

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF MERRIMAC, MASSACHUSETTS

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended June 30, 2023



TOWN OF MERRIMAC, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Opinions

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 Merrimac, Massachusetts, the “Town”, as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents, (except for the Merrimac Municipal Light Department “the Light Department”, “Light”, which is as of December 31, 2022). We did not audit the financial statements of the Light Department. The Light Department represents 42.16%, 43.28%, and 67.60% respectively, of the assets, net position, and operating revenues of the Town’s business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Light Department, is based solely on the report of the other auditors.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Town as of June 30, 2023, (except for the Merrimac Municipal Light Department “the Light Department”, “Light”, which are as of December 31, 2022) and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements is the responsibility of management, and is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2024, 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, contract, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 29, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Merrimac, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$36.7 million (*total net position*).
- The Town's total net position increased by over \$2.1 million year-over-year.
- The Town continues to report a deficit in its unrestricted net position in the governmental activities. This deficit was nearly \$4.6 million at June 30, 2023. This deficit is due primarily to the recording of amounts associated with net OPEB and net pension liabilities, which totaled approximately \$9.5 million at June 30, 2023 in the aggregate. These liabilities are applied against the Town's unrestricted net position and represent actuarial estimates of future postemployment benefits payable to the Town for retiree medical insurance and pensions.
- At June 30, 2023, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$5.2 million, which was about \$0.1 million less than the prior year due primarily to general operations expenses exceeding revenues.
- In the governmental funds financial statements, the Town reported nearly \$2.1 million unassigned fund balance at June 30, 2023.
- At June 30, 2023, the unassigned fund balance for the General Fund was 10.2% of fiscal year 2023 total General Fund expenditures and the total fund balance in the General Fund was 18.3% of that figure.
- The Town's total long-term debt decreased nearly \$1.2 million in fiscal year 2023 to approximately \$12.6 million at June 30, 2023. Decrease was due to regularly scheduled maturities and amortization of bond premiums.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all the Town's assets, liabilities and deferred inflows/outflows of resources, with the end result reported as *net position*. Over time, increases or

decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

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

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

Proprietary Funds – Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town utilizes the proprietary funds to report activities of its enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water, sewer and light department activities.

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

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

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

Government-Wide Financial Analysis

Condensed comparative statements of net position for the two most recent fiscal years were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30,		June 30,		June 30,	
	2023	2022	2023	2022	2023	2022
<u>Assets</u>						
Current and other assets	\$ 7,958,830	\$ 8,615,704	\$ 10,435,027	\$ 10,454,676	\$ 18,393,857	\$ 19,070,380
Capital assets, net	27,023,960	27,152,088	18,903,559	17,650,575	45,927,519	44,802,663
Total Assets	34,982,790	35,767,792	29,338,586	28,105,251	64,321,376	63,873,043
<u>Deferred Outflows of Resources</u>	1,626,964	1,338,600	963,575	731,573	2,590,539	2,070,173
<u>Liabilities</u>						
Long-term liabilities	20,542,882	19,698,827	6,362,093	6,665,523	26,904,975	26,364,350
Other liabilities	998,874	1,709,697	460,978	418,041	1,459,852	2,127,738
Total Liabilities	21,541,756	21,408,524	6,823,071	7,083,564	28,364,827	28,492,088
<u>Deferred Inflows of Resources</u>	1,090,285	2,108,837	724,724	734,515	1,815,009	2,843,352
<u>Net Position</u>						
Net investment in capital assets	17,089,979	16,430,608	16,271,896	14,641,767	33,361,875	31,072,375
Restricted	1,450,787	1,602,369	3,857,050	4,171,465	5,307,837	5,773,834
Unrestricted	(4,563,053)	(4,443,946)	2,625,420	2,205,513	(1,937,633)	(2,238,433)
Total Net Position	\$ 13,977,713	\$ 13,589,031	\$ 22,754,366	\$ 21,018,745	\$ 36,732,079	\$ 34,607,776

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$36.7 million (*total net position*). This reflects an increase of over \$2.1 million.

The largest portion (approximately \$33.4 million) of the Town's total net position reflects its net investment in capital assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional significant portion of the Town's total net position (approximately \$5.3 million) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of *unrestricted net position* is in deficit by over \$1.9 million. The Town continues to report a deficit in its unrestricted net position, which is entirely due to recognition of approximately \$13.2 million in long-term liabilities associated with net pension and net OPEB liabilities reported in its governmental and business-type activities.

Condensed comparative statements of activities for the two most recent fiscal years were as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2023	2022	2023	2022	2023	2022
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,421,905	\$ 1,552,391	\$ 7,948,269	\$ 7,397,902	\$ 9,370,174	\$ 8,950,293
Operating grants and contributions	601,510	1,303,167	-	-	601,510	1,303,167
Capital grants and contributions	564,227	1,644,814	2,094,542	1,372,419	2,658,769	3,017,233
General revenues:						
Property taxes	16,943,388	16,495,205	-	-	16,943,388	16,495,205
Intergovernmental	979,361	928,387	-	-	979,361	928,387
Other	1,294,906	1,090,115	(477,085)	364,126	817,821	1,454,241
Total Revenues	21,805,297	23,014,079	9,565,726	9,134,447	31,371,023	32,148,526
<u>Expenses</u>						
General government	1,976,978	2,277,423	-	-	1,976,978	2,277,423
Public safety	3,941,147	3,803,335	-	-	3,941,147	3,803,335
Education	12,233,308	11,923,968	-	-	12,233,308	11,923,968
Public works	1,480,128	1,888,118	-	-	1,480,128	1,888,118
Health and human services	851,319	896,632	-	-	851,319	896,632
Culture and recreation	670,402	601,444	-	-	670,402	601,444
Interest expense	263,333	247,206	-	-	263,333	247,206
Utilities	-	-	7,830,105	7,294,844	7,830,105	7,294,844
Total Expenses	21,416,615	21,638,126	7,830,105	7,294,844	29,246,720	28,932,970
Change in Net Position Before Transfers	388,682	1,375,953	1,735,621	1,839,603	2,124,303	3,215,556
<u>Transfers</u>						
Change in Net Position	388,682	1,375,953	1,735,621	1,839,603	2,124,303	3,215,556
Net Position - Beginning of Year	13,589,031	12,213,078	21,018,745	19,179,142	34,607,776	31,392,220
Net position - End of Year	\$ 13,977,713	\$ 13,589,031	\$ 22,754,366	\$ 21,018,745	\$ 36,732,079	\$ 34,607,776

Governmental Activities – Total revenues decreased over \$1.2 million year-over-year. This decrease was due primarily to reductions of approximately \$1.1 million in capital grants and contributions and \$0.7 million in operating grants and contributions, which were offset by an increase of over \$0.4 million in property tax revenues.

The Town's largest revenue source is from property taxes, which represented nearly 78% and 72% of total revenues in fiscal year 2023 and 2022, respectively. No other revenues were greater than 10% of total revenues in fiscal years 2023 or 2022.

Education expenses continue to represent the largest expense for the Town. Education expenses represented approximately 57% of total 2023 expenses versus 55% in the prior year. Public safety, general government and public works represented approximately 18%, 9% and 7%, respectively, of total 2023 expenses; these percentages were relatively consistent with the prior year. No other expense categories were greater than 10% of fiscal years 2023 or 2022 total expenses.

Business-type Activities – These activities of the Water, Sewer, and Light Enterprise Funds increased net position by over \$1.7 million. Charges for serviced increased by approximately \$0.6 million and the increase in total expenses of over \$0.5 million effectively offset the revenue increase. Additionally, current year revenues were positively impacted by approximately \$2.1 million from ARPA grant funding to support water and sewer infrastructure construction in the current year.

Of the total expenses within the three enterprise funds, approximately 85% pertains to direct operational costs with remaining costs represented by debt service (approximately 14%) and current year depreciation (approximately 1%).

Governmental Funds Financial Analysis

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$5.2 million. This represents a decrease of over \$0.1 million from the prior year.

The General Fund is the chief operating fund of the Town. The total fund balance in the General Fund decreased nearly \$0.1 million in fiscal year 2023. This decrease was due to expenditures slightly outpacing revenues for the year. The General Fund is developed utilizing a balanced budget model, so the results are inline with expectations.

At June 30, 2023, the unassigned fund balance of the General Fund was approximately \$2.1 million, while the total fund balance in the General Fund was approximately \$3.8 million. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents 10.2% of total fiscal year 2023 General Fund expenditures, while the total fund balance represents 18.3% of that same amount.

The Capital Projects Fund is used to account for the construction of the Town's building and infrastructure capital assets. The capital projects fund had no activity in the current year and maintained a total fund balance of approximately \$16,000.

The Nonmajor Governmental Funds are comprised of the remaining governmental funds not reported in the four previously described major funds. In fiscal year 2023, the fund balance in the Town's Nonmajor Governmental Funds decreased by less than \$0.1 million. The Town reports nearly \$0.4 million as nonspendable (endowment corpus), nearly \$1.1 million as monies with usage restrictions and a slight deficit of approximately \$19,000 as unassigned fund balance.

Proprietary Funds – The Town's proprietary funds consist of the Water and Sewer Enterprise Funds; as well as the Light Department Enterprise Funds which functions with some different operational autonomies compared to other Town departments and utilizes a December 31 year end. These funds provide the same type of information found in the government-wide financial statements under Business-type activities. At their fiscal year ends, the Water, Sewer, and Light net positions were approximately \$5.5 million, \$7.4 million, and \$9.8 million, respectively.

Fiduciary Fund – The Town's fiduciary fund is comprised of the Town's OPEB Trust Fund. The OPEB Trust increased over \$0.3 million due to contributions in excess of the pay-as-you-go expense funded by the Town and Light Department of nearly \$145,000 and net investment gains of nearly \$92,000. The current balance in the account is approximately \$2.6 million. This fund is comprised of amounts reported by the Town as of June 30, 2023 and the Light Department as of December 31, 2022; a more detailed breakout of each portion can be found in notes to these basic financial statements.

General Fund Budgetary Highlights

Differences between the original and the final amended budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets as of June 30, 2023, totaled approximately \$45.9 million, net of accumulated depreciation. Investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of over \$1.1 million year-over-year as current year capital asset additions exceeded depreciation expense of nearly \$2.5 million.

Additional information on the Town capital assets can be found in notes to these basic financial statements.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of approximately \$12.6 million comprised of debt principal and unamortized debt premiums. The Town's total long-term debt decreased by nearly \$1.2 million during the fiscal year as a result of regular scheduled maturities and amortization.

Standard & Poor's Financial Services LLC ("S&P") assigned the Town an AA+ credit rating, which signifies that the Town's general obligation bonds are of investment grade, high quality and very low credit risk. Furthermore, this is the second highest credit S&P issues on long-term debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is approximately \$57.9 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in notes to these basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- For fiscal year 2024, Town's real estate tax base is made up majoritively of residential taxes, which comprise 96.2% of the Town's real estate tax base. The remainder of the Town's tax base, is from commercial and industrial property taxes and personal property taxes. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- The Town enters fiscal year 2024 with the following financial reserves and available resources:
 - Certified free cash was approved during 2024 for approximately \$630,000
 - General stabilization funds balance of approximately \$999,000
 - Special stabilization funds balance of approximately \$309,000
- The Town's housing market has been very strong for the past several years. This has been bolstered by mortgage rates at historic lows. Current actions by the Federal Open Market Committee to soften the economy due to inflation have caused mortgage rates to spike during fiscal year 2023 and into 2024. Such trends may have an adverse effect on the housing market, and the Town is monitoring this.
- Inflation is peaking near 40-year historic highs. This is having adverse impacts on the Town. Wage inflation cannot guarantee that the Town will be able to maintain employees without increasing wages. While not to the extremes of the previous year, energy inflation is causing a spike in energy costs, and price inflation is causing an increase in the price of the delivery and cost of goods and services. The construction building index is nearing historic highs which may cause the estimates of major capital projects to increase, in addition to the financing costs of these projects. The Town continues to monitor this situation.
- The Town expects local aid of approximately \$1,164,000 which is nearly the same at the prior year.

Each of these factors were considered in preparing the Town's budget for the 2024 fiscal year, which was adopted at Town Meeting in April 2023. The Town set its fiscal year 2024 tax rate on December 6, 2023.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, 4 School Street, Merrimac, Massachusetts 01860.

TOWN OF MERRIMAC, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2023**

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 4,490,682	\$ 3,827,334	\$ 8,318,016
Investments	1,543,489	3,985,044	5,528,533
Receivables, net of allowance for uncollectibles:			
Property taxes	949,784	-	949,784
User fees	-	1,885,645	1,885,645
Betterments	-	61,513	61,513
Departmental and other	507,748	-	507,748
Intergovernmental	107,646	-	107,646
Tax foreclosures	359,481	-	359,481
Inventory	-	253,214	253,214
Prepaid items	-	10,147	10,147
Purchased power working capital	-	259,958	259,958
Capital assets, not being depreciated	3,728,649	353,192	4,081,841
Capital assets, net of depreciation	23,295,311	18,550,367	41,845,678
Net other postemployment benefits asset	-	152,172	152,172
Total Assets	34,982,790	29,338,586	64,321,376
Deferred Outflows of Resources:			
Related to net pension liability	1,208,753	745,844	1,954,597
Related to net other postemployment benefits liability	418,211	217,731	635,942
Total Deferred Outflows of Resources	1,626,964	963,575	2,590,539
Liabilities:			
Current liabilities:			
Warrants and accounts payable	127,211	274,343	401,554
Accrued payroll and withholdings	141,960	36,811	178,771
Accrued interest expense	86,306	42,961	129,267
Other liabilities	59,122	-	59,122
Unearned revenues	196,375	106,863	303,238
Due to other fund	90,000	-	90,000
Short-term notes payable	297,900	-	297,900
Noncurrent liabilities:			
Due in one year or less	817,906	373,594	1,191,500
Due in more than one year	19,724,976	5,988,499	25,713,475
Total Liabilities	21,541,756	6,823,071	28,364,827
Deferred Inflows of Resources:			
Related to leases	247,771	-	247,771
Related to net pension liability	453,534	597,093	1,050,627
Related to net other postemployment benefits liability	388,980	127,631	516,611
Total Deferred Inflows of Resources	1,090,285	724,724	1,815,009
Net Position:			
Net investment in capital assets	17,089,979	16,271,896	33,361,875
Restricted for:			
Nonexpendable permanent funds	381,117	-	381,117
Expendable permanent funds	266,079	-	266,079
Revolving funds	326,625	-	326,625
Depreciation	-	3,857,050	3,857,050
Other purposes	476,966	-	476,966
Unrestricted	(4,563,053)	2,625,420	(1,937,633)
Total Net Position	\$ 13,977,713	\$ 22,754,366	\$ 36,732,079

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,976,978	\$ 473,165	\$ 44,377	\$ -	\$ (1,459,436)		\$ (1,459,436)
Public safety	3,941,147	768,254	128,656	-	(3,044,237)		(3,044,237)
Education	12,233,308	-	101,805	-	(12,131,503)		(12,131,503)
Public works	1,480,128	165,906	108,861	494,987	(710,374)		(710,374)
Health and human services	851,319	6,380	192,525	-	(652,414)		(652,414)
Culture and recreation	670,402	8,200	25,286	69,240	(567,676)		(567,676)
Debt service	263,333	-	-	-	(263,333)		(263,333)
Total Governmental Activities	21,416,615	1,421,905	601,510	564,227	(18,828,973)		(18,828,973)
Business-Type Activities:							
Water	1,428,983	1,252,004	-	1,648,489		\$ 1,471,510	1,471,510
Sewer	1,450,816	1,326,912	-	343,750		219,846	219,846
Electric Light Department	4,950,306	5,369,353	-	102,303		521,350	521,350
Total Business-Type Activities	7,830,105	7,948,269	-	2,094,542		2,212,706	2,212,706
Total Primary Government	\$ 29,246,720	\$ 9,370,174	\$ 601,510	\$ 2,658,769		2,212,706	(16,616,267)
General Revenues:							
Real and personal property taxes					16,943,388	-	16,943,388
Motor vehicle and other excise					1,017,358	-	1,017,358
Grants and contributions not restricted to specific purposes					979,361	-	979,361
Penalties and interest on taxes					56,187	-	56,187
Unrestricted investment income (loss)					216,633	(477,085)	(260,452)
Sale of capital assets					4,728	-	4,728
Total General Revenues					19,217,655	(477,085)	18,740,570
Change in Net Position					388,682	1,735,621	2,124,303
Net Position:							
Beginning of Year					13,589,031	21,018,745	34,607,776
End of Year					\$ 13,977,713	\$ 22,754,366	\$ 36,732,079

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2023**

	General Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 3,094,658	\$ 16,323	\$ 1,379,701	\$ 4,490,682
Investments	1,050,346	-	493,143	1,543,489
Receivables, net of allowance				
Property taxes	949,784	-	-	949,784
Excise taxes	125,710	-	-	125,710
Leases	247,771	-	-	247,771
Departmental and other	116,693	-	17,574	134,267
Intergovernmental	-	-	107,646	107,646
Tax foreclosures	358,592	-	889	359,481
Total Assets	<u>5,943,554</u>	<u>16,323</u>	<u>1,998,953</u>	<u>7,958,830</u>
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 5,943,554</u>	<u>\$ 16,323</u>	<u>\$ 1,998,953</u>	<u>\$ 7,958,830</u>
Liabilities:				
Warrants and accounts payable	\$ 81,949	\$ -	\$ 45,262	\$ 127,211
Accrued payroll and withholdings	131,849	-	10,111	141,960
Other liabilities	59,122	-	-	59,122
Unearned revenue	-	-	196,375	196,375
Due to other fund	90,000	-	-	90,000
Short-term notes payable	-	-	297,900	297,900
Total Liabilities	<u>362,920</u>	<u>-</u>	<u>549,648</u>	<u>912,568</u>
Deferred Inflows of Resources:				
Unearned revenue - property taxes	949,784	-	-	949,784
Unearned revenue - excise taxes	125,710	-	-	125,710
Unearned revenue - leases	247,771	-	-	247,771
Unearned revenue - departmental and other	475,285	-	17,574	492,859
Total Deferred Inflows of Resources	<u>1,798,550</u>	<u>-</u>	<u>17,574</u>	<u>1,816,124</u>
Fund Balances:				
Nonspendable	-	-	381,117	381,117
Restricted	-	16,323	1,069,670	1,085,993
Committed	1,677,215	-	-	1,677,215
Assigned	900	-	-	900
Unassigned	2,103,969	-	(19,056)	2,084,913
Total Fund Balances	<u>3,782,084</u>	<u>16,323</u>	<u>1,431,731</u>	<u>5,230,138</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,943,554</u>	<u>\$ 16,323</u>	<u>\$ 1,998,953</u>	<u>\$ 7,958,830</u>

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2023

Total Governmental Fund Balances		\$ 5,230,138
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		27,023,960
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the governmental funds.		1,568,353
Deferred outflows and inflows of resources to be recognized in future fiscal years are not available resources and, therefore, are not reported in the funds:		
Deferred outflows related to net pension liability	1,208,753	
Deferred inflows related to net pension liability	(453,534)	
Deferred outflows related to net other postemployment benefits liability	418,211	
Deferred inflows related to net other postemployment benefits liability	(388,980)	
Net effect of reporting deferred outflows and inflows of resources		784,450
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:		
Bonds and notes payable	(9,281,204)	
Unamortized bond premiums	(669,100)	
Landfill postclosure	(832,000)	
Compensated absences	(259,857)	
Net pension liability	(7,192,276)	
Net other postemployment benefits liability	(2,308,445)	
Net effect of reporting long-term liabilities		(20,542,882)
Net Position of Governmental Activities		<u>\$ 13,977,713</u>

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2023**

	General Fund	Capital Project Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Real estate and personal property taxes, net	\$ 16,989,334	\$ -	\$ -	\$ 16,989,334
Intergovernmental	1,126,630	-	923,716	2,050,346
Motor vehicle and other excises	1,066,567	-	-	1,066,567
Departmental and other revenue	880,776	-	443,836	1,324,612
License and permits	68,070	-	-	68,070
Penalties and interest on taxes	56,187	-	-	56,187
Fines and forfeitures	25,702	-	-	25,702
Investment income	197,592	-	19,041	216,633
Contributions and donations	-	-	94,752	94,752
Total Revenues	<u>20,410,858</u>	<u>-</u>	<u>1,481,345</u>	<u>21,892,203</u>
Expenditures:				
Current:				
General government	1,441,923	-	76,166	1,518,089
Public safety	2,456,686	-	363,957	2,820,643
Education	11,969,913	-	45,125	12,015,038
Public works	1,444,497	-	665,163	2,109,660
Health and human services	446,800	-	102,115	548,915
Culture and recreation	328,252	-	109,663	437,915
Pensions and other fringes	1,378,272	-	-	1,378,272
State and county tax assessments	115,027	-	-	115,027
Debt service:				
Principal	717,241	-	-	717,241
Interest	339,121	-	-	339,121
Total Expenditures	<u>20,637,732</u>	<u>-</u>	<u>1,362,189</u>	<u>21,999,921</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(226,874)</u>	<u>-</u>	<u>119,156</u>	<u>(107,718)</u>
Other Financing Sources (Uses):				
Transfers in	184,082	-	36,068	220,150
Transfers out	(36,068)	-	(184,082)	(220,150)
Total Other Financing Sources (Uses)	<u>148,014</u>	<u>-</u>	<u>(148,014)</u>	<u>-</u>
Change in Fund Balances	<u>(78,860)</u>	<u>-</u>	<u>(28,858)</u>	<u>(107,718)</u>
Fund Balances - Beginning of year	3,860,944	16,323	1,460,589	5,337,856
Fund Balances - End of year	<u>\$ 3,782,084</u>	<u>\$ 16,323</u>	<u>\$ 1,431,731</u>	<u>\$ 5,230,138</u>

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (107,718)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated/amortized over their estimated useful lives and reported as depreciation expense. The net amounts are presented here as reconciling items:

Capital outlays, net	\$ 1,150,430	
Depreciation expense, net	<u>(1,278,558)</u>	
Net effect of reporting capital assets		(128,128)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Amortization of premium on bonds and notes	70,258	
Principal payments of debt	<u>717,241</u>	
Net effect of reporting long-term debt		787,499

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year. 5,530

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds (91,634)

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:

Compensated absences, net	(76,848)	
Landfill postclosure	52,000	
Pension benefits	(81,976)	
Other postemployment benefits	<u>29,957</u>	
Net effect of reporting long-term liabilities		<u>(76,867)</u>

Change in Net Position of Governmental Activities **\$ 388,682**

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2023**

	Business-Type Activities			Totals
	Water Fund	Sewer Fund	Electric Light (a)	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 427,112	\$ 1,657,543	\$ 1,742,679	\$ 3,827,334
Investments	-	-	3,985,044	3,985,044
User fees, net of allowance	511,374	524,894	849,377	1,885,645
Inventory	-	-	253,214	253,214
Prepaid items	-	-	10,147	10,147
Purchased power working capital deposit	-	-	259,958	259,958
Total current assets	938,486	2,182,437	7,100,419	10,221,342
Noncurrent assets:				
Betterments receivable	-	61,513	-	61,513
Capital assets, not being depreciated	31,621	209,479	112,092	353,192
Capital assets, net of depreciation	7,338,984	6,054,928	5,156,455	18,550,367
Net other postemployment benefits asset	44,946	107,226	-	152,172
Total noncurrent assets	7,415,551	6,433,146	5,268,547	19,117,244
Total Assets	8,354,037	8,615,583	12,368,966	29,338,586
Deferred Outflows of Resources:				
Related to net pension liability	131,844	177,394	436,606	745,844
Related to net other postemployment benefits liability	13,786	25,640	178,305	217,731
Total Deferred Outflows of Resources	145,630	203,034	614,911	963,575
Liabilities:				
Current liabilities:				
Warrants and accounts payable	31,885	13,512	228,946	274,343
Accrued payroll and withholdings	17,384	19,427	-	36,811
Customer deposits	-	-	106,863	106,863
Accrued interest expense	21,956	828	20,177	42,961
Current portion of long-term debt	134,604	145,761	75,000	355,365
Compensated absences	5,069	6,331	6,829	18,229
Total current liabilities	210,898	185,859	437,815	834,572
Noncurrent liabilities:				
Long-term debt	1,974,760	26,931	300,000	2,301,691
Compensated absences	9,413	11,757	5,558	26,728
Net other postemployment benefits liability	-	-	243,116	243,116
Net pension liability	784,491	1,055,526	1,576,947	3,416,964
Total noncurrent liabilities	2,768,664	1,094,214	2,125,621	5,988,499
Total Liabilities	2,979,562	1,280,073	2,563,436	6,823,071
Deferred Inflows of Resources:				
Related to net pension liability	49,469	66,560	481,064	597,093
Related to net other postemployment benefits liability	12,823	23,848	90,960	127,631
Total Deferred Inflows of Resources	62,292	90,408	572,024	724,724
Net Position:				
Net investment in capital assets	5,286,633	6,091,716	4,893,547	16,271,896
Restricted for depreciation	-	-	3,857,050	3,857,050
Unrestricted	171,180	1,356,420	1,097,820	2,625,420
Total Net Position	\$ 5,457,813	\$ 7,448,136	\$ 9,848,417	\$ 22,754,366

(a) As of December 31, 2022.

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

	Business-Type Activities			Totals
	Water Fund	Sewer Fund	Electric Light (a)	
Operating Revenues:				
Usage charges	\$ 1,237,514	\$ 1,304,247	\$ 5,252,574	\$ 7,794,335
Other operating revenues	14,490	19,561	116,779	150,830
Total Operating Revenues	<u>1,252,004</u>	<u>1,323,808</u>	<u>5,369,353</u>	<u>7,945,165</u>
Operating Expenses:				
Operating costs	1,018,730	1,039,866	4,565,213	6,623,809
Depreciation	363,452	403,749	350,479	1,117,680
Total Operating Expenses	<u>1,382,182</u>	<u>1,443,615</u>	<u>4,915,692</u>	<u>7,741,489</u>
Total Operating Income (Loss)	<u>(130,178)</u>	<u>(119,807)</u>	<u>453,661</u>	<u>203,676</u>
Nonoperating Income (Expenses):				
Intergovernmental	1,590,889	157,500	-	1,748,389
Betterments	-	3,104	-	3,104
Other	-	-	(20,000)	(20,000)
Investment income (loss)	290	1,086	(478,461)	(477,085)
Interest expense	(46,801)	(7,201)	(14,614)	(68,616)
Total Nonoperating Revenues (Expenses)	<u>1,544,378</u>	<u>154,489</u>	<u>(513,075)</u>	<u>1,185,792</u>
Income (Loss) Before Capital Contributions	<u>1,414,200</u>	<u>34,682</u>	<u>(59,414)</u>	<u>1,389,468</u>
Capital contributions	57,600	186,250	102,303	346,153
Total Capital Contributions	<u>57,600</u>	<u>186,250</u>	<u>102,303</u>	<u>346,153</u>
Change in Net Position	<u>1,471,800</u>	<u>220,932</u>	<u>42,889</u>	<u>1,735,621</u>
Net Position - Beginning of year	<u>3,986,013</u>	<u>7,227,204</u>	<u>9,805,528</u>	<u>21,018,745</u>
Net Position - End of year	<u>\$ 5,457,813</u>	<u>\$ 7,448,136</u>	<u>\$ 9,848,417</u>	<u>\$ 22,754,366</u>

(a) As of and for the year ended December 31, 2022.

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023**

	Business-Type Activities			
	Water Fund	Sewer Fund	Electric Light (a)	Totals
Cash Flows from Operating Activities:				
Receipts from users	\$ 1,219,724	\$ 1,309,940	\$ 5,109,940	\$ 7,639,604
Payments to vendors	(735,797)	(565,955)	(4,007,809)	(5,309,561)
Payments to employees	(251,442)	(549,260)	(804,782)	(1,605,484)
Net Cash Provided by Operating Activities	<u>232,485</u>	<u>194,725</u>	<u>297,349</u>	<u>724,559</u>
Cash Flows from Noncapital Related Financing Activities:				
Payment in lieu of tax to Town	-	-	(20,000)	(20,000)
Net Cash Used in Noncapital Related Financing Activities	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
Cash Flows from Capital and Related Financing Activities:				
Grant received from Commonwealth	1,590,889	157,500	-	1,748,389
Capital contribution	57,600	186,250	102,303	346,153
Betterments	-	3,104	-	3,104
Acquisition and construction of capital assets	(1,682,507)	(216,281)	(471,876)	(2,370,664)
Principal payments on long-term debt	(152,546)	(150,678)	(75,000)	(378,224)
Interest paid	(48,292)	(8,074)	(22,150)	(78,516)
Net Cash Used in Capital and Related Financing Activities	<u>(234,856)</u>	<u>(28,179)</u>	<u>(466,723)</u>	<u>(729,758)</u>
Cash Flows from Investing Activities:				
Investment income (loss)	290	1,086	(478,461)	(477,085)
Reinvestment of investments, net	-	-	(693,350)	(693,350)
Net Cash Provided by Investing Activities	<u>290</u>	<u>1,086</u>	<u>(1,171,811)</u>	<u>(1,170,435)</u>
Change in Cash and Cash Equivalents	(2,081)	167,632	(1,361,185)	(1,195,634)
Cash and Cash Equivalents:				
Beginning of year	429,193	1,489,911	3,103,864	5,022,968
End of year	<u>\$ 427,112</u>	<u>\$ 1,657,543</u>	<u>\$ 1,742,679</u>	<u>\$ 3,827,334</u>
Reconciliation of Operating Income to Net Cash Provided Operating Activities:				
Operating Income	\$ (130,178)	\$ (119,807)	\$ 453,661	\$ 203,676
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:				
Depreciation	363,452	403,749	350,479	1,117,680
Changes in assets, deferred outflows (inflows) of resources and liabilities:				
Receivables and other current assets	(32,280)	(13,868)	(408,111)	(454,259)
Warrants payable and other current liabilities	19,706	(13,896)	47,027	52,837
Accrued and deferred benefits	11,785	(61,453)	(145,707)	(195,375)
Net Cash Provided By Operating Activities	<u>\$ 232,485</u>	<u>\$ 194,725</u>	<u>\$ 297,349</u>	<u>\$ 724,559</u>

(a) As of and for the year ended December 31, 2022.

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2023**

	<u>OPEB Trust Funds</u>
Assets:	
Cash and cash equivalents	\$ 10,142
Investments (at fair value):	
Mutual funds - fixed income	559,556
Mutual funds - equity	1,647,113
Common stock - equity	301,926
Total Investments	<u>2,508,595</u>
Due from other fund	<u>90,000</u>
Total Assets	<u>2,608,737</u>
Liabilities:	
Accounts payable and accrued expenses	<u>-</u>
Total Liabilities	<u>-</u>
Net Position:	
Restricted for other postemployment benefits	<u>2,608,737</u>
Total Net Position	<u><u>\$ 2,608,737</u></u>

See accompanying notes to basic financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

	OPEB Trust Funds
Additions:	
Contributions:	
Employer	\$ 374,809
Total contributions	374,809
Investment income:	
Interest and dividends	91,540
Net investment earnings	91,540
Total Additions	466,349
 Deductions:	
Benefit payments to retirees and beneficiaries	144,809
Total Deductions	144,809
Change in Net Position	321,540
Net Position - Beginning of Year	2,287,197
Net Position - Ending of Year	\$ 2,608,737

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

TOWN OF MERRIMAC, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is located in Essex County, approximately forty miles north of Boston, Massachusetts and bordering the State of New Hampshire. Merrimac was incorporated as a town in 1876.

The Town is governed by an elected three-member Board of Selectmen. Members of the Board of Selectmen serve three-year staggered terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, rubbish disposal, public education in grades kindergarten to twelve through a regional school district, street maintenance, and parks and recreational facilities. Water, sewer and light services are also provided to the Town’s residents through enterprise funds established for these purposes.

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

The Merrimac Municipal Light Department (the “Light Department” or “Light”), which provides electricity services to the Town’s inhabitants, is required to be included as a component unit of the Town. The Light Department accounts for its operations on a calendar year basis. The net position and results of Light Department’s operations as of and for the year ended December 31, 2022, have been included in the Town’s proprietary funds financial statements. The Light Department issued stand-alone audited financial statements from another auditor, which can be obtained from the Light Department. The Light Department is located at 10 West Main Street, Merrimac, Massachusetts 01860.

Joint Ventures – The Pentucket Regional School District is a joint venture between the Town and the towns of Groveland and West Newbury. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2023, the Town’s assessment was \$10,912,650. There is no equity interest reported in these financial statements for this joint venture. Complete audited financial statements for this joint venture can be obtained directly through the Superintendent’s Office, 22 Main Street, West Newbury, Massachusetts 01985.

In addition, the Town is a member community of the Whittier Regional Vocational Technical High School. This joint venture assesses each of the eleven member communities its share of the operational and debt service costs based on student population and other factors. In fiscal year 2023, the Town was assessed \$811,447. There is no equity interest reported in these financial statements for this joint venture. Complete audited financial statements for this school district can be obtained directly through the Superintendent's Office, 115 Amesbury Line Road, Haverhill, Massachusetts 01830.

B. Government-Wide and Fund Financial Statements

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

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

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

- 1) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to

meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The effect of material interfund activity has been removed from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

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

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

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

The Light Department’s rates are proposed by the Light Department and approved by the Board of Light Commissioners. The rates may be changed once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (“DPU”). While the DPU exercises general supervisory authority over the Light Department, rates are not subject to DPU approval. Rates must be set such that net earnings from operations do not exceed 8% of the cost of the utility plant.

The Town reports the following major governmental funds:

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

Capital Projects Fund – is used to account for the purchase or construction of the Town’s capital assets.

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports its water, sewer and light (electricity) activities as major proprietary funds.

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

The Town reports its other postemployment benefits trust fund in its fiduciary funds. The other postemployment benefits trust fund is used to accumulate funds for future payments of other postemployment benefits, or OPEB, for retirees such as health and life insurance.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity

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

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

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

Real estate taxes may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts.

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

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks and similar items), are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Buildings and improvements	15 to 40 years
Machinery and equipment	3 to 10 years
Vehicles	5 to 10 years
Infrastructure	15 to 100 years

Additionally, the statutory provision for depreciation of Light Department utility plant is computed on the straight-line basis at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights, which the Light Department has consistently used. This method approximates GAAP based on the average age of the utility plant assets and was approved by the DPU.

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

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

Investment Income – Exclusive of the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds may be voluntarily assigned to the General Fund.

Compensated Absences – Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state law and executive policies. Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred in the government-wide financial statements. Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations in the governmental fund's financial statements.

Unearned Revenues – Amounts collected in advance from federal and state grants are reported as unearned revenues if material.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of financial resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Town has two types of items that are reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability and changes in the net other postemployment liabilities. The deferred pensions and OPEB items will be recognized in pension expense and benefits expense in future years as more fully described later in this report.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of financial resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and thus will not be recognized as an inflow of resources (revenue) until that time.

The Town has three types of items that are reported on the government-wide statement of net position which relate to inflows from lease receivables, and from changes in the net pension liability and the net other postemployment benefit liability. The deferred leases will be recognized as departmental revenue in future years as received, and deferred pensions and OPEB items will be recognized in pension and benefits expense in future years as more fully described later in this report.

The Town also reports one type of item that arises under a modified accrual basis of accounting which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from three sources: (1) property taxes, (2) excise taxes, and (3) other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, unavailable revenue relative to future cash flows from lease receivable agreements is reported here.

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

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

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

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

Revolving funds represent amounts that are restricted by state law for expenditures that are directly related to the revenues that are being collected.

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

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

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

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

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

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

Assigned represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

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

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

Stabilization Funds – The Town maintains three stabilization funds – a General Stabilization Fund, a Capital Stabilization Fund and a Fire and Ambulance Apparatus Stabilization Fund. The use of stabilization funds requires a two-third vote of the Town Meeting before use for general and capital-related purposes. The fund balances for these three stabilization funds totaled \$1,307,845 at June 30, 2023, and were included as components of unassigned fund balance in the General Fund.

Encumbrances – The Town's encumbrance policy regarding the general fund is to (i) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (ii) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted or committed are included within the classification of those fund balances and not reported, separately. The Town reports \$1,677,215 of articles from Town Meeting votes in the General Fund as committed and \$900 of encumbrances from normal purchasing activity in the general fund as assigned at June 30, 2023. Encumbrances are not reported in any other funds.

The following represent the categorizations of fund balance:

	General Fund	Capital Project Funds	Nonmajor Governmental Funds	Total
Nonspendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 381,117	\$ 381,117
Restricted:				
General government	-	-	371,214	371,214
Public safety	-	13,763	215,544	229,307
Public works	-	2,560	264,277	266,837
Health and human services	-	-	160,972	160,972
Culture and recreation	-	-	57,663	57,663
Committed:				
General government	375,676	-	-	375,676
Public safety	441,646	-	-	441,646
Education	153,000	-	-	153,000
Public works	485,737	-	-	485,737
Health and human services	10,000	-	-	10,000
Culture and recreation	118,377	-	-	118,377
Pension and other fringes	92,779	-	-	92,779
Assigned:				
General government	532	-	-	532
Public safety	39	-	-	39
Public works	149	-	-	149
Pension and other fringes	180	-	-	180
Unassigned	2,103,969	-	(19,056)	2,084,913
Totals	<u>\$ 3,782,084</u>	<u>\$ 16,323</u>	<u>\$ 1,431,731</u>	<u>\$ 5,230,138</u>

E. Excess of Expenditures Over Appropriations and Fund Deficits

The Town did not report any material expenditures in excess of appropriations within the General Fund during the year ended June 30, 2023. Other insignificant deficits within the Nonmajor Fund relative to grant and revolving accounts are reported with a total of \$19,056 and are anticipated to be eliminated through future grant or activity receipts.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$2,595,568, and the bank balance was \$3,064,512. The Town relies on depository insurance at its banking institutions to mitigate this risk. At June 30, 2023, \$378,395 of the bank deposits were uninsured and uncollateralized.

Because the Light Department pools much of its cash and short-term investments with the Town and bank accounts are maintained in the name of the Town, the amount of this balanced exposed to custodial credit risk at December 31, 2022, cannot be reasonably determined.

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

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

The three levels of the hierarchy are as follows:

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

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2023:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. government obligations	\$ 245,891	\$ 198,129	\$ 47,762	\$ -
Corporate fixed income securities	370,569	-	370,569	-
Fixed income exchange traded funds	4,645	-	4,645	-
Fixed income mutual funds	432,128	-	432,128	-
Total debt securities	1,053,233	198,129	855,104	-
Other investments:				
Equity securities	766,621	766,621	-	-
Equity mutual funds	1,752,307	-	1,752,307	-
Total investments measured at fair value	3,572,161	\$ 964,750	\$ 2,607,411	\$ -
Investments measured at amortized cost:				
Money market mutual funds	33,351			
State investment pool	3,954,155			
Total Town investments	\$ 7,559,667			

Investments in the MMDT are valued at amortized cost, which approximates fair value.

The following table presents the Light Department’s investments carried at fair value on a recurring basis in the statement of net position at December 31, 2022:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. government obligations	\$ 500,466	\$ 500,466	\$ -	\$ -
Total debt securities	500,466	500,466	-	-
Other investments:				
Equity securities	61,843	61,843	-	-
Equity mutual funds	3,510,409	3,510,409	-	-
Fixed income mutual funds	392,249	392,249	-	-
Total investments measured at fair value	\$ 4,464,967	\$ 4,464,967	\$ -	\$ -

Concentration of Credit Risk: Investments – The Town does not place a limit on the amount that may be invested in any one issuer. The Town’s investments in the MMDT represented approximately 52% of total investments held at June 30, 2023. No other individual investment exceeded 5% of the Town’s total investments.

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

The following table presents the Town’s investments and maturities at June 30, 2023:

Investment Type	Fair Value	Time Until Maturity (Years)		
		Less than 1	1 to 5	6 to 10
Debt securities:				
U.S. government obligations	\$ 245,891	\$ 45,009	\$ 180,547	\$ 20,335
Corporate fixed income securities	370,569	103,952	257,885	8,732
State investment pool	3,954,155	3,954,155	-	-
Certificates of deposit	32,800	32,800	-	-
Total Town investments with maturities	4,603,415	\$ 4,135,916	\$ 438,432	\$ 29,067
Other investments:				
Equity securities	766,621			
Equity mutual funds	1,752,307			
Fixed income exchange traded funds	4,645			
Fixed income mutual funds	432,128			
Money market mutual funds	33,351			
Total Town investments	\$ 7,592,467			

Credit Risk: Investments – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town follows the prudent investor standard and invests only in financial instruments that are allowable under Massachusetts General Laws. The following table summarizes the credit ratings assigned by Standard and Poor’s Global Ratings (S&P) for investments in fixed income securities at June 30, 2023:

Quality Rating (S&P)	U.S. Government Obligations	Corporate Fixed Income
AA+	\$ 245,891	\$ -
AA-	-	19,550
A+	-	130,016
A	-	26,445
A-	-	15,197
BBB+	-	118,376
BBB-	-	60,985
Totals	\$ 245,891	\$ 370,569

B. Receivables

Receivables as of June 30, 2023, for the Town’s governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Property taxes	\$ 266,792	\$ -	\$ 266,792
Tax liens	682,992	-	682,992
Motor vehicle and other excise	125,710	-	125,710
Departmental and other	134,267	-	134,267
Leases	247,771	-	247,771
Intergovernmental	107,646	-	107,646
Totals	\$ 1,565,178	\$ -	\$ 1,565,178

Receivables as of June 30, 2023, for the Town’s proprietary funds (the Light Department’s balances are as of December 31, 2022) were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Water users fees	\$ 511,374	\$ -	\$ 511,374
Sewer user fees	524,894	-	524,894
Sewer betterment fees	61,513	-	61,513
Electric department fees	862,963	(13,586)	849,377
Totals	\$ 1,960,744	\$ (13,586)	\$ 1,947,158

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

	General Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 266,792	\$ -	\$ 266,792
Tax liens	682,992	-	682,992
Motor vehicle and other excise	125,710	-	125,710
Departmental and other	116,693	17,574	134,267
Leases	247,771	-	247,771
Tax Foreclosures	358,592	-	358,592
Totals	\$ 1,798,550	\$ 17,574	\$ 1,816,124

Lease Receivables – The Town leases property to a telecommunication provider that is set to mature in early fiscal year 2026. Lease receivables have been recorded in the Town’s General Fund related to this lease agreement. The net present value of future receipts from the leased property totaled \$247,771 at June 30, 2023, and is reported as lease receivables and deferred

inflows. Lease revenues and interest income related to this lease transactions totaled \$108,916 and \$17,484, respectively, in fiscal year 2023. The deferred inflows are amortized to revenue over the life of the lease. The following is a schedule of payments on lease receivables to be received in future years:

Year Ended June 30,	Principal	Interest	Total
2024	\$ 115,277	\$ 11,123	\$ 126,400
2025	122,010	4,390	126,400
2026	10,484	49	10,533
Total	<u>\$ 247,771</u>	<u>\$ 15,562</u>	<u>\$ 263,333</u>

C. Capital Assets

Capital asset activity in for the fiscal year ended June 30, 2023 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated/amortized:				
Land	\$ 2,806,877	\$ -	\$ -	\$ 2,806,877
Construction in-progress	1,316,523	-	(394,751)	921,772
Total capital assets not being depreciated/amortized	<u>4,123,400</u>	<u>-</u>	<u>(394,751)</u>	<u>3,728,649</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	27,222,915	50,274	-	27,273,189
Infrastructure	10,376,892	1,094,193	-	11,471,085
Machinery and equipment	2,001,082	22,300	(84,000)	1,939,382
Vehicles	2,706,521	462,414	-	3,168,935
Total capital assets being depreciated/amortized	<u>42,307,410</u>	<u>1,629,181</u>	<u>(84,000)</u>	<u>43,852,591</u>
Less accumulated depreciation/amortization for:				
Buildings and improvements	(11,191,663)	(695,349)	-	(11,887,012)
Infrastructure	(4,782,779)	(228,352)	-	(5,011,131)
Machinery and equipment	(1,326,777)	(142,119)	84,000	(1,384,896)
Vehicles	(1,977,503)	(296,738)	-	(2,274,241)
Total accumulated depreciation/amortization	<u>(19,278,722)</u>	<u>(1,362,558)</u>	<u>84,000</u>	<u>(20,557,280)</u>
Total capital assets being depreciated, net	<u>23,028,688</u>	<u>266,623</u>	<u>-</u>	<u>23,295,311</u>
Governmental activities capital assets, net	<u>\$ 27,152,088</u>	<u>\$ 266,623</u>	<u>\$ (394,751)</u>	<u>\$ 27,023,960</u>

Depreciation expense was charged to functions/programs as follows:

General government	\$ 181,648
Public safety	434,937
Education	218,270
Public works	358,975
Health and human services	36,464
Culture and recreation	132,264
Total	<u>\$ 1,362,558</u>

<u>Business-Type Activities - Combined</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated/amortized:				
Land	\$ 352,630	\$ 562	\$ -	\$ 353,192
Construction in-progress	9,103	-	(9,103)	-
Total capital assets not being depreciated/amortized	<u>361,733</u>	<u>562</u>	<u>(9,103)</u>	<u>353,192</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	5,528,523	17,018	-	5,545,541
Infrastructure	28,789,380	1,944,780	-	30,734,160
Machinery and equipment	2,300,013	397,407	(40,800)	2,656,620
Vehicles	218,183	20,000	-	238,183
Total capital assets being depreciated/amortized	<u>36,836,099</u>	<u>2,379,205</u>	<u>(40,800)</u>	<u>39,174,504</u>
Less accumulated depreciation/amortization for:				
Buildings and improvements	(1,749,811)	(240,902)	-	(1,990,713)
Infrastructure	(16,175,363)	(503,201)	-	(16,678,564)
Machinery and equipment	(1,403,900)	(371,577)	40,800	(1,734,677)
Vehicles	(218,183)	(2,000)	-	(220,183)
Total accumulated depreciation/amortization	<u>(19,547,257)</u>	<u>(1,117,680)</u>	<u>40,800</u>	<u>(20,624,137)</u>
Total capital assets being depreciated, net	<u>17,288,842</u>	<u>1,261,525</u>	<u>-</u>	<u>18,550,367</u>
Business-Type activities capital assets, net	<u>\$ 17,650,575</u>	<u>\$ 1,262,087</u>	<u>\$ (9,103)</u>	<u>\$ 18,903,559</u>

<u>Business-Type Activities - Water</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated/amortized:				
Land	\$ 31,621	\$ -	\$ -	\$ 31,621
Construction in-progress	8,541	-	(8,541)	-
Total capital assets not being depreciated/amortized	<u>40,162</u>	<u>-</u>	<u>(8,541)</u>	<u>31,621</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	3,327,412	-	-	3,327,412
Infrastructure	6,439,800	1,671,048	-	8,110,848
Machinery and equipment	215,824	-	-	215,824
Vehicles	104,624	20,000	-	124,624
Total capital assets being depreciated/amortized	<u>10,087,660</u>	<u>1,691,048</u>	<u>-</u>	<u>11,778,708</u>
Less accumulated depreciation/amortization for:				
Buildings and improvements	(897,876)	(164,633)	-	(1,062,509)
Infrastructure	(2,953,253)	(177,855)	-	(3,131,108)
Machinery and equipment	(120,519)	(18,964)	-	(139,483)
Vehicles	(104,624)	(2,000)	-	(106,624)
Total accumulated depreciation/amortization	<u>(4,076,272)</u>	<u>(363,452)</u>	<u>-</u>	<u>(4,439,724)</u>
Total capital assets being depreciated, net	<u>6,011,388</u>	<u>1,327,596</u>	<u>-</u>	<u>7,338,984</u>
Water capital assets, net	<u>\$ 6,051,550</u>	<u>\$ 1,327,596</u>	<u>\$ (8,541)</u>	<u>\$ 7,370,605</u>

(continued)

<u>Business-Type Activities - Sewer</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated/amortized:				
Land	\$ 208,917	\$ 562	\$ -	\$ 209,479
Construction in-progress	562	-	(562)	-
Total capital assets not being depreciated/amortized	<u>209,479</u>	<u>562</u>	<u>(562)</u>	<u>209,479</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	1,417,567	-	-	1,417,567
Infrastructure	12,662,095	192,781	-	12,854,876
Machinery and equipment	755,558	23,500	-	779,058
Vehicles	113,559	-	-	113,559
Total capital assets being depreciated/amortized	<u>14,948,779</u>	<u>216,281</u>	<u>-</u>	<u>15,165,060</u>
Less accumulated depreciation/amortization for:				
Buildings and improvements	(427,617)	(53,835)	-	(481,452)
Infrastructure	(7,835,881)	(285,928)	-	(8,121,809)
Machinery and equipment	(329,326)	(63,986)	-	(393,312)
Vehicles	(113,559)	-	-	(113,559)
Total accumulated depreciation/amortization	<u>(8,706,383)</u>	<u>(403,749)</u>	<u>-</u>	<u>(9,110,132)</u>
Total capital assets being depreciated, net	<u>6,242,396</u>	<u>(187,468)</u>	<u>-</u>	<u>6,054,928</u>
Sewer capital assets, net	<u>\$ 6,451,875</u>	<u>\$ (186,906)</u>	<u>\$ (562)</u>	<u>\$ 6,264,407</u>

<u>Business-Type Activities - Light Department</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated/amortized:				
Land	\$ 112,092	\$ -	\$ -	\$ 112,092
Capital assets being depreciated/amortized:				
Buildings and improvements	783,544	17,018	-	800,562
Infrastructure	9,687,485	80,951	-	9,768,436
Machinery and equipment	1,328,631	373,907	(40,800)	1,661,738
Total capital assets being depreciated/amortized	<u>11,799,660</u>	<u>471,876</u>	<u>(40,800)</u>	<u>12,230,736</u>
Less accumulated depreciation/amortization for:				
Buildings and improvements	(424,318)	(22,434)	-	(446,752)
Infrastructure	(5,386,229)	(39,418)	-	(5,425,647)
Machinery and equipment	(954,055)	(288,627)	40,800	(1,201,882)
Total accumulated depreciation/amortization	<u>(6,764,602)</u>	<u>(350,479)</u>	<u>40,800</u>	<u>(7,074,281)</u>
Total capital assets being depreciated, net	<u>5,035,058</u>	<u>121,397</u>	<u>-</u>	<u>5,156,455</u>
Light Department capital assets, net	<u>\$ 5,147,150</u>	<u>\$ 121,397</u>	<u>\$ -</u>	<u>\$ 5,268,547</u>

(concluded)

D. Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2023, are as follows:

Transfers Out	Transfers In		Total	
	General Fund	Nonmajor Governmental Funds		
General Fund	\$ -	\$ 36,068	\$ 36,068	(1)
Nonmajor Governmental Funds	184,082	-	184,082	(2)
Totals	\$ 184,082	\$ 36,068	\$ 220,150	

- (1) Cable transfer of unspent funds to original funding source.
- (2) Budgeted transfers to the general fund to supplement the budget.

E. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary borrowings are accounted for in the general fund and enterprise funds, respectively. The following summarizes the Town’s temporary borrowings for the fiscal year ended June 30, 2023:

Type	Interest Rate	Maturity Date	Beginning Balance	Increases	Decreases	Ending Balance
MVPC Note	3.00%	N/A	\$ 297,900	\$ -	\$ -	\$ 297,900
			\$ 297,900	\$ -	\$ -	\$ 297,900

Temporary notes were issued and outstanding at year end for the Brownfield project.

F. Long-Term Obligations

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

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

The following reflects the current year activity in the long-term liability accounts:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds	\$ 9,640,000	\$ -	\$ (570,000)	\$ 9,070,000	\$ 485,000
Unamortized bond premiums	739,358	-	(70,258)	669,100	67,297
Direct borrowings and placements	358,445	-	(147,241)	211,204	122,659
Landfill monitoring	884,000	-	(52,000)	832,000	52,000
Compensated absences	183,009	140,901	(64,053)	259,857	90,950
Net OPEB liability	2,356,111	273,671	(321,337)	2,308,445	-
Net pension liability	5,537,904	2,426,051	(771,679)	7,192,276	-
Total Governmental Activities	\$ 19,698,827	\$ 2,840,623	\$ (1,996,568)	\$ 20,542,882	\$ 817,906
<i>Water:</i>					
General obligation bonds	\$ 120,000	\$ -	\$ (70,000)	\$ 50,000	\$ 50,000
Direct borrowings and placements	2,141,910	-	(82,546)	2,059,364	84,604
Compensated absences	5,345	11,008	(1,871)	14,482	5,069
Net OPEB liability (asset)	(35,990)	3,674	(12,630)	(44,946)	-
Net pension liability	604,042	264,619	(84,170)	784,491	-
Total Water	\$ 2,835,307	\$ 279,301	\$ (251,217)	\$ 2,863,391	\$ 139,673
<i>Sewer:</i>					
General obligation bonds	\$ 245,000	\$ -	\$ (125,000)	\$ 120,000	\$ 120,000
Direct borrowings and placements	77,290	-	(24,598)	52,692	25,761
Compensated absences	37,282	6,145	(25,339)	18,088	6,331
Net OPEB liability (asset)	(87,806)	35,676	(55,096)	(107,226)	-
Net pension liability	812,733	356,043	(113,250)	1,055,526	-
Total Sewer	\$ 1,084,499	\$ 397,864	\$ (343,283)	\$ 1,139,080	\$ 152,092
<i>Light:</i>					
General obligation bonds	\$ 450,000	\$ -	\$ (75,000)	\$ 375,000	\$ 75,000
Compensated absences	22,041	5,084	(14,738)	12,387	6,829
Net OPEB liability	103,049	182,624	(42,557)	243,116	-
Net pension liability	2,045,751	23,102	(491,906)	1,576,947	-
Total Light	\$ 2,620,841	\$ 210,810	\$ (624,201)	\$ 2,207,450	\$ 81,829

The governmental activities liabilities will be liquidated by the General Fund. The business-type liabilities will be liquidated by the respective enterprise funds.

General obligation bonds and notes payable outstanding at June 30, 2023 (December 31, 2022 for the Light Department) were as follows:

Description of Issue	Interest Rate	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.00%	\$ 9,640,000	\$ -	\$ (570,000)	\$ 9,070,000
Total general obligation bonds		9,640,000	-	(570,000)	9,070,000
Unamortized bond premiums		739,358	-	(70,258)	669,100
Total general obligation bonds, net		10,379,358	-	(640,258)	9,739,100
Lease purchase financing	2.65 - 4.27%	358,445	-	(147,241)	211,204
Total notes from direct borrowings and placements		358,445	-	(147,241)	211,204
Total Governmental Activities debt		\$ 10,737,803	\$ -	\$ (787,499)	\$ 9,950,304
<i>Business-Type Activities:</i>					
<u>Water</u>					
General obligation bonds	2.00 - 3.00%	\$ 120,000	\$ -	\$ (70,000)	\$ 50,000
Total general obligation bonds		120,000	-	(70,000)	50,000
MA Clean Water Trust notes	2.00 - 2.65%	2,128,892	-	(78,403)	2,050,489
Lease purchase financing	2.65%	13,018	-	(4,143)	8,875
Total notes from direct borrowings and placements		2,141,910	-	(82,546)	2,059,364
Total Water debt		\$ 2,261,910	\$ -	\$ (152,546)	\$ 2,109,364
<u>Sewer:</u>					
General obligation bonds	2.00 - 5.00%	245,000	-	(125,000)	120,000
Total general obligation bonds		245,000	-	(125,000)	120,000
Lease purchase financing	2.65%	77,290	-	(24,598)	52,692
Total notes from direct borrowings and placements		77,290	-	(24,598)	52,692
Total Sewer debt		\$ 322,290	\$ -	\$ (149,598)	\$ 172,692
<u>Light:</u>					
General obligation bonds	3.00 - 5.00%	450,000	-	(75,000)	375,000
Total general obligation bonds		450,000	-	(75,000)	375,000
Total Light debt		\$ 450,000	\$ -	\$ (75,000)	\$ 375,000
Total Business-Type Activities debt		\$ 3,034,200	\$ -	\$ (377,144)	\$ 2,657,056

Debt service requirements on long-term debt were as follows:

Year Ending June 30,	Governmental Activities					
	General Obligation Bonds			Direct Borrowings and Placements		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 485,000	\$ 307,058	\$ 792,058	\$ 122,659	\$ 5,655	\$ 128,314
2025	375,000	286,708	661,708	88,545	1,763	90,308
2026	395,000	267,458	662,458	-	-	-
2027	405,000	247,458	652,458	-	-	-
2028	380,000	226,833	606,833	-	-	-
2029-2033	2,050,000	891,413	2,941,413	-	-	-
2034-2038	2,145,000	558,556	2,703,556	-	-	-
2039-2043	2,035,000	265,070	2,300,070	-	-	-
2044-2045	800,000	24,000	824,000	-	-	-
	\$ 9,070,000	\$ 3,074,554	\$ 12,144,554	\$ 211,204	\$ 7,418	\$ 218,622

Year Ending June 30,	Water					
	General Obligation Bonds			Direct Borrowings and Placements		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 50,000	\$ 750	\$ 50,750	\$ 84,604	\$ 47,018	\$ 131,622
2025	-	-	-	86,709	45,137	131,846
2026	-	-	-	84,126	43,240	127,366
2027	-	-	-	86,127	41,390	127,517
2028	-	-	-	88,175	39,495	127,670
2029-2033	-	-	-	473,350	167,432	640,782
2034-2038	-	-	-	424,312	113,842	538,154
2039-2043	-	-	-	307,405	73,456	380,861
2044-2048	-	-	-	349,210	34,612	383,822
2049	-	-	-	75,346	1,808	77,154
	<u>\$ 50,000</u>	<u>\$ 750</u>	<u>\$ 50,750</u>	<u>\$ 2,059,364</u>	<u>\$ 607,430</u>	<u>\$ 2,666,794</u>

Year Ending June 30,	Sewer					
	General Obligation Bonds			Direct Borrowings and Placements		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 120,000	\$ 2,438	\$ 122,438	\$ 25,761	\$ 1,227	\$ 26,988
2025	-	-	-	26,931	536	27,467
	<u>\$ 120,000</u>	<u>\$ 2,438</u>	<u>\$ 122,438</u>	<u>\$ 52,692</u>	<u>\$ 1,763</u>	<u>\$ 54,455</u>

Year Ending December 31,	Light Department					
	General Obligation Bonds			Direct Borrowings and Placements		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 75,000	\$ 16,453	\$ 91,453	\$ -	\$ -	\$ -
2024	75,000	13,500	88,500	-	-	-
2025	75,000	10,500	85,500	-	-	-
2026	75,000	10,500	85,500	-	-	-
2027	75,000	9,000	84,000	-	-	-
	<u>\$ 375,000</u>	<u>\$ 59,953</u>	<u>\$ 434,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Town had no authorized and unissued debt outstanding as of June 30, 2023.

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Essex Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Essex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2022, were issued and may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers MA 01923.

Membership – Membership in the System as of December 31, 2022, was as follows:

Active members	3,210
Inactive members entitled to a return of their contributions	1,087
Retired members, beneficiaries and survivors	<u>2,096</u>
Total	<u><u>6,393</u></u>

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

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

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

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

The Town (including the Light Department) contributed \$1,062,552 to the System in fiscal year 2023, which equaled the actuarially determined contribution requirement for the year. The Town’s contributions as a percentage of covered payroll was approximately 27.37% in fiscal year 2023.

Net Pension Liability – As of June 30, 2022, the Town reported a liability of \$9,032,293 for its proportionate share of the net pension liability. The net pension liability reported by the System at December 31, 2022 (used for fiscal year end June 30, 2023) is \$1,576,947. The difference between these two figures is attributable to the difference in fiscal year ends between the Town and Light Department, which results in a one-year lag.

The Town’s (excluding the Light Department) net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. These figures were updated by the independent actuary as of December 31, 2022. The Light Department’s net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. These figures were updated by the independent actuary as of December 31, 2021. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System’s benefit terms since the actuarial valuation.

The Town’s proportion of the net pension liability is based on a projection of the Town’s long-term share of contributions to the System relative to the projected contributions of all employers. The Town’s and Light Department’s proportionate share were approximately 2.39% as of December 31, 2021.

Pension Expense – The Town (excluding the Light Department) recognized \$969,099 in pension expense in the statement of activities in fiscal year 2023; and the Light Department recognized \$23,102 at December 31, 2022 (using the System’s report for December 31, 2021).

Deferred Outflows of Resources and Deferred Inflows of Resources – As of June 30, 2023, the Town and Light Department (as of December 31, 2022) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Town		Electric Department	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 281	\$ 155,119	\$ 131	\$ (48,254)
Net difference between projected and actual earnings	837,540	-	-	(349,577)
Changes of assumptions	492,902	-	174,686	-
Changes in proportion differences	187,267	414,443	73,545	(83,233)
Contributions made subsequent to the measurement date	-	-	188,244	-
Totals	<u>\$ 1,517,991</u>	<u>\$ 569,563</u>	<u>\$ 436,606</u>	<u>\$ (481,064)</u>

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

	Town		Electric Department	
	June 30,	Amount	December 31,	Amount
2023	\$	-	2023	\$ 158,732
2024		204,527	2024	(58,862)
2025		124,314	2025	(77,006)
2026		164,415	2026	(67,322)
2027		455,171	2027	-
Total	<u>\$</u>	<u>948,428</u>	Total	<u>\$ (44,458)</u>

Actuarial Valuation – The measurement of the System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2022. The significant actuarial assumptions used in the January 1, 2022, actuarial valuation included:

Investment Rate of Return	Full prefunding: 7.0% per year, net of investment expenses
Discount Rate	7.00%
Inflation	2.75%
Salary increases	7.5% decreasing to 3.75% after 5 years of service
Cost of Living Adjustment	3% on first \$16,000 thereafter
Pre-Retirement Mortality	RP-2014 Employee Mortality Table projected generationally using Scale MP-2021
Post-Retirement Mortality	RP-2014 Healthy Annuitant Mortality Table projected generationally using Scale MP-2021
Disabled Retiree Mortality	RP-2014 Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2021

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Investment Rate of Return</u>
Domestic equity	21.20%	7.10%
International developed markets equity	12.20%	6.90%
International emerging markets equity	4.70%	9.60%
Core fixed income	13.80%	4.70%
High-yield fixed income	7.00%	3.80%
Private equity	17.70%	10.20%
Real estate	11.20%	5.70%
Timberland	3.20%	7.00%
Hedge funds, PCS	9.00%	6.50%
Total	<u>100.00%</u>	

Discount Rate – The discount rate used to measure the Town’s and Light Department’s pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on those assumptions, the Retirement System’s fiduciary net position was

projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Net Pension Liability			
Discount Rate			
Current Rate	1% Decrease	Current Rate	1% Increase
7.00%	\$ 14,075,322	\$ 11,080,383	\$ 8,565,647

The above amounts include the sensitivity analysis for both the Town and Light Department as reflected in the actuarially report. The amounts vary from the recorded amounts due to the reported Light Department amounts lagging by one year.

B. Other Postemployment Benefits

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

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

OPEB Plan disclosures that impact the net OPEB liability using a measurement and plan year-end date of June 30, 2023, for the Town and December 31, 2022, for the Light Department are summarized as follows:

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms:

	Town	Light
Active employees	51	7
Inactive employees	19	5
Totals	70	12

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the set premium for medical, dental and life insurance. The remainder of the cost is funded by general revenues of the Town and Light Department.

The Town and Light Department currently contribute enough money to the Plan to satisfy current service cost. The costs of administering the OPEB Plan are paid by the Town. The Town and Light Department average contribution rate was 8.94% and 7.70%, respectively of covered-employee payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2023, using an actuarial valuation as of July 1, 2021, and the Light Department was measured as of December 31, 2022, using an actuarial valuation as of January 1, 2022. The components of the net OPEB liability were as follows:

	<u>Town</u>	<u>Light</u>
Total OPEB liability	\$ 4,282,682	\$ 725,444
Plan fiduciary net position	<u>(2,126,409)</u>	<u>(482,328)</u>
Net OPEB liability	<u>\$ 2,156,273</u>	<u>\$ 243,116</u>
Plan fiduciary net position as a percentage of the total OPEB liability	49.7%	66.5%

The total OPEB liability in the most recent actuarial valuations for both the Town and Light Department were determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified. The information shown is the same for both the Town and the Light Department unless otherwise noted.

Valuation date - Town	July 1, 2021
Valuation date - Light	January 1, 2022
Actuarial cost method	Individual entry age normal
Asset valuation method - Town	Market Value of Assets as of the Measurement Date - June 30, 2023
Asset valuation method - Light	Market Value of Assets as of the Measurement Date - December 31, 2022
Single equivalent discount rate - Town	6.17% (previously 6.25%)
Single equivalent discount rate - Light	6.07% (previously 6.75%)
Municipal bond rate - Town	4.13% as of June 30, 2023 (S&P Municipal Bond 20-Year High Grade Index - SAPIHG)
Municipal bond rate - Light	4.31% as of June 30, 2022 (S&P Municipal Bond 20-Year High Grade Index - SAPIHG)
Investment rate of return - Town	6.17%, net of OPEB plan investment expense, including inflation
Investment rate of return - Light	6.09%, net of OPEB plan investment expense, including inflation
Inflation	2.50%
Salary increases	3.00%
Healthcare trend rate - Town	Getzen Model: 4.50%, reducing down to 4.77% in fiscal years 2029 - 2040, and then reducing down to 3.60% in fiscal year 2061 and thereafter
Healthcare trend rate - Light	Gatzen Model: 8.00%, reducing down to 4.77% in fiscal years 2030 - 2037, and then reducing down to 3.63% in fiscal year 2060 and thereafter
Pre-retirement mortality	RP-2014 Mortality Table for Blue Collar Employees projected generationally with Scale MP-2016, set forward 1 year for females
Post-retirement mortality	RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with Scale MP-2016, set forward 1 year for females
Disabled mortality	RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with Scale MP-2016, set forward 1 year

Significant Changes in Assumptions – The Town’s discount rate was reduced from 6.25% to 6.17% as of June 30, 2023; and the Light Department’s discount rate was reduced from 6.75% to 6.07% as of December 31, 2022. There were no other significant changes in assumptions during their most recent fiscal year.

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

The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table for the Town’s measurement date of June 30, 2023, and the Light Department’s measurement date of December 31, 2022:

Asset Class	Town		Light	
	Target Allocation	Expected Investment Rate of Return	Target Allocation	Expected Investment Rate of Return
Domestic equity - large cap	25.50%	4.10%	23.00%	4.10%
Domestic equity - small/mid cap	15.50%	4.55%	15.50%	4.55%
International equity - developed markets	14.00%	4.64%	13.00%	4.64%
International equity - emerging markets	8.00%	5.45%	7.75%	5.45%
Domestic fixed income	18.50%	1.05%	21.25%	1.05%
International fixed income	3.75%	0.96%	4.00%	0.96%
Alternatives	10.75%	5.95%	11.00%	5.95%
Real estate	3.50%	6.25%	4.00%	6.25%
Cash and cash equivalents	0.50%	0.00%	0.50%	0.00%
	100.00%		100.00%	
Real rate of return		3.92%		3.82%
Inflation assumption		2.50%		2.50%
Total nominal return		6.42%		6.32%
Investment expense		0.25%		0.25%
Net investment return		6.17%		6.07%

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

	Current Discount Rate	Net OPEB Liability At		
		1% Decrease	Current Rate	1% Increase
Town	6.17%	\$ 2,812,227	\$ 2,156,273	\$ 1,628,586
Light	6.07%	328,862	243,116	173,101

	Healthcare Cost Trend Rate	Net OPEB Liability At		
		1% Decrease	Current Rate	1% Increase
Town	4.50%	\$ 1,543,393	\$ 2,156,273	\$ 2,930,341
Light	8.00%	165,412	243,116	339,581

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability:

	Town			Light		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Balances at beginning of year	\$ 4,011,899	\$ 1,779,584	\$ 2,232,315	\$ 610,662	\$ 507,613	\$ 103,049
Changes for the year:						
Service cost	142,942	-	142,942	18,429	-	18,429
Interest	255,607	-	255,607	42,047	-	42,047
Difference between expected and actual experience	-	-	-	(87,107)	-	(87,107)
Change in assumptions	4,486	-	4,486	153,970	-	153,970
Employer contributions	-	332,252	(332,252)	-	42,557	(42,557)
Net investment income (loss)	-	146,825	(146,825)	-	(55,285)	55,285
Benefit payments withdrawn	-	(132,252)	132,252	-	(12,557)	12,557
Benefit payments	(132,252)	-	(132,252)	(12,557)	-	(12,557)
Net changes	<u>270,783</u>	<u>346,825</u>	<u>(76,042)</u>	<u>114,782</u>	<u>(25,285)</u>	<u>140,067</u>
Balances at end of year	<u>\$ 4,282,682</u>	<u>\$ 2,126,409</u>	<u>\$ 2,156,273</u>	<u>\$ 725,444</u>	<u>\$ 482,328</u>	<u>\$ 243,116</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – The Town and Light Department recognized net OPEB expenses of \$241,669 and \$65,020, respectively as of their current measurement dates. Deferred outflows of resources and deferred inflows of resources related to OPEB were reported as follows:

	Town		Light	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 425,650	\$ -	\$ 90,960
Changes in assumptions	384,507	14,749	131,975	-
Differences between expected and actual earnings	87,879	-	46,330	-
	<u>\$ 472,386</u>	<u>\$ 440,399</u>	<u>\$ 178,305</u>	<u>\$ 90,960</u>

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

	Town		Light	
	Year Ended June 30,	Amount	Year Ended December 31,	Amount
2024	\$	(1,530)	2023	\$ 16,510
2025		(14,764)	2024	16,492
2026		52,178	2025	15,753
2027		(5,314)	2026	19,487
2028		771	2027	9,552
Thereafter		646	2028	9,551
Total	<u>\$</u>	<u>31,987</u>	Total	<u>\$ 87,345</u>

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and is a member of the established OPEB Board of Trustees responsible for the general supervision of the management, investment and reinvestment of the

OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

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

Investment Rate of Return – The annual money-weighted rate of return on investments, net of investment expense, was 7.89% and negative 10.56%, respectively for the Town and Light Department as of their current measurement dates. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Other Postemployment Benefit (OPEB) Trust Funds

The Town reports two other employee benefit trust funds in a single column in the Statement of Net Position and Statement of Changes in Net Position in the Fiduciary Funds. The Town’s Other Postemployment Benefits Trust Fund and the Light Department’s Other Postemployment Benefits Trust Fund do not issue stand-alone financial statements and must be reported separately.

The Statement of Net Position of the Other Postemployment Benefit Trust Funds are as follows:

	(June 30, 2023) Town OPEB Trust Fund	(Dec. 31, 2022) Light OPEB Trust Fund	Total
Assets			
Cash and Cash Equivalents	\$ 7,737	\$ 2,405	\$ 10,142
Investments (at fair value):			
Mutual funds - fixed income	432,128	127,428	559,556
Mutual funds - equity	1,356,461	290,652	1,647,113
Common stock - equity	240,083	61,843	301,926
Total Investments	<u>2,028,672</u>	<u>479,923</u>	<u>2,508,595</u>
Due from other fund	90,000	-	90,000
Total Assets	<u>2,126,409</u>	<u>482,328</u>	<u>2,608,737</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Restricted for other postemployment benefits	<u>2,126,409</u>	<u>482,328</u>	<u>2,608,737</u>
Total Net Position	<u>\$ 2,126,409</u>	<u>\$ 482,328</u>	<u>\$ 2,608,737</u>

The Statement of Changes in Net Position of the Other Postemployment Benefit Trust Funds are as follows:

	(June 30, 2023) Town OPEB Trust Fund	(Dec. 31, 2022) Light OPEB Trust Fund	Total
Additions			
Contributions:			
Employer	\$ 332,252	\$ 42,557	\$ 374,809
Total Contributions	<u>332,252</u>	<u>42,557</u>	<u>374,809</u>
Investment income (loss)	<u>146,825</u>	<u>(55,285)</u>	<u>91,540</u>
Total Additions (net)	<u>479,077</u>	<u>(12,728)</u>	<u>466,349</u>
Deductions			
Payments for retiree health benefits	<u>132,252</u>	<u>12,557</u>	<u>144,809</u>
Total Deductions	<u>132,252</u>	<u>12,557</u>	<u>144,809</u>
Change in Net Position	346,825	(25,285)	321,540
Net Position - Beginning of Year	<u>1,779,584</u>	<u>507,613</u>	<u>2,287,197</u>
Net Position - End of Year	<u>\$ 2,126,409</u>	<u>\$ 482,328</u>	<u>\$ 2,608,737</u>

D. Risk Financing

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

E. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2023, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2023.

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

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

Light Department Commitments – The Light Department purchases its power through contracts with various power suppliers. These contracts are subject to certain market factors. Based on current market conditions, management of the Light Department anticipates some stability to its power cost expenses over the next few years.

In addition to its traditional power suppliers, the Light Department entered into an agreement on July 26, 2015, with Merrimac Solar LLC to purchase all of the power produced by a solar unit recently constructed in the Town of Merrimac. The agreement is for twenty years, and the contract price is \$0.055 per kilowatt-hour. In 2021, this solar agreement provided approximately 7.5% of the Light Department’s power needs.

F. Landfill Closure and Post-Closure Care Costs

The Town operated a solid waste landfill that ceased operations and was subsequently capped. State and federal laws and regulations required the Town to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town reported \$832,000 as the estimate of the landfill post-closure care liability as of June 30, 2023, and is expected to amortize this liability through fiscal year 2039. Actual costs may vary due to inflation, changes in technology or changes in regulations.

IV. Implementation of New GASB Pronouncements

Current Year Implementations

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement was to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement became effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town’s financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement was to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town’s financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement was to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement became effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The adoption of this standard did not have a material impact on the Town’s financial statements.

Future Implementations –

In June 2022, the GASB issued GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for decision making or assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2023 (fiscal year 2024). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2022, the GASB issued GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to update the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2023 (fiscal year 2025). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2023, the GASB issued GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2024 (fiscal year 2025). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF MERRIMAC, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEARS ENDED JUNE 30, 2023

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

Year Ended December 31,	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	2.388%	\$ 11,080,383	\$ 3,824,513	289.72%	57.57%
2021	2.457%	8,531,666	3,964,240	215.22%	67.01%
2020	2.577%	10,228,754	3,769,921	271.33%	59.73%
2019	2.499%	10,529,627	3,623,368	290.60%	55.46%
2018	2.360%	9,969,699	3,200,358	311.52%	51.89%
2017	2.458%	9,250,743	3,079,919	300.36%	55.40%
2016	2.465%	9,499,256	3,066,691	309.76%	51.12%
2015	2.434%	8,843,732	3,066,196	288.43%	51.01%
2014	2.395%	8,216,535	2,947,906	278.72%	52.27%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2023	\$ 1,062,552	\$ 1,062,552	\$ -	\$ 3,881,881	27.37%
2022	1,018,150	1,018,150	-	4,023,704	25.30%
2021	868,390	868,390	-	3,826,470	22.69%
2020	904,792	904,792	-	3,677,719	24.60%
2019	834,826	834,826	-	3,248,363	25.70%
2018	806,361	806,361	-	3,126,118	25.79%
2017	752,567	752,567	-	3,112,691	24.18%
2016	704,032	704,032	-	3,112,189	22.62%
2015	549,867	549,867	-	2,992,125	18.38%

These schedules include the Light Department's proportionate allocated information in the most current year; these amounts may not reconcile to amounts recorded since the Light Department has a December 31 year-end and may use the prior year valuation.

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

See accompanying independent auditors' report.

TOWN OF MERRIMAC, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - TOWN (UNAUDITED)
YEAR ENDED JUNE 30, 2023

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

	Year ended June 30,						
	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability:							
Service cost	\$ 142,942	\$ 120,443	\$ 98,735	\$ 95,655	\$ 109,903	\$ 104,442	\$ 94,549
Interest	255,607	258,284	233,583	226,104	213,286	231,125	220,885
Changes of assumptions	4,486	532,925	-	(34,417)	-	-	-
Difference between expected and actual plan experience	-	(532,026)	17,058	(147,902)	11,345	(40,899)	194,887
Benefit payments	(132,252)	(145,063)	(102,971)	(105,264)	(116,997)	(97,460)	(198,835)
Net change in total OPEB liability	270,783	234,563	246,405	34,176	217,537	197,208	311,486
Total OPEB liability - beginning of year	4,011,899	3,777,336	3,530,931	3,496,755	3,279,218	3,082,010	2,770,524
Total OPEB liability - end of year (a)	<u>\$ 4,282,682</u>	<u>\$ 4,011,899</u>	<u>\$ 3,777,336</u>	<u>\$ 3,530,931</u>	<u>\$ 3,496,755</u>	<u>\$ 3,279,218</u>	<u>\$ 3,082,010</u>
Plan fiduciary net position:							
Contributions - employer	\$ 332,252	\$ 260,063	\$ 227,417	\$ 222,864	\$ 232,997	\$ 287,597	\$ 455,335
Net investment income (loss)	146,825	(264,924)	379,148	34,029	62,292	14,019	53,866
Benefit payments	(132,252)	(145,063)	(102,971)	(105,264)	(116,997)	(97,460)	(198,835)
Net change in Plan fiduciary net position	346,825	(149,924)	503,594	151,629	178,292	204,156	310,366
Plan fiduciary net position - beginning of year	1,779,584	1,929,508	1,425,914	1,274,285	1,095,993	891,837	581,471
Plan fiduciary net position - end of year (b)	<u>\$ 2,126,409</u>	<u>\$ 1,779,584</u>	<u>\$ 1,929,508</u>	<u>\$ 1,425,914</u>	<u>\$ 1,274,285</u>	<u>\$ 1,095,993</u>	<u>\$ 891,837</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 2,156,273</u>	<u>\$ 2,232,315</u>	<u>\$ 1,847,828</u>	<u>\$ 2,105,017</u>	<u>\$ 2,222,470</u>	<u>\$ 2,183,225</u>	<u>\$ 2,190,173</u>
Plan fiduciary net position as a percentage of the total OPEB liability	49.65%	44.36%	51.08%	40.38%	36.44%	33.42%	28.94%
Covered-employee payroll	\$ 3,716,465	\$ 3,950,032	\$ 3,079,270	\$ 3,083,237	\$ 2,400,727	\$ 3,298,221	\$ 2,345,155
Net OPEB liability as a percentage of covered-employee payroll	58.02%	56.51%	60.01%	68.27%	92.57%	66.19%	93.39%

Note: Light Department amounts are not included in these amounts.

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

See independent auditors' report.

TOWN OF MERRIMAC, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - TOWN (UNAUDITED)
YEAR ENDED JUNE 30, 2023**

**SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	Year ended June 30,						
	2023	2022	2021	2020	2019	2018	2017
Actuarially-determined contribution	\$ 250,743	\$ 233,079	\$ 210,975	\$ 272,616	\$ 284,204	\$ 277,548	\$ 285,996
Contributions in relation to the actuarially-determined contribution	(332,252)	(260,063)	(227,417)	(222,864)	(232,997)	(287,597)	(455,335)
Contribution deficiency (excess)	\$ (81,509)	\$ (26,984)	\$ (16,442)	\$ 49,752	\$ 51,207	\$ (10,049)	\$ (169,339)
Covered-employee payroll	\$ 3,716,465	\$ 3,950,032	\$ 3,079,270	\$ 3,083,237	\$ 2,400,727	\$ 3,298,221	\$ 2,345,155
Contribution as a percentage of covered-employee payroll	8.94%	6.58%	7.39%	7.23%	9.71%	8.72%	19.42%
Valuation Date	July 1, 2021						
Actuarial Cost Method	Individual Entry Age Normal						
Asset Valuation Method	Market Value of Assets as of the Measurement Date - June 30, 2023						
Single Equivalent Discount Rate	6.17%						
Municipal Bond Rate	4.13% as of June 30, 2023 (S&P Municipal Bond 20-Year High Grade Index - SAPIHG)						
Investment Rate of Return	6.17%, net of OPEB plan investment expense, including inflation						
Inflation	2.5% as of June 30, 2023 and for future periods						
Salary Increases	3.00% annually as of June 30, 2023 and for future periods						
Healthcare cost trend rates	4.50%, reducing down to 4.77% in fiscal years 2029 - 2040, and then reducing down to 3.60% in fiscal year 2061 and thereafter						

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

	Year ended June 30,						
	2023	2022	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	7.89%	-13.19%	25.33%	2.50%	5.54%	4.18%	7.94%

Note: Light Department amounts are not included in these balances.

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

See independent auditors' report.

TOWN OF MERRIMAC, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - LIGHT DEPARTMENT (UNAUDITED)
YEAR ENDED JUNE 30, 2023

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

	Year ended December 31,					
	2022	2021	2020	2019	2018	2017
Total OPEB liability:						
Service cost	\$ 18,429	\$ 17,839	\$ 17,282	\$ 12,181	\$ 11,576	\$ 14,388
Interest	42,047	47,500	36,969	34,226	1,748	2,918
Changes of assumptions	153,970	-	-	-	-	-
Difference between expected and actual plan experience	(87,107)	(17,058)	33,572	(11,345)	27,124	(234,001)
Benefit payments	(12,557)	(9,758)	(9,975)	(9,685)	(8,142)	(16,158)
Net change in total OPEB liability	114,782	38,523	77,848	25,377	32,306	(232,853)
Total OPEB liability - beginning of year	610,662	572,139	494,291	468,914	436,608	669,461
Total OPEB liability - end of year (a)	\$ 725,444	\$ 610,662	\$ 572,139	\$ 494,291	\$ 468,914	\$ 436,608
Plan fiduciary net position:						
Contributions - employer	\$ 42,557	\$ 45,758	\$ 45,975	\$ 24,685	\$ 38,762	\$ 55,229
Net investment income (loss)	(55,285)	99,416	8,815	19,961	37,857	13,527
Benefit payments	(12,557)	(9,758)	(9,975)	(9,685)	(8,142)	(16,158)
Net change in Plan fiduciary net position	(25,285)	135,416	44,815	34,961	68,477	52,598
Plan fiduciary net position - beginning of year	507,613	372,197	327,382	292,421	223,944	171,346
Plan fiduciary net position - end of year (b)	\$ 482,328	\$ 507,613	\$ 372,197	\$ 327,382	\$ 292,421	\$ 223,944
Net OPEB liability - end of year (a) - (b)	\$ 243,116	\$ 103,049	\$ 199,942	\$ 166,909	\$ 176,493	\$ 212,664
Plan fiduciary net position as a percentage of the total OPEB liability	66.49%	83.13%	65.05%	66.23%	62.36%	51.29%
Covered-employee payroll	\$ 552,510	\$ 755,713	\$ 640,047	\$ 647,683	\$ 623,544	\$ 561,400
Net OPEB liability as a percentage of covered-employee payroll	44.00%	13.64%	31.24%	25.77%	28.30%	37.88%

Note: Light Department amounts are included in these balances.

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

See independent auditors' report.

TOWN OF MERRIMAC, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - LIGHT DEPARTMENT (UNAUDITED)
YEAR ENDED JUNE 30, 2023

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS

	Year ended December 31,					
	2022	2021	2020	2019	2018	2017
Actuarially-determined contribution	\$ 30,443	\$ 9,758	\$ 9,975	\$ 9,685	\$ 8,142	\$ 16,158
Contributions in relation to the actuarially-determined contribution	(42,557)	(45,758)	(45,975)	(24,685)	(38,762)	(55,229)
Contribution deficiency (excess)	\$ (12,114)	\$ (36,000)	\$ (36,000)	\$ (15,000)	\$ (30,620)	\$ (39,071)
Covered-employee payroll	\$ 552,510	\$ 755,713	\$ 640,047	\$ 647,683	\$ 623,544	\$ 561,400
Contribution as a percentage of covered-employee payroll	7.70%	6.05%	7.18%	3.81%	6.22%	9.84%
Valuation Date	January 1, 2022					
Actuarial Cost Method	Individual Entry Age Normal					
Asset Valuation Method	Market Value of Assets as of the Measurement Date - December 31, 2022					
Single Equivalent Discount Rate	6.07%					
Municipal Bond Rate	4.31% as of June 30, 2022 (S&P Municipal Bond 20-Year High Grade Index - SAPIHG)					
Investment Rate of Return	6.09%, net of OPEB plan investment expense, including inflation					
Inflation	2.5% as of December 31, 2022 and for future periods					
Salary Increases	3.00% annually as of December 31, 2022 and for future periods					
Healthcare cost trend rates	8.00%, reducing down to 4.77% in fiscal years 2030 - 2037, and then reducing down to 3.63% in fiscal year 2060 and thereafter					

SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS

	Year ended December 31,					
	2022	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	-10.56%	25.33%	2.50%	5.54%	4.18%	7.94%

Note: Light Department amounts are included in these balances.

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

See independent auditors' report.

TOWN OF MERRIMAC, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FISCAL YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
Revenues:						
Real estate and personal property taxes, net	\$ 16,601,866	\$ 17,016,866	\$ 16,989,334		\$ 35,124,995	\$ (27,532)
Intergovernmental	1,140,763	1,140,763	1,126,630		1,126,630	(14,133)
Motor vehicle and other excises	1,050,000	1,050,000	1,066,567		1,066,567	16,567
License and permits	80,000	80,000	68,070		68,070	(11,930)
Departmental and other revenue	956,300	956,300	851,140		851,140	(105,160)
Penalties and interest on taxes	38,000	38,000	56,187		56,187	18,187
Fines and forfeitures	21,000	21,000	25,702		25,702	4,702
Investment income	15,000	15,000	164,875		164,875	149,875
Total Revenues	19,902,929	20,317,929	20,348,505		38,484,166	30,576
Expenditures:						
General government	1,776,791	1,949,684	1,441,923	\$ 376,208	1,818,131	131,553
Public safety	2,724,162	3,053,494	2,456,686	441,685	2,898,371	155,123
Education	12,165,975	12,145,725	11,969,913	153,000	12,122,913	22,812
Public works	1,466,880	2,056,790	1,444,497	485,886	1,930,383	126,407
Health and human services	513,329	523,329	446,800	10,000	456,800	66,529
Culture and recreation	428,761	457,000	328,252	118,377	446,629	10,371
Pension and fringe benefits	1,332,299	1,376,064	1,198,272	92,959	1,291,231	84,833
State and county tax assessments	113,247	113,247	115,027	-	115,027	(1,780)
Debt service	1,058,562	1,058,562	1,056,362	-	1,056,362	2,200
Total Expenditures	21,580,006	22,733,895	20,457,732	1,678,115	22,135,847	598,048
Other Financing Sources (Uses):						
Transfers in	169,096	169,096	213,818	-	213,818	44,722
Transfers out	(90,000)	(180,000)	(216,068)	-	(216,068)	(36,068)
Total Other Financing Sources (Uses)	79,096	(10,904)	(2,250)	-	(2,250)	8,654
(Deficiency) Excess of Revenues and Other Financing Sources Over Expenditures and Other Finance Uses	(1,597,981)	(2,426,870)	\$ (111,477)	\$ (1,678,115)	\$ 16,346,069	\$ 637,278
Other Budgetary Items:						
Prior year encumbrances	1,602,222	1,602,222				
Undesignated surplus (free cash)	-	848,750				
Prior year deficits	(4,241)	(24,102)				
Total other budget items	1,597,981	2,426,870				
Net budget	\$ -	\$ -				

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

TOWN OF MERRIMAC, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2023**

An annual budget is legally adopted for the general fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and Finance Committee and approved by the Town Meeting members at the Town’s annual meeting, which is generally held each April. Expenditures may not legally exceed appropriations at the department level. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2023, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues on a budgetary basis			\$ 20,348,405
Electric Light PILOT	\$ 20,000	\$ -	20,000
Nonmajor fund account closure	4,481	-	4,481
Withholding true up adjustment	5,255	-	5,255
Interest earned on stabilization funds	-	32,717	32,717
Revenues on a GAAP basis	<u>\$ 29,736</u>	<u>\$ 32,717</u>	<u>\$ 20,410,858</u>
Expenditures on a budgetary basis			\$ 20,457,732
Reclass of OPEB transfers to expenditures	\$ -	\$ 180,000	180,000
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ 180,000</u>	<u>\$ 20,637,732</u>
Net transfers on a budgetary basis			\$ (2,250)
Electric Light PILOT	\$ (20,000)	\$ -	(20,000)
Nonmajor fund account closure	\$ (4,481)	\$ -	(4,481)
Withholding true up adjustment	(5,255)	-	(5,255)
Reclass of OPEB transfers to expenditures	-	180,000	180,000
Net transfers on a GAAP basis	<u>\$ (29,736)</u>	<u>\$ 180,000</u>	<u>\$ 148,014</u>