-	70,000
2024	110,000	32,100	142,100	-	-	-
2025	110,000	28,800	138,800	-	-	-
2026 - 2030	575,000	100,500	675,500	-	-	-
2031 - 2035	550,000	41,000	591,000	-	-	-
Thereafter	95,000	1,900	96,900	-	-	-
Total	\$ <u>1,765,000</u>	\$ <u>319,669</u>	\$ <u>2,084,669</u>	\$ <u>205,000</u>	\$ <u>2,781</u>	\$ <u>207,781</u>

Changes in General Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Governmental Activities						
Notes payable	\$ 26,450	\$ 204,194	\$ (26,450)	\$ 204,194	\$ (68,065)	\$ 136,129
Bonds payable:						
General obligation bonds	1,195,000	690,000	(110,000)	1,775,000	(190,000)	1,585,000
Notes - direct borrowings	<u>115,600</u>	<u>150,000</u>	<u>(40,400)</u>	<u>225,200</u>	<u>(27,700)</u>	<u>197,500</u>
Subtotal - Bonds payable	1,310,600	840,000	(150,400)	2,000,200	(217,700)	1,782,500
Net pension liability	6,858,225	-	(415,225)	6,443,000	-	6,443,000
Net OPEB liability	6,096,658	5,280,023	-	11,376,681	-	11,376,681
Other:						
Compensated absences	<u>152,032</u>	<u>18,532</u>	<u>-</u>	<u>170,564</u>	<u>-</u>	<u>170,564</u>
Totals	<u>\$ 14,443,965</u>	<u>\$ 6,342,749</u>	<u>\$ (592,075)</u>	<u>\$ 20,194,639</u>	<u>\$ (285,765)</u>	<u>\$ 19,908,874</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Business-Type Activities						
Bonds payable:						
General obligation bonds	\$ 741,185	\$ 1,030,000	\$ (6,185)	\$ 1,765,000	\$ (105,000)	\$ 1,660,000
Notes - direct borrowings	<u>355,000</u>	<u>-</u>	<u>(150,000)</u>	<u>205,000</u>	<u>(65,000)</u>	<u>140,000</u>
Subtotal - Bonds payable	1,096,185	1,030,000	(156,185)	1,970,000	(170,000)	1,800,000
Net pension liability	256,116	-	(24,508)	231,608	-	231,608
Net OPEB liability	65,940	37,711	-	103,651	-	103,651
Other:						
Landfill liability	76,195	-	(10,885)	65,310	(10,885)	54,425
Compensated absences	<u>10,228</u>	<u>512</u>	<u>-</u>	<u>10,740</u>	<u>-</u>	<u>10,740</u>
Subtotal - Other	<u>86,423</u>	<u>512</u>	<u>(10,885)</u>	<u>76,050</u>	<u>(10,885)</u>	<u>65,165</u>
Totals	<u>\$ 1,504,664</u>	<u>\$ 1,068,223</u>	<u>\$ (191,578)</u>	<u>\$ 2,381,309</u>	<u>\$ (180,885)</u>	<u>\$ 2,200,424</u>

Long-Term Debt Supporting Governmental and Business-Type Activities

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

Current Refunding

Current Year

On May 20, 2020, the Town issued general obligation refunding bonds in the amount of \$735,000 with an interest rate ranging from 2%-3% to advance refund approximately \$710,000 of general obligation bonds with an interest rate ranging from 5.375%-5.625%. After paying issuance costs of \$9,800, the net proceeds were \$721,494 (including premiums received). The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were

deposited in an irrevocable trust with an escrow agent to provide debt service payments until the general obligation bonds are callable on July 1, 2020. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$152,508 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$153,755.

The defeased debt outstanding at June 30, 2020 was \$710,115.

14. Landfill Closure and Post Closure Care Costs

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

The \$65,310 reported as landfill post closure care liability at June 30, 2020 represents the remaining estimated post closure maintenance costs. These amounts are based on what it would cost to perform all post closure care in 2020. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB, in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

16. Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers:

Governmental Funds	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 211,618	\$ 276,463
Major governmental funds:		
Community preservation fund	-	1,970
Nonmajor funds:		
Capital project funds	276,463	16,218
Special revenue funds	<u>1,970</u>	<u>195,400</u>
Subtotal Nonmajor funds	<u>278,433</u>	<u>211,618</u>
Total	<u>\$ 490,051</u>	<u>\$ 490,051</u>

17. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

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

The following types of fund balances are reported at June 30, 2020:

Nonspendable

Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted

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

Committed

Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes stabilization funds restricted for specific purposes, the balance in the community preservation fund and capital projects funded by appropriations.

Assigned

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

Unassigned

Represents amounts that are available to be spent in future periods, the general stabilization fund, and deficit funds.

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

	General <u>Fund</u>	Community Preservation <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable				
Nonexpendable				
permanent funds	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 365,317</u>	\$ <u> 365,317</u>
Total Nonspendable	-	-	365,317	365,317
Restricted				
Special revenue funds	-	-	1,419,268	1,419,268
Expendable permanent funds	<u> -</u>	<u> -</u>	<u> 140,431</u>	<u> 140,431</u>
Total Restricted	-	-	1,559,699	1,559,699
Committed				
Stabilization funds for specific purposes *	244,575	-	-	244,575
Community preservation fund	-	1,871,453	-	1,871,453
Capital projects funded by appropriation	<u> -</u>	<u> -</u>	<u> 36,797</u>	<u> 36,797</u>
Total Committed	244,575	1,871,453	36,797	2,152,825
Assigned				
Reserve for encumbrances	<u> 39,983</u>	<u> -</u>	<u> -</u>	<u> 39,983</u>
Total Assigned	39,983	-	-	39,983
Unassigned				
General fund	304,010	-	-	304,010
General stabilization fund *	444,528	-	-	444,528
Deficit fund balances	<u> -</u>	<u> -</u>	<u> (378,255)</u>	<u> (378,255)</u>
Total Unassigned	<u> 748,538</u>	<u> -</u>	<u> (378,255)</u>	<u> 370,283</u>
Total Fund Balance	\$ <u><u> 1,033,096</u></u>	\$ <u><u> 1,871,453</u></u>	\$ <u><u> 1,583,558</u></u>	\$ <u><u> 4,488,107</u></u>

* Massachusetts General Law Chapter 40, Section 5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund, along with any additions to or appropriations from the fund, requires a two-thirds vote of the legislative body.

18. Hampshire County Retirement System

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

Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampshire

Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 99 Industrial Avenue, Northampton, MA 01060.

Participants' Contributions

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

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

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

Participant Retirement Benefits

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit

payments are based upon a member's age, length of creditable service, level of compensation and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

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

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the

allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2020 was \$811,816, which was equal to its annual required contribution.

Summary of Significant Accounting Policies

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

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

At June 30, 2020, the Town reported a liability of \$6,674,608 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all

participating employers, actuarially determined. At June 30, 2020, the Town's proportion was 3.34%.

For the year ended June 30, 2020, the Town recognized pension expense of \$845,570. In addition, the Town reported deferred outflows of resources and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (229,606)
Net difference between projected and actual earnings on pension plan investments	-	(351,812)
Changes of assumptions	708,203	(186,458)
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>234,278</u>	<u>-</u>
Total	<u>\$ 942,481</u>	<u>\$ (767,876)</u>

Amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2021	\$ (8,232)
2022	(30,939)
2023	117,043
2024	(97,221)
Thereafter	<u>193,954</u>
Total	<u>\$ 174,605</u>

Actuarial Assumptions

The total pension liability in the latest actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2020
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.15%
Salary increases	
Group 1:	4.25% - 6.00%
Group 4:	4.75% - 7.00%
Inflation	2.40%
Post-retirement cost-of-living adjustment	3% of first \$13,000

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with full generational mortality improvement using Scale MP-2018. For disabled lives, the mortality rates were based on the RP-2014 Blue Collar Mortality Table set forward one year with full generational mortality improvement using Scale MP-2018.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Equities	15.50%	5.00%
Small/Mid Cap Equities	4.50%	5.20%
International Equities	16.50%	5.20%
Emerging International Equities	6.00%	7.10%
Private Equity	10.00%	8.80%
Core Fixed Income	20.00%	0.20%
High-Yield Bonds	3.00%	3.40%
Bank Loans	3.00%	2.70%
EMD (Local Currency)	6.00%	3.20%
Private Debt	1.50%	5.40%
Real Estate	12.00%	3.30%
Cash	<u>2.00%</u>	-0.60%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate (in thousands):

1% Decrease <u>(6.15%)</u>	Current Discount Rate <u>(7.15%)</u>	1% Increase <u>(8.15%)</u>
\$8,835,594	\$6,674,608	\$4,850,011

Pension Plan Fiduciary Net Position

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

19. Massachusetts Teachers’ Retirement System (MTRS)

Plan Description

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

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

Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s

highest 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service and group creditable service and group classification. The authority for amending these provisions rests with the Legislature.

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

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

Contributions

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

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

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.

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

Target Allocations

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.0%	4.9%
Portfolio completion strategies	11.0%	3.9%
Core fixed income	15.0%	1.3%
Private equity	13.0%	8.2%
Real estate	10.0%	3.6%
Value added fixed income	8.0%	4.7%
Timber/natural resources	<u>4.0%</u>	4.1%
Total	<u>100.0%</u>	

Discount Rate

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

Sensitivity Analysis

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

1% Decrease to (6.55%)	Current Discount Rate (7.25%)	1% Increase to (8.25%)
\$31,232,100	\$25,214,020	\$20,062,500

Special Funding Situation

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

Town Proportions

In fiscal year 2019 (the most recent measurement period), the Town’s proportionate share of the MTRS’ collective net pension liability was approximately \$10.6 million based on a proportionate share of 0.042%. As required by GASB 68, the Town has recognized its portion of the Commonwealth’s contribution of approximately \$608,000 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of \$1.3 million as both a revenue and expense in the governmental activities.

20. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2013, the Town established a single-employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring

liabilities, deferred outflows of resources, deferred inflows of resources, and expense/ expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

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

General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town’s plan. The Town provides health insurance coverage through the Hampshire County Group Insurance Trust. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The Town provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

Funding Policy

The Town’s funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on annual budget limitations.

Plan Membership

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

Inactive employees or beneficiaries	
currently receiving benefit payments	53
Active employees	<u>122</u>
Total	<u><u>175</u></u>

Investments

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

Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 2.9%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions

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

Inflation	3%
Salary increases	3%
Investment rate of return	not applicable
Municipal bond rate and discount rate	2.66%
Healthcare cost trend rates	8% for 2020, decreasing 0.5% to an ultimate rate of 5% in 2027 and later years
Retirees' share of benefit-related costs	50%
Participation rate	70% of eligible retirees

Mortality rates were based on the RP-2006 Mortality with MP-2019 projection.

Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation Percentage</u>
Domestic Equity	33.0%
International Equity	17.0%
Fixed Income	30.0%
Alternatives	20.0%
Cash	<u>0.0%</u>
	100.0%

Discount Rate

The discount rate used to measure the net OPEB liability was 2.66%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, the discount rate was equal to the municipal bond rate of 2.66%, based on the S&P 20 years AA Municipal Bond Index.

Net OPEB Liability

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

Total OPEB liability	\$ 11,750,350
Plan fiduciary net position	<u>(270,018)</u>
Net OPEB Liability	<u>\$ 11,480,332</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 2.30%

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognized benefit payments when due and payable.

Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, Beginning of Year	\$ 6,388,986	\$ 226,388	\$ 6,162,598
Changes for the year:			
Service cost	179,333	-	179,333
Interest	423,305	-	423,305
Difference between expected and actual experience	(3,151,574)	-	(3,151,574)
Changes in assumptions	8,141,072	-	8,141,072
Contributions - employer	-	266,916	(266,916)
Net investment income	-	7,486	(7,486)
Benefit payments	<u>(230,772)</u>	<u>(230,772)</u>	<u>-</u>
Net Changes	<u>5,361,364</u>	<u>43,630</u>	<u>5,317,734</u>
Balance, End of Year	<u>\$ 11,750,350</u>	<u>\$ 270,018</u>	<u>\$ 11,480,332</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease (1.66%)	Current Discount Rate (2.66%)	1% Increase (3.66%)
\$13,356,191	\$11,480,332	\$9,604,473

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease (7.00%)	Current Healthcare Cost Trend Rates (8.00%)	1% Increase (9.00%)
\$9,245,599	\$11,480,332	\$14,206,605

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

For the year ended June 30, 2020, the Town recognized an OPEB expense of \$1,068,294. At June 30, 2020, the Town reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ 550,598	\$ (2,701,349)
Changes of assumptions	6,978,062	(1,372,246)
Net difference between projected and actual OPEB investment earnings	<u>1,855</u>	<u>-</u>
Total	<u>\$ 7,530,515</u>	<u>\$ (4,073,595)</u>

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

<u>Year ended June 30:</u>	
2021	\$ 465,658
2022	466,182
2023	466,470
2024	633,035
2024	712,785
Thereafter	<u>712,790</u>
Total	\$ <u>3,456,920</u>

21. Subsequent Events

Debt

Subsequent to June 30, 2020 the Town converted the interim short-term note with the Massachusetts Clean Water Trust (MCWT) for project DWP-18-12 to a long-term note. As part of the closing process, MCWT forgave \$109,281 of the original \$1,700,000 note. The remaining balance of \$1,590,719 will be paid back over 20 years at 2% interest.

22. Commitments and Contingencies

Outstanding Legal Issues

On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Self-Insurance

The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of June 30, 2020 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$275,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2020, according to the Trust’s audited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.2 million, the Trust was in a surplus position of approximately \$29.3 million.

COVID-19

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

Encumbrances

At year-end the Town’s general fund has \$39,983 in encumbrances that will be honored in the next fiscal year.

23. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2020, as defined by GASB Statement No. 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Other Special Revenue <u>Funds</u>	Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>
Fund Balance, Beginning of Year, as previously reported	\$ 431,706	\$ (845,910)	\$ 1,026,347
Reclassify major funds in accordance with GASB 34	<u>(431,706)</u>	<u>845,910</u>	<u>(414,204)</u>
Fund Balance, Beginning of Year, as reclassified	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 612,143</u>

24. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year ending June 30, 2021. This statement establishes guidance on how to address the categorization of

fiduciary activities for financial reporting and how fiduciary activities are to be reported and may require reclassification of certain funds.

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Required Supplemental Information
General Fund

Schedule of Revenues, Expenditures and Other Financing Sources (Uses) - Budget and Actual
For the Year Ended June 30, 2020

	Budgeted Amounts			Variance with Final Budget Positive Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Property taxes	\$ 12,649,372	\$ 12,649,372	\$ 12,639,156	\$ (10,216)
Excises	1,017,500	1,017,500	990,269	(27,231)
Penalties, interest and other taxes	193,000	193,000	166,268	(26,732)
Charges for services	112,109	112,109	103,373	(8,736)
Intergovernmental	3,355,133	3,355,133	3,400,293	45,160
Licenses and permits	266,350	266,350	227,325	(39,025)
Fines and forfeitures	5,000	5,000	5,172	172
Investment income	15,000	15,000	19,574	4,574
Miscellaneous	-	-	3,311	3,311
Total Revenues	17,613,464	17,613,464	17,554,741	(58,723)
Expenditures				
General government	686,117	694,942	648,674	46,268
Public safety	1,849,181	1,874,181	1,843,676	30,505
Education	11,358,374	11,358,374	11,256,905	101,469
Public works	920,571	925,571	824,826	100,745
Health and human services	128,432	144,760	130,579	14,181
Culture and recreation	169,335	169,335	162,757	6,578
Employee benefits	2,220,704	2,271,847	2,270,733	1,114
Debt service	235,134	235,134	241,625	(6,491)
Intergovernmental	188,278	188,278	188,278	-
Total Expenditures	17,756,126	17,862,422	17,568,053	294,369
Excess (Deficiency) of Revenues Over Expenditures	(142,662)	(248,958)	(13,312)	235,646
Other Financing Sources (Uses)				
Transfers in	255,620	255,620	256,090	470
Transfers (out)	(107,482)	(342,415)	(328,214)	14,201
Use of free cash:				
Operating budget	28,054	98,207	-	(98,207)
Transfer to Stabilization funds	-	234,933	-	(234,933)
Contribution to OPEB trust fund	-	36,143	-	(36,143)
Other sources	28,324	28,324	-	(28,324)
Total Other Financing Sources (Uses)	204,516	310,812	(72,124)	(382,936)
Overall Budgetary Excess (Deficiency)	\$ 61,854 *	\$ 61,854 *	\$ (85,436)	\$ (147,290)

* The revenue and expenditure budgets adopted and reported by the Town did not balance.

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

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

Budgetary Basis

The General Fund final appropriation appearing on the previous page represents the final amended budget after all reserve fund transfers and supplemental appropriations.

Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues, expenditures and other financing sources (uses), to conform to the budgetary basis of accounting.

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
GAAP Basis	\$ 18,174,424	\$ 18,163,983	\$ (64,845)
Remove the effect of adding the Town's Stabilization fund(s) per GASB 54	(11,335)	-	(7,279)
Reverse beginning of year appropriation carry- forwards from expenditures	-	(27,565)	-
Add end of year appropriation carryforwards to expenditures	-	39,983	-
Reverse the effect on non-budgeted State contributions for teachers retirement	<u>(608,348)</u>	<u>(608,348)</u>	<u>-</u>
Budgetary Basis	<u>\$ 17,554,741</u>	<u>\$ 17,568,053</u>	<u>\$ (72,124)</u>

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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

(Unaudited)

(Amounts express in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2020	December 31, 2019	3.34%	\$6,675	\$2,069	322.62%	64.30%
June 30, 2019	December 31, 2018	3.30%	\$7,114	\$2,835	250.93%	58.91%
June 30, 2018	December 31, 2017	3.16%	\$5,877	\$2,486	236.40%	63.12%
June 30, 2017	December 31, 2016	3.12%	\$6,860	\$2,361	290.55%	55.61%
June 30, 2016	December 31, 2015	3.26%	\$6,778	\$2,766	245.05%	55.29%
June 30, 2015	December 31, 2014	3.28%	\$6,128	\$2,638	232.30%	58.07%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2020	June 30, 2019	0.042%	-	\$10,625	\$10,625	\$3,066	-	53.95%
June 30, 2019	June 30, 2018	0.044%	-	\$10,503	\$10,503	\$2,988	-	54.84%
June 30, 2018	June 30, 2017	0.049%	-	\$10,386	\$10,386	\$3,296	-	54.25%
June 30, 2017	June 30, 2016	0.046%	-	\$10,345	\$10,345	\$3,044	-	52.73%
June 30, 2016	June 30, 2015	0.045%	-	\$9,208	\$9,208	\$2,849	-	55.38%
June 30, 2015	June 30, 2014	0.048%	-	\$7,700	\$7,700	\$2,970	-	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Required Supplementary Information
Schedule of Pension Contributions

(Unaudited)

(Amounts expressed in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	December 31, 2019	\$812	\$812	-	\$2,069	39.25%
June 30, 2019	December 31, 2018	\$745	\$745	-	\$2,835	26.28%
June 30, 2018	December 31, 2017	\$675	\$675	-	\$2,486	27.15%
June 30, 2017	December 31, 2016	\$615	\$615	-	\$2,361	26.05%
June 30, 2016	December 31, 2015	\$608	\$608	-	\$2,766	21.98%
June 30, 2015	December 31, 2014	\$573	\$573	-	\$2,638	21.72%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	June 30, 2019	\$608	\$582	-	\$3,066	18.98%
June 30, 2019	June 30, 2018	\$582	\$582	-	\$2,988	19.48%
June 30, 2018	June 30, 2017	\$561	\$561	-	\$3,296	17.02%
June 30, 2017	June 30, 2016	\$520	\$520	-	\$3,044	17.08%
June 30, 2016	June 30, 2015	\$459	\$459	-	\$2,849	16.11%
June 30, 2015	June 30, 2014	\$454	\$454	-	\$2,970	15.29%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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

(Unaudited)

(Amounts expressed in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability				
Service cost	\$ 179	\$ 168	\$ 160	\$ 259
Interest on unfunded liability - time value of money	423	250	303	294
Difference between expected and actual experience	(3,151)	-	1,047	-
Change in assumptions	8,141	-	(2,608)	-
Benefit payments	<u>(231)</u>	<u>(235)</u>	<u>(225)</u>	<u>(217)</u>
Net Change in Total OPEB Liability	5,361	183	(1,323)	336
Total OPEB Liability - Beginning	<u>6,389</u>	<u>6,206</u>	<u>7,529</u>	<u>7,193</u>
Total OPEB Liability - Ending (a)	11,750	6,389	6,206	7,529
Plan Fiduciary Net Position				
Contributions - employer	267	242	245	245
Net investment income	8	14	8	6
Benefit payments	<u>(231)</u>	<u>(212)</u>	<u>(203)</u>	<u>(195)</u>
Net Change in Plan Fiduciary Net Position	44	44	50	56
Plan Fiduciary Net Position - Beginning	<u>226</u>	<u>182</u>	<u>132</u>	<u>76</u>
Plan Fiduciary Net Position - Ending (b)	<u>270</u>	<u>226</u>	<u>182</u>	<u>\$ 132</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 11,480</u>	<u>\$ 6,163</u>	<u>\$ 6,024</u>	<u>\$ 7,397</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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

(Unaudited)

(Amounts expressed in thousands)

Schedule of Net OPEB Liability	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 11,750	\$ 6,390	\$ 6,206	\$ 7,529
Plan fiduciary net position	<u>(270)</u>	<u>(226)</u>	<u>(182)</u>	<u>(132)</u>
Net OPEB Liability	\$ <u>11,480</u>	\$ <u>6,164</u>	\$ <u>6,024</u>	\$ <u>7,397</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 2.30%	 3.54%	 2.93%	 1.75%
 Schedule of Contributions	 <u>2020</u>	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution *	\$ 782	\$ 242	\$ 245	\$ 245
Contributions in relation to the actuarially determined contribution	<u>(267)</u>	<u>(242)</u>	<u>(245)</u>	<u>(245)</u>
Contribution deficiency (excess)	\$ <u>515</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
 Schedule of Investment Returns	 <u>2020</u>	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	2.90%	6.60%	4.30%	unavailable

* Includes only the implicit subsidy, which is required to be funded by statute, and not an amount required to fully fund the plan over time.

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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

See Independent Auditors' Report.



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

INDEPENDENT AUDITORS' REPORT

To the Select Board
Town of Southampton, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 18, 2022.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we did identify a deficiency in internal control that we consider to be a material weakness.

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

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item 2020-001 to be a material weakness.

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

Compliance and Other Matters

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

Purpose of This Report

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

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

Greenfield, Massachusetts
January 18, 2022

Financial Statement Findings

2020-001 Improve Internal Controls Over Cash and Receivables – Material Weakness

Performing timely cash and receivable reconciliations and reviewing all reconciling items are critical procedures to ensure the Town's cash and receivable balances are properly reported and controlled. When these reconciliations are not being performed, there is an increased risk that errors or irregularities could occur and go undetected. As of January 2022, cash and receivable balances have not been reconciled since June 2020.

We recommend the Town implement measures to ensure that timely, accurate, and independent reconciliation of cash and receivable balances occurs monthly throughout the year. These reconciliations should be documented and signed by the preparer and a reviewer in order to improve documentation and oversight.

Town's Response:

From the end of October 2020 to the end of September 2021, there was no permanent Town Accountant for the Town of Southampton. During that time, no reconciliations were performed by the interim accountant, but the Treasurer's office did continue to reconcile their activity to the bank on a monthly basis. Now with a Town Accountant in place, processes for proper analysis will return.

Currently receivable packets are being reviewed by the Town Accountant once the Treasurer has confirmed that they have finished their process. Backup for each revenue input is located and attached to the physical printed packet for future reference.

Monthly reconciliations are planned for the cash and subledger accounts. Once fiscal year 2021 has been fully closed, scheduled times for said reviews shall take place each month. Any discrepancies between the Town Accountant and the Treasurer will be resolved through emails, phone calls, and/or meetings. With consistent controls in place, issues will be identified and fixed faster, which will prevent lingering errors from festering.