

TOWN OF LINCOLN, MASSACHUSETTS

Financial Statements

June 30, 2020

(With Accountants' Report Thereon)

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Town of Lincoln, Massachusetts
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INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Lincoln
P.O. Box 6353
16 Lincoln Road
Lincoln, MA 01773

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budget versus actual statement, the retirement system schedules and the other post employment benefit schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated March 25, 2021, on our consideration of the Town of Lincoln, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Lincoln, Massachusetts' internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
March 25, 2021

**Town of Lincoln, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2020**

As management of the Town of Lincoln, Massachusetts, we offer readers of the Town of Lincoln, Massachusetts' financial statements this narrative overview and analysis of the financial activities of the Town of Lincoln, Massachusetts for the fiscal year ended June 30, 2020.

Financial Highlights

- The assets of the Town of Lincoln, Massachusetts assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$54,208,344 (*net position*).
- The government's total net position increased by \$4,002,062. The increase is primarily due revenues exceeding projections. The earnings on investments related to the unspent bond proceeds had a significant impact on the increase in net position.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$10,762,349 or 24.87% of total general fund expenditures. The increase (\$2,628,642) in unassigned fund balance was primarily due to strong budget versus actual results in the general fund.
- The Town of Lincoln, Massachusetts' debt decreased by \$2,293,406 (including unamortized premiums). The Governmental Activities decreased by \$2,045,926 or 2.4% and the Business Type Activities decreased by \$247,480 or 23.7% during the current year.
- The deficit (\$31,288,725) in unrestricted net assets of the governmental activities is attributed to reflecting the Net Other Post Employment Benefit liability (\$22,543,043) and the Net Pension Liability (\$27,767,333) in the Statement of Net Position.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of Lincoln, Massachusetts' basic financial statements. The Town of Lincoln, Massachusetts' basic financial statements consist of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net position* presents information on all of the Town of Lincoln, Massachusetts' assets/deferred outflows and liabilities/deferred inflows, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Lincoln, Massachusetts 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 of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements have separate columns for governmental activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** - Activities reported here are for water supply and distribution. User fees charged to the customers receiving services finance these 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 of Lincoln, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Lincoln, Massachusetts can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

Proprietary funds. The Town of Lincoln, Massachusetts maintains one proprietary fund type. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Lincoln, Massachusetts uses an enterprise fund to account for its Water operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water operation which is considered to be a major fund of the Town of Lincoln, Massachusetts.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains fiduciary funds to account for activities related to charitable/scholarship trust funds and for its Other Post Employment Benefits (OPEB) trust fund. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire 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 *required supplementary information* concerning the Town of Lincoln, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net position. Capital assets are recorded as expenditures when they are purchased in the governmental funds. They are capitalized and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the governmental funds balance sheet – total fund balances to the statement of net position.
- Reconciliation of the statement of revenues and expenditures and changes in fund balances of governmental funds to the statement of activities.

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

Financial Analysis of the Government-wide Financial Statements

Net Position

Net position may serve over time as a useful indicator of a government's financial position. However, the net position of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not, typically, used to finance costs related to business-type activities. Revenues of the business-type activities are generally used only to finance the operations of the Water Enterprise Fund.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current Assets	\$ 108,634,365	\$ 114,547,618	\$ 1,582,527	\$ 1,469,955	\$ 110,216,892	\$ 116,017,573
Noncurrent Assets	238,165	314,267	-	-	238,165	314,267
Capital Assets	75,699,574	65,420,166	7,539,485	7,175,195	83,239,059	72,595,361
Total Assets	<u>184,572,104</u>	<u>180,282,051</u>	<u>9,122,012</u>	<u>8,645,150</u>	<u>193,694,116</u>	<u>188,927,201</u>
Deferred Outflows of Resources	<u>5,886,361</u>	<u>3,531,616</u>	<u>11,730</u>	<u>1,015</u>	<u>5,898,091</u>	<u>3,532,631</u>
Current Liabilities	7,036,684	6,731,981	1,353,996	340,036	8,390,680	7,072,017
Long Term Liabilities	132,665,403	133,314,459	636,858	938,323	133,302,261	134,252,782
Total Liabilities	<u>139,702,087</u>	<u>140,046,440</u>	<u>1,990,854</u>	<u>1,278,359</u>	<u>141,692,941</u>	<u>141,324,799</u>
Deferred Inflows of Resources	<u>3,683,092</u>	<u>927,579</u>	<u>7,830</u>	<u>1,172</u>	<u>3,690,922</u>	<u>928,751</u>
Net Position:						
Invested in Capital Assets						
Net of Related Debt	58,853,919	57,027,860	6,298,265	6,130,274	65,152,184	63,158,134
Restricted	19,508,092	19,051,962	-	-	19,508,092	19,051,962
Unrestricted	(31,288,725)	(33,240,174)	836,793	1,236,360	(30,451,932)	(32,003,814)
Total Net Position	<u>\$ 47,073,286</u>	<u>\$ 42,839,648</u>	<u>\$ 7,135,058</u>	<u>\$ 7,366,634</u>	<u>\$ 54,208,344</u>	<u>\$ 50,206,282</u>

The net position of the Town increased by \$4,002,062. The net position of the governmental activities increased by \$4,233,638 or 9.9% and the net position of the business-type activities decreased by \$231,576 or 3.1%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position has changed during the fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 18,140,464	\$ 18,296,165	\$ 1,480,786	\$ 1,287,785	\$ 19,621,250	\$ 19,583,950
Operating Grants and Contributions	10,646,286	10,089,547	95,316	103,630	10,741,602	10,193,177
General Revenues:						
Property Taxes	34,677,211	30,768,659	-	-	34,677,211	30,768,659
Motor Vehicle and Other Excises	1,389,368	1,358,834	-	-	1,389,368	1,358,834
Intergovernmental Not Restricted to a Specific Program	1,048,344	1,100,324	-	-	1,048,344	1,100,324
Other	1,881,273	984,360	26,195	30,178	1,907,468	1,014,538
Total Revenues	<u>67,782,946</u>	<u>62,597,889</u>	<u>1,602,297</u>	<u>1,421,593</u>	<u>69,385,243</u>	<u>64,019,482</u>

Changes in Net Position (Continued)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expenses						
General Government	3,368,638	3,460,965	-	-	3,368,638	3,460,965
Public Safety	4,685,792	4,543,255	-	-	4,685,792	4,543,255
Education	39,562,265	37,116,325	-	-	39,562,265	37,116,325
Highways and Public Works	2,570,347	3,093,229	-	-	2,570,347	3,093,229
Human Services	556,878	1,525,101	-	-	556,878	1,525,101
Culture and Recreation	2,416,874	2,668,580	-	-	2,416,874	2,668,580
Employee Benefits and Insurance	7,391,829	6,935,244	-	-	7,391,829	6,935,244
Interest on Debt Service	3,056,685	1,209,682	-	-	3,056,685	1,209,682
Water Services	-	-	1,773,873	1,537,460	1,773,873	1,537,460
Total Expenses	<u>63,609,308</u>	<u>60,552,381</u>	<u>1,773,873</u>	<u>1,537,460</u>	<u>65,383,181</u>	<u>62,089,841</u>
Increase (Decrease) in Net Position						
Before Transfers	4,173,638	2,045,508	(171,576)	(115,867)	4,002,062	1,929,641
Transfers	<u>60,000</u>	<u>60,000</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 4,233,638</u>	<u>\$ 2,105,508</u>	<u>\$ (231,576)</u>	<u>\$ (175,867)</u>	<u>\$ 4,002,062</u>	<u>\$ 1,929,641</u>

Governmental Activities

In fiscal year 2020 property taxes accounted for approximately 51% of the revenues of the governmental activities. In 2019 and 2018 property taxes represented 49% and 50% (respectively) of the revenues of the governmental activities.

Business-type Activities

Water rates are structured to cover all costs related to the activity. In fiscal year 2020, the net position of the Water fund decreased by \$231,576. In fiscal year 2019, net position decreased by \$175,867. In fiscal year 2018, the net position increased by \$43,997.

Financial Analysis of the Town's Funds

Governmental Funds

The focus of the Town of Lincoln, Massachusetts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Lincoln, Massachusetts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Lincoln, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Lincoln, Massachusetts' Selectmen.

General Fund – The year-end fund balance of the general fund was \$3,312,250 more than the prior year's fund balance. Strong budget to actual results is the primary reason for the increase.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts Department of Revenue (DOR) determines the amount of general fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance and details the certified free cash for the previous ten fiscal years.

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
2011	\$ -	\$ 115,127	\$ 3,031,477	\$ 4,593,079	\$ 7,739,683
2012	244,946	311,005	3,679,197	4,878,216	9,113,364
2013	26,358	297,298	3,513,403	5,882,674	9,719,733
2014	28,673	678,585	3,648,882	6,864,888	11,221,028
2015	40,115	506,709	4,371,841	7,777,850	12,696,515
2016	11,442	1,231,415	4,418,731	8,751,935	14,413,523
2017	-	1,266,001	4,658,376	9,634,380	15,558,757
2018	-	523,910	5,201,994	11,636,223	17,362,127
2019	-	1,140,600	4,754,314	8,133,707	14,028,621
2020	-	1,269,475	5,479,636	10,762,349	17,511,460

<u>Fiscal Year</u>	<u>Free Cash</u>
2011	\$ 3,960,149
2012	4,185,465
2013	4,122,717
2014	4,520,898
2015	4,662,890
2016	5,084,978
2017	5,258,677
2018	6,308,450
2019	6,239,793
2020	7,395,104

Proprietary Funds

Water Enterprise. The Town of Lincoln, Massachusetts' proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water operation at the end of the year amounted to \$836,793. Unrestricted net position decreased by \$399,567. The total decrease in net position was \$231,576.

Capital Asset and Debt Administration

Capital assets. The Town of Lincoln, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2020, amounts to \$75,699,574 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset acquisitions during the year included:

School Building Renovation Project	\$10,503,748
Fire Engine	\$552,302
Library Air Conditioners	\$266,409
Ambulance	\$209,327

Capital Assets at June 30, 2020
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 40,055,313	\$ 39,998,345	\$ 3,210,787	\$ 3,210,787	\$ 43,266,100	\$ 43,209,132
Construction In Progress	15,139,176	4,648,451	494,852	118,770	15,634,028	4,767,221
Buildings	8,742,687	8,991,418	15,642	18,214	8,758,329	9,009,632
Improvements Other Than Buildings	3,320,101	3,729,375	45,932	51,334	3,366,033	3,780,709
Infrastructure	6,392,341	6,546,880	3,686,866	3,726,783	10,079,207	10,273,663
Equipment	1,354,654	928,050	19,220	34,114	1,373,874	962,164
Vehicles	695,302	577,647	66,186	15,193	761,488	592,840
Total	<u>\$ 75,699,574</u>	<u>\$ 65,420,166</u>	<u>\$ 7,539,485</u>	<u>\$ 7,175,195</u>	<u>\$ 83,239,059</u>	<u>\$ 72,595,361</u>

Debt

The Town had \$84,805,866 in bonds outstanding (including unamortized premiums) on June 30, 2020 as follows:

Governmental Activities	<u>2020</u>	<u>2019</u>	Increase (Decrease)
General Obligation Bonds Payable	\$ 84,008,425	\$ 86,054,351	\$ (2,045,926)
Business-Type Activities			
Water:			
General Obligation Bonds Payable	<u>797,441</u>	<u>1,044,921</u>	<u>(247,480)</u>
Total Debt	<u>\$ 84,805,866</u>	<u>\$ 87,099,272</u>	<u>\$ (2,293,406)</u>

The Town maintains a “AAA” rating from Standard and Poor’s for general obligation debt.

Fiscal Year 2020 Budget

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that Towns can assess in any one year. In general, the Town’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½”, it is necessary to obtain the approval of a majority of the voters at an election.

Request for Information

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

Town of Lincoln
Finance Department
P.O. Box 6353
16 Lincoln Road
Lincoln, MA 01773

Town of Lincoln, Massachusetts
Statement of Net Position
June 30, 2020

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government- Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 103,074,970	\$ 1,515,247	\$ 104,590,217
Petty Cash	1,845	-	1,845
Accounts Receivable:			
Property Taxes	726,480	-	726,480
Tax Liens	75,868	-	75,868
Excises	221,001	-	221,001
Other	228,491	-	228,491
User Charges	-	66,640	66,640
Liens	-	640	640
Intergovernmental	4,280,710	-	4,280,710
Other Assets	25,000	-	25,000
Noncurrent:			
Clause 41 A Property Taxes Receivable	238,165	-	238,165
Capital Assets:			
Assets Not Being Depreciated	55,194,489	3,705,639	58,900,128
Assets Being Depreciated, Net	20,505,085	3,833,846	24,338,931
Total Assets	<u>184,572,104</u>	<u>9,122,012</u>	<u>193,694,116</u>
Deferred Outflows of Resources:			
Pensions	2,837,894	-	2,837,894
Other Post Employment Benefits	3,048,467	11,730	3,060,197
Total Deferred Outflows of Resources	<u>5,886,361</u>	<u>11,730</u>	<u>5,898,091</u>
Liabilities			
Current:			
Warrants Payable	1,899,029	48,441	1,947,470
Accrued Salaries Payable	1,382,442	11,904	1,394,346
Employees' Withholding Payable	412,100	-	412,100
Due to Individuals	82	-	82
Unclaimed Checks	20,910	-	20,910
Accrued Interest Payable	1,007,427	10,938	1,018,365
Other Liabilities	139,753	-	139,753
Compensated Absences Payable	311,291	15,233	326,524
Lease Payable	2,724	-	2,724
Bond Anticipation Notes Payable	-	1,010,000	1,010,000
Bonds Payable, Net	1,860,926	257,480	2,118,406
Noncurrent:			
Compensated Absences Payable	207,528	10,156	217,684
Bonds Payable, Net	82,147,499	539,961	82,687,460
Net Pension Liability	27,767,333	-	27,767,333
Net Other Post Employment Benefit Liability	22,543,043	86,741	22,629,784
Total Liabilities	<u>139,702,087</u>	<u>1,990,854</u>	<u>141,692,941</u>
Deferred Inflows of Resources:			
Pensions	1,604,926	-	1,604,926
Deferred Revenue	43,187	-	43,187
Other Post Employment Benefits	2,034,979	7,830	2,042,809
Total Deferred Inflows of Resources	<u>3,683,092</u>	<u>7,830</u>	<u>3,690,922</u>
Net Position			
Net Investment in Capital Assets	58,853,919	6,298,265	65,152,184
Restricted for:			
Capital Projects	5,400,000	-	5,400,000
Hanscom Schools	6,617,092	-	6,617,092
Community Preservation	2,087,027	-	2,087,027
Gifts and Grants	4,300,534	-	4,300,534
Perpetual Funds:			
Expendable	654,688	-	654,688
Nonexpendable	448,751	-	448,751
Unrestricted	(31,288,725)	836,793	(30,451,932)
Total Net Position	<u>\$ 47,073,286</u>	<u>\$ 7,135,058</u>	<u>\$ 54,208,344</u>

Town of Lincoln, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
<i>Governmental Activities:</i>							
General Government	\$ 3,368,638	\$ 322,912	\$ 298,547	\$ -	\$ (2,747,179)	\$ -	\$ (2,747,179)
Public Safety	4,685,792	748,343	199,804	-	(3,737,645)	-	(3,737,645)
Education	39,562,265	16,522,112	9,488,788	-	(13,551,365)	-	(13,551,365)
Highways and Public Works	2,570,347	34,377	344,549	-	(2,191,421)	-	(2,191,421)
Human Services	556,878	75,943	146,780	-	(334,155)	-	(334,155)
Culture and Recreation	2,416,874	421,494	167,818	-	(1,827,562)	-	(1,827,562)
Employee Benefits and Insurance	7,391,829	15,283	-	-	(7,376,546)	-	(7,376,546)
Interest on Debt Service	3,056,685	-	-	-	(3,056,685)	-	(3,056,685)
Total Governmental Activities	<u>63,609,308</u>	<u>18,140,464</u>	<u>10,646,286</u>	<u>-</u>	<u>(34,822,558)</u>	<u>-</u>	<u>(34,822,558)</u>
<i>Business-Type Activities:</i>							
Water Services	<u>1,773,873</u>	<u>1,480,786</u>	<u>95,316</u>	<u>-</u>	<u>-</u>	<u>(197,771)</u>	<u>(197,771)</u>
Total Business-Type Activities	<u>1,773,873</u>	<u>1,480,786</u>	<u>95,316</u>	<u>-</u>	<u>-</u>	<u>(197,771)</u>	<u>(197,771)</u>
Total	<u>\$ 65,383,181</u>	<u>\$ 19,621,250</u>	<u>\$ 10,741,602</u>	<u>\$ -</u>	<u>(34,822,558)</u>	<u>(197,771)</u>	<u>(35,020,329)</u>
General Revenues:							
Property Taxes					34,677,211	-	34,677,211
Motor Vehicle and Other Excise Taxes					1,389,368	-	1,389,368
Penalties and Interest on Taxes					82,921	-	82,921
Other Taxes, Assessments and in Lieu Payments					311	-	311
Intergovernmental					1,048,344	-	1,048,344
Interest and Investment Income					1,782,251	22,383	1,804,634
Other Revenue					440	-	440
Contributions to Permanent Funds					15,350	-	15,350
Bond Premium					-	3,812	3,812
Transfers, Net					60,000	(60,000)	-
Total General Revenues, Special Items and Transfers					<u>39,056,196</u>	<u>(33,805)</u>	<u>39,022,391</u>
Change in Net Position					4,233,638	(231,576)	4,002,062
Net Position:							
Beginning of the Year					<u>42,839,648</u>	<u>7,366,634</u>	<u>50,206,282</u>
End of the Year					<u>\$ 47,073,286</u>	<u>\$ 7,135,058</u>	<u>\$ 54,208,344</u>

Town of Lincoln, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2020

	<u>General</u>	<u>Hanscom School Fund</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Cash/Investments	\$ 18,612,736	\$ 3,417,627	\$ 73,929,528	\$ 7,115,079	\$ 103,074,970
Petty Cash	900	725	-	220	1,845
Accounts Receivable:					
Property Taxes	708,774	-	-	17,706	726,480
Tax Liens	74,862	-	-	1,006	75,868
Excises	221,001	-	-	-	221,001
Clause 41A Property Taxes	238,165	-	-	-	238,165
Intergovernmental	956	3,878,982	-	400,772	4,280,710
Tax Foreclosures	31,150	-	-	-	31,150
Other	18,458	-	-	210,033	228,491
Other Assets	25,000	-	-	-	25,000
Total Assets	<u>\$ 19,932,002</u>	<u>\$ 7,297,334</u>	<u>\$ 73,929,528</u>	<u>\$ 7,744,816</u>	<u>\$ 108,903,680</u>
Liabilities:					
Warrants Payable	\$ 329,021	\$ 44,804	\$ 1,378,254	\$ 146,950	\$ 1,899,029
Accrued Salaries Payable	699,217	635,438	-	47,787	1,382,442
Employees' Withholding Payable	412,100	-	-	-	412,100
Due to Individuals	82	-	-	-	82
Unclaimed Checks	20,910	-	-	-	20,910
Other Liabilities	120,521	-	-	19,232	139,753
Total Liabilities	<u>1,581,851</u>	<u>680,242</u>	<u>1,378,254</u>	<u>213,969</u>	<u>3,854,316</u>
Deferred Inflows of Resources:					
Unavailable Revenue	838,691	-	-	409,929	1,248,620
Total Deferred Inflows of Resources	<u>838,691</u>	<u>-</u>	<u>-</u>	<u>409,929</u>	<u>1,248,620</u>
Fund Equity:					
Fund Balances:					
Nonspendable	-	-	-	654,688	654,688
Restricted	-	6,617,092	72,551,274	6,111,387	85,279,753
Committed	1,269,475	-	-	538,113	1,807,588
Assigned	5,479,636	-	-	-	5,479,636
Unassigned	10,762,349	-	-	(183,270)	10,579,079
Total Fund Balances	<u>17,511,460</u>	<u>6,617,092</u>	<u>72,551,274</u>	<u>7,120,918</u>	<u>103,800,744</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 19,932,002</u>	<u>\$ 7,297,334</u>	<u>\$ 73,929,528</u>	<u>\$ 7,744,816</u>	<u>\$ 108,903,680</u>

Town of Lincoln, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2020

	<u>General</u>	<u>Hanscom School</u>	<u>School Building Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>					
Property Taxes	\$ 33,746,799	\$ -	\$ -	\$ 886,642	\$ 34,633,441
Tax Liens	7,635	-	-	-	7,635
Excises	1,263,119	-	-	-	1,263,119
Penalties and Interest	82,921	-	-	-	82,921
Licenses and Permits	390,931	-	-	-	390,931
Intergovernmental	8,719,897	15,937,905	-	2,543,906	27,201,708
Fees and Other Departmental	359,029	-	-	30,414	389,443
Charges for Services	187,201	-	-	1,171,083	1,358,284
Fines and Forfeits	42,258	-	-	-	42,258
Earnings on Investments	1,782,251	-	-	71,866	1,854,117
In Lieu of Taxes	311	-	-	-	311
Contributions	-	-	-	301,149	301,149
Miscellaneous	440	-	-	35,901	36,341
Total Revenues	<u>46,582,792</u>	<u>15,937,905</u>	<u>-</u>	<u>5,040,961</u>	<u>67,561,658</u>
<u>Expenditures:</u>					
Current					
General Government	2,679,039	-	-	204,815	2,883,854
Public Safety	4,756,365	-	-	430,916	5,187,281
Education	21,140,988	15,871,634	10,503,748	2,415,995	49,932,365
Intergovernmental	194,391	-	-	-	194,391
Highways and Public Works	1,871,607	-	-	290,838	2,162,445
Human Services	298,148	-	-	166,917	465,065
Culture and Recreation	2,001,854	-	-	565,580	2,567,434
Employee Benefits and Insurance	5,754,192	-	-	-	5,754,192
Debt Service	4,584,918	-	-	509,825	5,094,743
Total Expenditures	<u>43,281,502</u>	<u>15,871,634</u>	<u>10,503,748</u>	<u>4,584,886</u>	<u>74,241,770</u>
Excess of Revenues Over (Under) Expenditures	<u>3,301,290</u>	<u>66,271</u>	<u>(10,503,748)</u>	<u>456,075</u>	<u>(6,680,112)</u>
Other Financing Sources (Uses):					
Transfers In	181,549	-	-	-	181,549
Transfers (Out)	-	(71,000)	-	(50,549)	(121,549)
Total Other Financing Sources (Uses)	<u>181,549</u>	<u>(71,000)</u>	<u>-</u>	<u>(50,549)</u>	<u>60,000</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	3,482,839	(4,729)	(10,503,748)	405,526	(6,620,112)
Fund Balance, Beginning	<u>14,028,621</u>	<u>6,621,821</u>	<u>83,055,022</u>	<u>6,715,392</u>	<u>110,420,856</u>
Fund Balance, Ending	<u>\$ 17,511,460</u>	<u>\$ 6,617,092</u>	<u>\$ 72,551,274</u>	<u>\$ 7,120,918</u>	<u>\$ 103,800,744</u>

Town of Lincoln, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 June 30, 2020

Total Governmental Fund Balances	\$ 103,800,744
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	75,699,574
Certain changes in the net pension and net OPEB liabilities are required to be included in the pension/OPEB expense in future periods. These changes do not consume current financial resources and, therefore, are not reported in the funds. They are reported in the entity wide statements as deferred outflows or deferred inflows of resources related to pensions/OPEB	
Deferred Outflows of Resources - Pensions	2,837,894
Deferred Outflows of Resources - OPEB	3,048,467
Deferred Inflows of Resources - Pensions	(1,604,926)
Deferred Inflows of Resources - OPEB	(2,034,979)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,174,283
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds Payable	(84,008,425)
Accrued Interest on Bonds	(1,007,427)
Compensated Absences	(518,819)
Lease Payable	(2,724)
Net Pension Liability	(27,767,333)
Other Post Employment Benefit Obligations	(22,543,043)
Net Position of Governmental Activities	\$ 47,073,286

Town of Lincoln, Massachusetts
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2020

Net Change in Fund Balances - Total Governmental Funds \$ (6,620,112)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and capital contributions exceeded depreciation in the current period.

Assets Acquired through Capital Outlay/Contributions	11,848,750	
Depreciation	<u>(1,569,342)</u>	
Net Effect of Reporting Capital Assets		10,279,408

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

221,288

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. This amount reflects the net effect of these differences in the treatment of long-term debt and related items.

Capital Lease Principal Payments	4,473	
Amortized Bond Premium	130,926	
Principal Payments on Bonds	<u>1,915,000</u>	
Net Effect of Reporting Long Term Debt		2,050,399

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. These amounts represent the change in these accounts from the prior fiscal year.

Compensated Absence Payable	(51,840)	
Accrued Interest Payable	(7,868)	
Other Post Employment Benefits Related Items	(111,535)	
Pension Related Items	<u>(1,526,102)</u>	
Net Effect of Reporting Other Items		<u>(1,697,345)</u>

Change in Net Position of Governmental Activities \$ 4,233,638

Town of Lincoln, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2020

	Business-Type Activities Enterprise Fund <u>Water</u>
Assets	
Current:	
Cash and Cash Investments	\$ 1,515,247
Receivables, Net of Allowance for Uncollectibles:	
User Charges	66,640
Liens	640
Noncurrent:	
Assets Not Being Depreciated	3,705,639
Assets Being Depreciated, Net	3,833,846
Total Assets	9,122,012
Deferred Outflows of Resources:	
Other Post Employment Benefits	11,730
Total Deferred Inflows of Resources	11,730
Liabilities	
Current:	
Warrants Payable	48,441
Accrued Wages Payable	11,904
Accrued Interest Payable	10,938
Compensated Absences Payable	15,233
Bond Anticipation Notes Payable	1,010,000
Bonds Payable	257,480
Noncurrent:	
Compensated Absences Payable	10,156
Bonds Payable	539,961
Other Post Employment Benefit Liability	86,741
Total Liabilities	1,990,854
Deferred Inflows of Resources:	
Other Post Employment Benefits	7,830
Total Deferred Inflows of Resources	7,830
Net Position	
Net Investment in Capital Assets	6,298,265
Unrestricted	836,793
Total Net Position	\$ 7,135,058

Town of Lincoln, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
June 30, 2020

	Business-Type Activities <u>Enterprise Fund</u> <u>Water</u>
Operating Revenues:	
Charges for Services	\$ 1,480,786
Total Operating Revenues	<u>1,480,786</u>
Operating Expenditures:	
Personal Services	479,987
Nonpersonal Services	1,090,257
Depreciation	<u>177,648</u>
Total Operating Expenditures	<u>1,747,892</u>
Operating Income	<u>(267,106)</u>
Nonoperating Revenues (Expenses):	
Intergovernmental	95,316
Miscellaneous - Bond Premium	3,812
Interest Income	22,383
Interest on Debt	<u>(25,981)</u>
Total Nonoperating Revenues (Expenses)	<u>95,530</u>
Income Before Operating Transfers	<u>(171,576)</u>
Transfers In (Out):	
Transfers Out	<u>(60,000)</u>
Total Transfers, Net	<u>(60,000)</u>
Changes in Net Position	<u>(231,576)</u>
Net Position, Beginning of the Year	<u>7,366,634</u>
Net Position, End of the Year	<u><u>\$ 7,135,058</u></u>

Town of Lincoln, Massachusetts
Statement of Cash Flows
Proprietary Fund
June 30, 2020

	Business-Type Activities <u>Enterprise Fund</u> <u>Water</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,466,307
Payments to Employees	(461,808)
Payments to Vendors	<u>(1,163,107)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>(158,608)</u>
Cash Flows from Non Capital Related Financing Activities:	
Transfers to/from Other Funds	<u>(60,000)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(60,000)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(541,938)
Bond Anticipation Notes Proceeds	1,010,000
Bond Premium	3,812
Principal Payments on Notes and Bonds	(165,295)
Interest Expense	<u>(12,261)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>294,318</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>22,383</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>22,383</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>98,093</u>
Cash and Cash Equivalents, July 1, 2019	<u>1,417,154</u>
Cash and Cash Equivalents, June 30, 2020	<u>\$ 1,515,247</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (267,106)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	177,648
(Increase) Decrease in Accounts Receivable	(14,479)
Increase (Decrease) in Warrants Payable	(15,148)
Increase (Decrease) in Accrued Wages Payable	(5,971)
Increase (Decrease) in Net Other Post Employment Benefit Liability	(53,645)
Increase (Decrease) in Deferred Outflows of Other Post Employment Benefit	(10,715)
Increase (Decrease) in Inferred Outflows of Other Post Employment Benefit	6,658
Increase (Decrease) in Compensated Absences Payable	24,150
Net Cash Provided by Operating Activities	<u>\$ (158,608)</u>

Town of Lincoln, Massachusetts
Fiduciary Funds
Statement of Net Position
June 30, 2020

	Private Purpose Trust Fund Scholarship and Charity	Other Post Employment Benefits Trust
Assets:		
Cash and Cash Investments	\$ 669,012	\$ -
Domestic Equity - Large Cap	-	1,528,372
Domestic Equity - Small/Mid Cap	-	368,914
International Equity - Developed Market	-	1,686,464
International Equity - Emerging Market	-	632,424
Domestic Fixed Income	-	2,108,079
International Fixed Income	-	316,212
Alternatives	-	2,424,291
Real Estate	-	1,475,655
	669,012	10,540,411
Total Assets	669,012	10,540,411
Liabilities		
	-	-
Current:		
Warrants Payable	4,500	-
	4,500	-
Total Liabilities	4,500	-
Net Position:		
Restricted:		
Other Post Employment Benefits	-	10,540,411
Scholarships and Charity:		
Expendable	142,406	-
Nonexpendable	522,106	-
	664,512	10,540,411
Total Net Position	\$ 664,512	\$ 10,540,411

Town of Lincoln, Massachusetts
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Fiscal Year Ended June 30, 2020

	<u>Private Purpose Trust Fund Scholarship and Charity</u>	<u>Other Post Employment Benefits Trust</u>
Additions:		
Contributions:		
Gift	\$ 14,742	\$ -
Employer	-	2,421,623
Total Contributions	<u>14,742</u>	<u>2,421,623</u>
Investment Earnings:		
Interest, Dividends and Other	8,128	202,404
Net Investment Earnings	<u>8,128</u>	<u>202,404</u>
Total Additions	<u>22,870</u>	<u>2,624,027</u>
Deductions:		
Trust Distributions	28,699	-
Medical, Dental and Life Insurance for Retirees	-	1,531,623
Total Deductions	<u>28,699</u>	<u>1,531,623</u>
Net Increase (Decrease) in Fiduciary Net Position	<u>(5,829)</u>	<u>1,092,404</u>
Net Position:		
Beginning of the Year	<u>670,341</u>	<u>9,448,007</u>
Ending of the Year	<u>\$ 664,512</u>	<u>\$ 10,540,411</u>

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

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Lincoln, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2020, conform to accounting principles generally accepted in the United States of America for local government units.

The more significant accounting policies of the Town are summarized below.

(A) **Reporting Entity**

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Due to the lack of oversight responsibility, the Lincoln-Sudbury Regional School District was not included as part of the reporting entity.

(B) **Government-wide and fund financial statement**

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an 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
- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 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

Government-Wide Financial Statements

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter (within 60 days of year-end) to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants and investment income.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

The Town reports the following major governmental funds:

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

Hanscom School Fund – This fund is used to account for educational services for children of military personnel. The services are provided on a contractual basis.

School Building Capital Project Fund – This fund is used to account for the school building (K- 8) renovation project.

The 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 types are funds are included in the nonmajor category:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded 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 the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary fund:

Water Fund – This fund is used to account for the activities related to the water distribution system.

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

The following fiduciary fund types are reported:

The *other postemployment benefit trust fund* is used to accumulate resources for future other postemployment benefits (OPEB) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion to be spent. The Town maintains a private purpose trust fund for several charitable/scholarship trust funds.

(D) Assets/Deferred Outflows, Liabilities/Deferred Inflows and Net Position or Equity

i Deposits and Investments

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

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institution involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or its agencies, certain municipal obligation bonds, certain high grade commercial bonds and equities and units in the Massachusetts Municipal Depository Trust ("MMDT").

Also, certain governmental funds (primarily trust funds) have broader investment powers which allow investments in a broader range of common stocks, corporate bonds and other types of investments.

ii Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a semiannual basis. Semiannual payments are due on November 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town's property. In addition, the law limits the amount by which the total property tax assessment can be increased to 2.5% of the preceding year's assessment plus any new growth. An increase above the levy limits of Proposition 2 ½ may approved by a vote of the Town's citizens.

iii Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets lives is not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Equipment	3-20
Improvements	3-30
Infrastructure	10-50
Vehicles	3-25

iv. Deferred Outflows/Inflows of Resources

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

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

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that are not considered "available." The government wide financial statements (statement of net position) reflect deferred outflows of resources related to pensions and to other post employment benefits and deferred inflows of resources related to pensions, other post employment benefit and deferred revenues.

v. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

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 debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

Fund Financial Statements (Fund Balances)

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires that the Town report fund balance amounts within one of the fund balance categories list below.

1. **Nonspendable**, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),

2. **Restricted**, constraints are placed on the use of resources so that they can be spent only for specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation,

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action by Town meeting. Town meeting is the highest level of decision making authority in the Town. Committed fund balance cannot be used for any other purposes without another formal vote taken by Town meeting.

4. **Assigned**, intended (by the Board of Selectmen, Town Administrator or Finance Director) to be used by the government for specific purposes, but does not meet the criteria to be classified as restricted or committed, and

5. **Unassigned**, the residual classification for the government’s governmental funds and includes all spendable amounts not contained in the restricted, committed or assigned categories. Only the general fund may have a positive unassigned fund balance.

The Town has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town’s balance sheet.

	<u>General Fund</u>	<u>Hanscom</u>	<u>School Building Project</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:					
Nonspendable:					
Cemetery Perpetual Care	\$ -	\$ -	\$ -	\$ 244,468	\$ 244,468
Library Trust	-	-	-	117,136	117,136
Other Trust	-	-	-	293,084	293,084
Total Nonspendable	-	-	-	654,688	654,688
Restricted for:					
Hanscom Schools	-	6,617,092	-	-	6,617,092
Community Preservation	-	-	-	2,087,027	2,087,027
Other	-	-	-	8,490	8,490
Debt	-	-	-	30,681	30,681
School Gifts	-	-	-	74,001	74,001
School Grants	-	-	-	518,294	518,294
School Lunch	-	-	-	78,451	78,451
School Receipts Reserved	-	-	-	300	300
School Revolving	-	-	-	629,436	629,436
Town Gifts	-	-	-	811,859	811,859
Town Receipts Reserved	-	-	-	198,680	198,680
Town Revolving	-	-	-	560,836	560,836
Town Capital Projects	-	-	-	12,619	12,619
School Building Capital Project	-	-	72,551,274	-	72,551,274
School Capital Projects	-	-	-	1,601	1,601
Cemetery Perpetual Care	-	-	-	96,495	96,495
Student Activities	-	-	-	82,911	82,911
Affordable Housing	-	-	-	567,450	567,450
Library Trust	-	-	-	120,640	120,640
Other Trust	-	-	-	231,616	231,616
Total Restricted	-	6,617,092	72,551,274	6,111,387	85,279,753

	<u>General Fund</u>	<u>Hanscom</u>	<u>School Building Project</u>	<u>Non Major Funds</u>	<u>Total</u>
Committed to:					
Town Revolving	-	-	-	188,919	188,919
Town Receipts Reserved	-	-	-	346,632	346,632
School Revolving	-	-	-	2,562	2,562
General Government	127,420	-	-	-	127,420
Public Safety	53,528	-	-	-	53,528
Education	1,015,010	-	-	-	1,015,010
Highways and Public Works	55,427	-	-	-	55,427
Culture and Recreation	18,090	-	-	-	18,090
Total Committed	1,269,475	-	-	538,113	1,807,588
Assigned to:					
General Government	29,318	-	-	-	29,318
Public Safety	9,875	-	-	-	9,875
Education	1,534,111	-	-	-	1,534,111
Highways and Public Works	30,814	-	-	-	30,814
Human Services	20	-	-	-	20
Culture and Recreation	1,767	-	-	-	1,767
Free Cash to Reduce Tax Levy	3,873,731	-	-	-	3,873,731
Total Assigned	5,479,636	-	-	-	5,479,636
Unassigned	10,762,349	-	-	(183,270)	10,579,079
Total Fund Balances	\$ 17,511,460	\$ 6,617,092	\$ 72,551,274	\$ 7,120,918	\$ 103,800,744

Stabilization Fund

The Town established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “Cities, towns and districts may create one or more stabilization funds and appropriate any amount into the funds. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

The Town’s stabilization fund has a current balance of \$2,285,036. The stabilization fund balance is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

vi Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid accumulated annual vacation leave benefits. The Town does not “buy back” sick leave. As a result, a liability for accumulated sick leave is not reported.

vii Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements and in the fund financial statements for proprietary fund types.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

viii Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ix Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1st and July 15th. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2020 and the corresponding credit is to the account entitled warrants payable.

x Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

(E) Pensions

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

II Stewardship, Compliance and Accountability

(A) Budgetary Information

i General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until March, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheets and includes those amounts which pertain to fiscal 2020 adjusted for any special town meeting votes applicable to fiscal 2020 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (fund financial statements) for the year ended June 30, 2020.

	<u>Revenues</u>
As Reported Budget Basis	\$ 41,141,450
Adjustments:	
Sixty Day Accrual - Net	303,148
Earning on Investments - Stabilization Fund Reported in Statement of Revenues, Expenditures, and Changes in Fund Balances	94,392
Fringe Benefits Reimbursement from Special Revenue Fund Reported as Miscellaneous Revenue on Budget Basis	(1,313,680)
Revenue Support for Pensions - Intergovernmental on GAAP Basis	6,357,482
As Reported GAAP Fund Financial Statement	<u>\$ 46,582,792</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 37,891,721
Adjustments:	
July 1, 2019 Encumbrances	1,717,414
June 30, 2020 Encumbrances	(2,021,435)
Fringe Benefits Reimbursement from Special Revenue Fund Reported as Employee Benefits Expenditure on Budget Basis	(1,313,680)
Contribution to OPEB Trust is a Transfer in Budget Basis, but, an Expenditures in GAAP Basis	650,000
Pension Expense Paid by State - Education Expense GAAP Basis	6,357,482
As Reported GAAP Fund Financial Statement	<u>\$ 43,281,502</u>

III **Detailed Notes on All Funds**

A. **Deposits and Investments**

i) **Deposits**

a) **Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2020, \$2,201,401 of the Town's bank balance of \$46,453,417 was exposed to credit risk.

Uninsured and Uncollateralized \$2,201,401

ii) **Investments**

a) As of June 30, 2020, the Town had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
Debt Related Securities:				
U. S. Government Obligations	\$ 10,094,824	\$ 5,078,974	\$ 5,015,850	\$ -
Total Debt Related Securities	10,094,824	5,078,974	5,015,850	-
Other Investments:				
Money Market Funds	28,573,388			
Mutual Funds	1,764,930			
Pension Reserves Investment Management Board	10,500,407			
Massachusetts Municipal Depository Trust	19,655,124			
Total Other Investments	60,493,849			
Total Investments	<u>\$ 70,588,673</u>			

b) **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's Trust Fund policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates by requiring that all fixed income securities to have a maximum of 30 years to mature and the average maturity of the portfolio will be between 2 and 20 years.

The interest rate risk policy for the Town's general investments does not have specific criteria regarding maturities.

c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's formal policy requires that investments in corporate bonds must be rated A or higher by Moody's or Standard & Poor's.

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town has a formal policy for trust funds that limits to 5% (except U.S. Government Obligations) the amount it may invest in an individual issuer or a company. The policy for the Town's general investments is not specific. Although the Town's investments in the State Treasurer's Investment Pool exceed 5%, the State Treasurer's Investment Pool is not considered a single issuer.

Fair Value Measurement

Statement #72 of the Government Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Town has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Towns' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Town's own data.

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

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

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
Investment by Fair Value Level:				
Debt Related:				
U. S. Treasuries	\$ 10,094,824	\$ 10,094,824	\$ -	\$ -
Money Market Mutual Funds	28,573,388	-	28,573,388	-
Mutual Funds	1,764,930	-	1,764,930	-
Total Assets in the Fair Value Hierarchy	<u>40,433,142</u>	<u>\$ 10,094,824</u>	<u>\$ 30,338,318</u>	<u>\$ -</u>
Investments Not Subject to Fair Value Hierarchy reporting:				
Pension Reserves Investment Management Board	10,500,407			
Massachusetts Municipal Depository Trust	<u>19,655,124</u>			
Total Investments	<u>\$ 70,588,673</u>			

The investments classified in Level 1 of the fair value hierarchy were valued using prices quoted in active markets for those securities.

Investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

B. Capital Assets

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

<u>Government Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Assets Not Being Depreciated:				
Land	\$ 39,998,345	\$ 56,968	\$ -	\$ 40,055,313
Construction in Progress	4,648,451	10,900,035	(409,310)	15,139,176
Total Capital Assets Not Being Depreciated	<u>44,646,796</u>	<u>10,957,003</u>	<u>(409,310)</u>	<u>55,194,489</u>

B. Capital Assets (Continued)

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Assets Being Depreciated:				
Buildings	15,483,974	132,528	-	15,616,502
Improvements Other Than Buildings	7,218,258	-	-	7,218,258
Infrastructure	19,703,320	159,393	-	19,862,713
Equipment	5,550,208	682,727	(45,573)	6,187,362
Vehicles	2,748,052	326,409	(83,431)	2,991,030
Total Capital Assets Being Depreciated	<u>50,703,812</u>	<u>1,301,057</u>	<u>(129,004)</u>	<u>51,875,865</u>
Less Accumulated Depreciation for:				
Buildings	(6,492,556)	-	(381,259)	(6,873,815)
Improvements Other Than Buildings	(3,488,883)	-	(409,274)	(3,898,157)
Infrastructure	(13,156,440)	-	(313,932)	(13,470,372)
Equipment	(4,622,158)	45,573	(256,123)	(4,832,708)
Vehicles	(2,170,405)	83,431	(208,754)	(2,295,728)
Total Accumulated Depreciation	<u>(29,930,442)</u>	<u>129,004</u>	<u>(1,569,342)</u>	<u>(31,370,780)</u>
Capital Assets Being Depreciated, Net	<u>20,773,370</u>	<u>1,430,061</u>	<u>(1,698,346)</u>	<u>20,505,085</u>
Governmental Activities Capital Assets, Net	<u>\$ 65,420,166</u>	<u>\$ 12,387,064</u>	<u>\$ (2,107,656)</u>	<u>\$ 75,699,574</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 267,948
Public Safety	348,647
Education	156,374
Highways and Public works	435,331
Human Services	105,338
Culture and Recreation	255,704
Total Governmental Activities Depreciation Expense	<u>\$ 1,569,342</u>

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
<u>Business-Type Activities:</u>				
Assets Not Being Depreciated:				
Land	\$ 3,210,787	\$ -	\$ -	\$ 3,210,787
Construction in Progress	118,770	481,864	(105,782)	494,852
Total Capital Assets Not Being Depreciated	<u>3,329,557</u>	<u>481,864</u>	<u>(105,782)</u>	<u>3,705,639</u>
Assets Being Depreciated:				
Buildings	93,879	-	-	93,879
Improvements Other than Buildings	71,691	-	-	71,691
Infrastructure	8,257,649	105,782	-	8,363,431
Equipment	963,373	-	-	963,373
Vehicles	88,747	60,074	(35,000)	113,821
Total Capital Assets Being Depreciated	<u>9,475,339</u>	<u>165,856</u>	<u>(35,000)</u>	<u>9,606,195</u>

B. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for:				
Buildings	(75,665)	(2,572)	-	(78,237)
Improvements Other than Buildings	(20,357)	(5,402)	-	(25,759)
Infrastructure	(4,530,866)	(145,699)	-	(4,676,565)
Equipment	(929,259)	(14,894)	-	(944,153)
Vehicles	(73,554)	(9,081)	35,000	(47,635)
Total Accumulated Depreciation	<u>(5,629,701)</u>	<u>(177,648)</u>	<u>35,000</u>	<u>(5,772,349)</u>
Capital Assets Being Depreciated, Net	<u>3,845,638</u>	<u>(11,792)</u>	<u>-</u>	<u>3,833,846</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,175,195</u>	<u>\$ 470,072</u>	<u>\$ (105,782)</u>	<u>\$ 7,539,485</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Water \$ 177,648

C. Accounts Receivable

The accounts receivable on the statement of net position are listed below by levy.

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes

2020	\$ 647,165	
2019	54,038	
2018	8	
2017	(2)	
2016	70	
2013	<u>40</u>	
Total Real Estate Taxes	<u>\$ 701,319</u>	

C. Accounts Receivable (Continued)

Personal Property Taxes		
2020	1,645	
2019	1,484	
2018	1,153	
2017	1,159	
2016	543	
2015	(2)	
2013	658	
2012	606	
2011	4	
2009	24	
2008	180	
Total Personal Property Taxes		<u>7,454</u>
Community Preservation Act Taxes		
2020	16,284	
2019	1,423	
Total Community Preservation Act Taxes		<u>17,707</u>
Total Property Taxes Receivable		<u>\$ 726,480</u>
Tax Liens		<u>\$ 75,868</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Tax		
2020	\$ 129,386	
2019	25,733	
2018	14,464	
2017	6,978	
2016	6,934	
2015	4,072	
2014	5,728	
2013	5,168	
2012	6,053	
2011	4,431	
2010	4,158	
2009	4,004	
2008	3,892	
Tax Excise Receivable		<u>\$ 221,001</u>

C. Accounts Receivable (Continued)

Other:		
Employees Health Insurance	\$ 18,458	
Details	210,033	
	<u> </u>	\$ 228,491
		<u> </u>
Intergovernmental:		
Due from Commonwealth of Massachusetts:		
Bureau of Land Management	\$ 956	
Highway Grant (Chapter 90)	365,590	
Federal - Hanscom	3,878,982	
Other Grants	35,182	
Total Intergovernmental	<u> </u>	\$ 4,280,710
		<u> </u>
Clause 41A Property Tax		\$ 238,165
		<u> </u>
<u>Business Type Activities</u>		
User Charges - Water		\$ 66,640
		<u> </u>
Liens		\$ 640
		<u> </u>

D. Debt

i Short Term Debt

The Town's short term debt activity in fiscal year 2020 is as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
<u>Business Type Activities:</u>						
<u>Bond Anticipation Notes</u>						
Water Treatment Plant SCADA Redundant Controlling Computer	\$ -	\$ 32,000	\$ -	\$ 32,000	11/6/2020	2.0%
Safe Chemical Storage and Ventilation Upgrades	-	355,000	-	355,000	11/6/2020	2.0%
Chemical Handling and Ventilation (Tower Road Well/ Bedford Road Tank)	-	400,000	-	400,000	11/6/2020	2.0%
Distribution System Repair	-	128,000	-	128,000	11/6/2020	2.0%
Tower Road Well Emergency Standby Generator	-	60,000	-	60,000	11/6/2020	2.0%
Water Treatment Plant Chlorination (ACO Compliance)	-	30,000	-	30,000	11/6/2020	2.0%
Bedford Road Water Tank Generator	-	5,000	-	5,000	11/6/2020	2.0%
Total Notes Payable Business Type Activities	<u>\$ -</u>	<u>\$ 1,010,000</u>	<u>\$ -</u>	<u>\$ 1,010,000</u>		

ii Long Term Debt

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 30 years. General obligation bonds outstanding at June 30, 2020 are as follows:

(a) General Obligation Bonds Outstanding at June 30, 2020

<u>Governmental Activities:</u>								
<u>General Obligation Bond</u>	<u>Fiscal Year Sale Date</u>	<u>Original Borrowing</u>	<u>True Interest Rates to Maturities</u>	<u>Fiscal Year Final Maturity</u>	<u>Balance July 1, 2019</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2020</u>
Road Improvements	2010	\$ 1,500,000	2.45%	2020	\$ 150,000	\$ -	\$ 150,000	\$ -
Equipment Information Technology	2011	725,000	1.86%	2020	50,000	-	50,000	-
Land Acquisition	2011	793,000	2.18%	2021	150,000	-	75,000	75,000
Town Hall Remodeling	2011	5,800,000	3.84%	2041	4,555,000	-	210,000	4,345,000
Land Acquisition	2017	1,185,000	2.08%	2032	1,025,000	-	80,000	945,000
School Building Project	2019	76,515,000	3.38%	2049	76,515,000	-	1,350,000	75,165,000
Total Governmental Activities					<u>\$ 82,445,000</u>	<u>\$ -</u>	<u>\$ 1,915,000</u>	<u>\$ 80,530,000</u>

<u>Business Type Activities:</u>								
<u>General Obligation Bond</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturities</u>	<u>Final Maturity</u>	<u>Balance July 1, 2019</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2020</u>
Wastewater Treatment (MWPAT)	2006	\$ 3,679,408	4.88%	2023	\$ 1,015,000	\$ -	\$ 240,000	\$ 775,000
Total Business Type Activities					<u>\$ 1,015,000</u>	<u>\$ -</u>	<u>\$ 240,000</u>	<u>775,000</u>

D. Debt (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
2021	\$ 1,730,000	\$ 3,137,888	\$ 250,000	\$ 25,544	\$ 1,980,000	\$ 3,163,432
2022	1,725,000	3,056,375	260,000	19,750	1,985,000	3,076,125
2023	1,795,000	2,974,325	265,000	6,625	2,060,000	2,980,950
2024	1,870,000	2,888,775	-	-	1,870,000	2,888,775
2024	1,950,000	2,798,950	-	-	1,950,000	2,798,950
2026-2030	11,065,000	12,494,575	-	-	11,065,000	12,494,575
2031-2035	13,090,000	9,956,662	-	-	13,090,000	9,956,662
2036-2040	15,025,000	7,634,375	-	-	15,025,000	7,634,375
2041-2045	16,700,000	4,980,894	-	-	16,700,000	4,980,894
2046-2050	<u>15,580,000</u>	<u>1,588,400</u>	<u>-</u>	<u>-</u>	<u>15,580,000</u>	<u>1,588,400</u>
Total	<u>\$ 80,530,000</u>	<u>\$ 51,511,219</u>	<u>\$ 775,000</u>	<u>\$ 51,919</u>	<u>\$ 81,305,000</u>	<u>\$ 51,563,138</u>

(c) Bond Authorizations

The following long-term debt authorizations voted by the Town have not been issued or rescinded as of June 30, 2020.

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
December 1, 2018	School Building Project	\$ 8,500,000
March 23, 2019	Water Capital Equipment	1,010,000
November 2, 2019	Filter Bank Maintenance Platform/Catwalk	125,000
November 2, 2019	Water Treatment Plant Filter Replacements	364,000
November 2, 2019	Chemical Handling/Ventilation (Treatment Plant)	148,000
November 2, 2019	Treatment Plant Coagulation Treatment	330,000
June 13, 2020	Chemical Handling and Ventilation (Treatment Plant)	125,000
June 13, 2020	Water Treatment Plant Residuals Handling	100,000
June 13, 2020	Water Treatment Plant Programmable Controllers	45,000
	Total	<u>\$ 10,747,000</u>

(d) Subsidies through the Massachusetts Clean Water Trust

The Massachusetts Clean Water Trust was created by Chapter 275 of the Acts of 1989 to implement the State Revolving Fund Program (SRF) contemplated by the Title VI of the Federal Clean Water Act.

The Trust administers a SRF program which includes both a federal and state capitalized revolving fund. Loans are made from the fund to local governmental units to finance the costs of eligible water pollution abatement programs.

Local governments obtain financing through the SRF and receive subsidies but are obligated for the entire amount of the debt. Subsidies which will be utilized to offset debt service costs disclosed in the summary above are noted below:

	<u>SRF</u>
2021	\$ 93,543
2022	92,614
2023	<u>87,750</u>
Total Subsidies	<u>\$ 273,907</u>

D. Debt (Continued)

iii Changes in the government's long-term liabilities for the year ended June 30, 2020 are as follows:

	Balance			Balance		Current
	July 1, 2019	Additions	Reductions	June 30, 2020	Portion	
<u>Governmental Activities</u>						
Bonds Payable	\$ 82,445,000	\$ -	\$ (1,915,000)	\$ 80,530,000	\$ 1,730,000	
Add: Unamortized Premium	<u>3,609,351</u>	<u>-</u>	<u>(130,926)</u>	<u>3,478,425</u>	<u>130,926</u>	
Total Bonds Payable	<u>86,054,351</u>	<u>-</u>	<u>(2,045,926)</u>	<u>84,008,425</u>	<u>1,860,926</u>	
Compensated Absences	466,979	332,027	(280,187)	518,819	311,291	
Capital Leases Payable	7,197	-	(4,473)	2,724	2,724	
Net Pension Liability	27,722,484	4,443,973	(4,399,124)	27,767,333	-	
Other Post Employment Benefits	<u>21,394,035</u>	<u>2,945,531</u>	<u>(1,796,523)</u>	<u>22,543,043</u>	<u>-</u>	
Total Governmental Activities	<u>\$ 135,645,046</u>	<u>\$ 7,721,531</u>	<u>\$ (8,526,233)</u>	<u>\$ 134,840,344</u>	<u>\$ 2,174,941</u>	
<u>Business Type Activities</u>						
Bonds Payable	\$ 1,015,000	\$ -	\$ (240,000)	\$ 775,000	\$ 250,000	
Add: Unamortized Premium	<u>29,921</u>	<u>-</u>	<u>(7,480)</u>	<u>22,441</u>	<u>7,480</u>	
Total Bonds Payable	<u>1,044,921</u>	<u>-</u>	<u>(247,480)</u>	<u>797,441</u>	<u>257,480</u>	
Compensated Absences	1,239	25,265	(1,115)	25,389	15,233	
Other Post Employment Benefits	<u>140,386</u>	<u>19,245</u>	<u>(72,890)</u>	<u>86,741</u>	<u>-</u>	
Total Business Type Activities	<u>\$ 1,186,546</u>	<u>\$ 44,510</u>	<u>\$ (321,485)</u>	<u>\$ 909,571</u>	<u>\$ 272,713</u>	

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Transfers made during the year were as follows:

	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
<u>Fund Financial Statements</u>			
General	\$ 181,549	\$ -	\$ 181,549
Hanscom School Fund	-	(71,000)	(71,000)
Non-Major Governmental	-	(50,549)	(50,549)
Water - Business Type	-	(60,000)	(60,000)
Total	<u>\$ 181,549</u>	<u>\$ (181,549)</u>	<u>\$ -</u>

IV **Other Information**

A. **Pension Plans**

General Information about the Pension Plan

Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at <https://middlesexretirement.org/wp-content/uploads/2020/08/FINAL-Audit-Report-Middlesex-Retirement-12-31-2019.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

The Middlesex County Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement.

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	<u>Hired on or before April 1 2012</u>		
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age and years of creditable service of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u> <u>Hired after April 1 2012</u>	<u>Group 4</u>
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55. Members of Group 4 may retire upon attainment of age 50 with ten years of creditable service.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

Contributions

Active members of the Middlesex County Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirement of plan members is determined by M.G.L. Chapter 32. The contribution requirements are established by and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contractually required contribution rate for the year ended June 30, 2020 was 21.56% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$2,274,023 for the year ending June 30, 2020.

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

At June 30, 2020, the Town reported a liability of \$27,767,633 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll back the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2019, the Town's proportion was 1.735398%.

Costs related to the Town's pension assessment are not charged to the Town's water enterprise fund by way of direct or indirect charges. The Town's has no intention to charge the enterprise fund for the pension related costs in the future. As a result, the pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions were not allocated to the enterprise fund.

For the year ended June 30, 2020, the Town recognized pension expense of \$3,800,125. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 675,639	\$ 62,887
Net differences between projected and actual earnings on pension plan investments	-	720,560
Change in assumptions	1,912,228	-
Changes in proportion and differences between contributions and proportionate share of contributions	250,027	821,479
	<u>\$ 2,837,894</u>	<u>\$ 1,604,926</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The Town did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2021	\$ 605,959
2022	276,095
2023	446,601
2024	(95,687)
Total	<u>\$ 1,232,968</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2019:

Valuation date	January 1, 2020
Actuarial Cost Method	Entry age normal cost method
Amortization Method	Prior year's total contribution increased by 6.5% for fiscal year 2020 through fiscal year 2027, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments.
Remaining Amortization Period	17 years from July 1, 2018 for non-ERI liability, 1 year from July 1, 2018 for 2002 ERI, 2 years from July 1, 2018 for 2033 ERI, and 4 years from July 1, 2018 for 2010 ERI.
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted, as necessary, to be within 20% of market value.
Investment Rate of Return/Discount Rate	7.3% net of pension plan investment expense, including inflation (7.5% in previous valuation)
Inflation Rate	3.25% (3.25% in previous valuation)
Projected Salary Increases	Varies by length of service with ultimate rates of 4.00% for Group 1, 4.25% for Group 2 and 4.50% for Group 4
Cost of Living Adjustments	3.00% of first \$16,000 of retirement income as of July 1, 2019

Mortality Rates were based on the tables noted below:

Healthy:

Pre-Retirement	The RP-2014 Blue Collar Mortality Table projected generationally with Scale MP-2017
Healthy Retiree	The RP-2014 Blue Collar Health Annuitant Mortality Table projected generationally with Scale MP-2017
Disabled	The RP-2014 Blue Collar Health Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The mortality tables listed in the assumption table were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

Changes in Assumptions and Plan Provisions

The following assumption changes were reflected in the January 1, 2020 actuarial valuation:

Changes in Assumptions

- The net investment rate of return assumption was reduced from 7.50% to 7.30%.

Changes in Plan Provisions

- As permitted by Section 19 of Chapter 188 of the Acts of 2010, the Cost of Living Adjustment base was increased from \$14,000 to \$16,000 as of July 1, 2019.

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	21.00%	6.15%
International Developed Markets Equity	13.00%	6.78%
International Emerging Markets Equity	5.00%	8.65%
Core Fixed Income	15.00%	1.11%
High-Yield Fixed Income	8.00%	3.51%
Real Estate	10.00%	4.33%
Commodities	4.00%	4.13%
Hedge Funds, GTAA, risk parity	11.00%	3.19%
Private Equity	13.00%	9.99%
	<u>100.00%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2019 (net of investment expenses) was 16.21% (negative 2.52% for December 31, 2018). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.3% (7.5% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Middlesex County Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan'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 of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.3%, as well as what the Middlesex County Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.3%) or 1-percentage-point higher (8.3%) than the current rate:

	1% Decrease	Discount Rate	1% Increase
	<u>6.30%</u>	<u>7.30%</u>	<u>8.30%</u>
Town's proportionate share of the Net Pension Liability	\$34,123,853	\$27,767,333	\$22,418,485

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Middlesex County Retirement System financial report. The System issues a stand-alone financial report is available that can be obtained through the System's website at <https://middlesexretirement.org/wp-content/uploads/2020/08/FINAL-Audit-Report-Middlesex-Retirement-12-31-2019.pdf>

Payables to the Pension Plan

As of June 30, 2020, the Town did not have any payables due to the Middlesex County Retirement System.

c. Massachusetts Teachers Retirement System

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. The MTRS covers certified teachers and certain school administrators. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a "special funding situation" according to GASB Statement #68 Accounting and Financial Reporting for Pensions. Since the Town does not contribute to the MTRS it does not have a pension liability to report.

MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members-two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the

Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

For the fiscal year ended June 30, 2020, the Town's proportionate share of the collective pension expense was \$6,357,462. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. Accordingly, the accompanying financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2020, or fund balance/net position at June 30, 2020.

The Commonwealth's proportionate share of net pension liability associated with the Town is \$52,425,174. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy2019.pdf>

Benefits provided

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

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

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984-6/30/1996	8% of regular compensation
7/1/1996 to 6/30/2001	9% of regular compensation
7/1/2001 to present	11% of regular compensation
1979 to present	An additional 2% of regular compensation over \$30,000

In addition, members who join the system on or after April 2, 2012 and who have achieved 30 years of creditable service, will have their withholding rate reduced to 8% for those participating in RetirementPlus, otherwise the withholding are reduced to 6% plus 2% on earnings over \$30,000 per year.

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% investment rate of return (7.35% in the previous valuation), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
4. An Experience Study was performed as follows:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect post-retirement mortality through January 1, 2017.

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

	<u>Target Allocation</u>	<u>Long- Term Expected Real Rate of Return</u>
Global Equity	39.0%	4.9%
Core fixed income	15.0%	1.3%
Private Equity	13.0%	8.2%
Portfolio Completion Strategies	11.0%	3.9%
Real Estate	10.0%	3.6%
Value Added Fixed Income	8.0%	4.7%
Timber/Natural Resources	4.0%	4.1%
Total	<u>100.00%</u>	

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy2019.pdf>

B. Other Postemployment Benefits (OPEB) Disclosures

Summary of Significant Accounting Policies (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Town's Plan and additions to/deductions from Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

General Information About the Plan

Plan Description

Plan Administration: The Town administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the Town. Management of the plan is vested in the Board of Selectmen and the Town's Treasurer. The Town's Board of Selectmen has the authority to establish and amend benefit terms.

Plan Membership: At June 30, 2020, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	240
Inactive plan members entitled to but not yet receiving benefit payments	0
Active Plan Members	<u>313</u>
Total	553

Benefits Provided: The Town provides retired employees and their spouses and dependents with payments for a portion of their health care, dental care and life insurance benefits. Benefits are provided through a third party insurer.

Contributions: The Town pays 83% of the premiums for individual coverage and 71% of the premiums for the family plans (60% of either plan for employees hired after January 4, 1990) and 100% of the premiums for a \$1,000 life insurance policy up to the age of 75. The contribution requirements of plan members and the Town may be amended from time to time. In fiscal year 2020 the Town contributed \$2,421,623 to the Plan. The balance in the OPEB Trust as of June 30, 2020 was \$10,540,411. For fiscal year 2020, the Town's average contribution rate was 101.56% of covered payroll.

Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Total OPEB Liability	\$33,170,195
Plan Fiduciary Net Position	(10,540,411)
Net OPEB Liability	<u><u>\$22,629,784</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	31.78%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% as of June 30, 2020 and future periods (2.75% in prior report)
Salary Increases	3.00% annually as of June 30, 2019 and future periods
Investment Rate of Return	7.01%, net of OPEB plan investment expense, including inflation (7.04% in prior report)
Municipal Bond Rate	2.66% as of June 30, 2020 (source: S&P Municipal 20 Year High Grade Index (SAPIHG) (2.79% in prior report)
Single Equivalent Discount Rate	7.00%, net of OPEB plan investment expense, including inflation
Health Cost Trend Rates	4.50% annually (5.0% in pror report)
Mortality Rates were based on the tables noted below:	
Pre-Retirement	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled Mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females

Changes in Assumptions:

Based on recommendations by PERAC, the mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females

The expected long-term medical trend has been updated to 4.50%

Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care was updated.

Changes in Benefit Terms:

None

The mortality assumptions reflect PERAC's recent experience analysis published in 2014 (based on the years 2006-2011), updated to reflect data through January 1, 2015 for post-retirement mortality, and professional judgement. As such, mortality assumptions reflect observed current mortality as well as expected mortality improvements.

Investments

Investment Policy: The plan's policy in regard to the allocation of invested assets is approved and may be amended by the Treasurer with the approval of the Selectmen. The policy pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

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

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity - Large Cap	14.50%	4.80%
Domestic Equity - Small/Mid Cap	3.50%	5.29%
International Equity - Developed Market	16.00%	5.45%
International Equity - Emerging Market	6.00%	6.42%
Domestic Fixed Income	20.00%	2.05%
International Fixed Income	3.00%	3.00%
Alternatives	23.00%	6.50%
Real Estate	14.00%	6.25%
	<u>100.00%</u>	

Concentrations

The OPEB plan did not hold investments in any one organization that represent 5% or more of the OPEB plan's fiduciary net position.

Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 2.08% (5.94% in the prior fiscal year). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate: The discount rate used to measure the total OPEB liability was 7.00% (7.00% in the prior year). The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan'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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan	
		Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances 6/30/19	\$ 30,982,428	\$ 9,448,007	\$ 21,534,421
Service cost	793,183	-	793,183
Interest	2,171,593	-	2,171,593
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(2,306,015)	-	(2,306,015)
Changes in assumptions	3,060,629	-	3,060,629
Contributions - employer	-	2,421,623	(2,421,623)
Net investment income	-	202,404	(202,404)
Benefit payments	(1,531,623)	(1,531,623)	-
Net changes	<u>2,187,767</u>	<u>1,092,404</u>	<u>1,095,363</u>
Balances 6/30/20	<u>\$ 33,170,195</u>	<u>\$ 10,540,411</u>	<u>\$ 22,629,784</u>

Benefit changes:

None

Changes in assumption:

Based on recommendations by PERAC, the mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females

The expected long-term medical trend has been updated to 4.50%

Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care was updated.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1percentage-point lower or 1percentage-point higher than the current discount rate:

	1% Decrease <u>6.00%</u>	Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Net OPEB Liability (asset)	\$26,846,730	\$22,629,784	\$18,412,838

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the net OPEB liability of the Town, as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1percentage-point higher than the current healthcare cost trend rates:

	1% Decrease <u>3.50%</u>	Healthcare Cost Trend <u>4.50%</u>	1% Increase <u>5.50%</u>
Net OPEB Liability (asset)	\$18,719,702	\$22,629,784	\$27,398,157

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$2,475,456. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 63,943	\$ 1,922,957
Change in assumptions	2,552,219	-
Net differences between projected and actual earnings on OPEB plan investments	444,035	119,852
	<u>\$ 3,060,197</u>	<u>\$ 2,042,809</u>

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

Year ended June 30:	Amount
2021	\$ 203,651
2022	203,651
2023	258,765
2024	223,467
2025	125,352
Thereafter	2,502
Total	<u>\$ 1,017,388</u>

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the accompanying financial statements.

C. Subsequent Year Authorizations

On June 13, 2020, the Town adopted a fiscal 2021 operating and capital budget of \$45,439,858. Fiscal 2022 budgetary amounts will be financed by the following sources:

2021 Property Taxes, State Aid and Non-Property Tax Revenue	\$ 37,255,115
Enterprise Fund Revenues	1,895,468
Enterprise Fund Retained Earnings	50,000
Community Preservation Estimated Revenues	1,054,507
Restricted Fund Balance:	
Hanscom Fund	71,000
Non-Major Fund	386,092
Committed Fund Balance:	
General Fund	853,945
Assigned Fund Balance:	
General Fund	3,873,731
Total	<u><u>\$ 45,439,858</u></u>

D. Significant Commitments

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The assigned fund balance in the general fund includes encumbrances of \$1,605,905.

E. Commitments and Contingencies

It is the opinion of the Town's management and legal counsel that there is not any litigation that will materially affect the financial position of the Town.

F. Implementation of New GASB Pronouncements

During fiscal year 2020, the District was not required to implement any new GASB pronouncements. The District early implemented GASB Statement No. 84 in fiscal year 2019.

The following GASB pronouncements will be implemented in future fiscal years:

- Statement No. 87, Leases which is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period which is effective for reporting periods beginning after December 15, 2020.
- Statement No. 90 Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61 which is effective for reporting periods beginning after December 15, 2019.
- Statement No. 91, Conduit Debt Obligations which is effective for reporting periods beginning after December 15, 2021.
- Statement No. 92 Omnibus 2020, paragraphs 6 and 7 - fiscal years beginning after June 15, 2021; paragraphs 8, 9, and 12 - reporting periods beginning after June 15, 2021 and paragraph 10 - government acquisitions occurring in reporting periods beginning after June 15, 2021.

- Statement No. 93 *Replacement of Interbank Offered Rates* the requirements, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter.
- Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* which is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- Statement No. 96 *Subscription-Based Information Technology Arrangements* which is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Lincoln, Massachusetts
Required Supplementary Information
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 33,778,863	\$ 33,778,863	\$ 33,394,606	\$ (384,257)
Tax Liens	-	-	7,635	7,635
Excises	359,555	359,555	1,312,164	952,609
Penalties and Interest	36,197	36,197	82,921	46,724
Licenses and Permits	89,711	89,711	390,931	301,220
Intergovernmental	2,328,609	2,328,609	2,362,415	33,806
Fees and Other Departmental	224,599	224,599	359,029	134,430
Charges for Services	165,592	165,592	187,201	21,609
Fines and Forfeits	27,682	27,682	42,258	14,576
Earnings on Investments	5,885	5,885	1,687,859	1,681,974
In Lieu of Taxes	117	117	311	194
Miscellaneous	355,142	355,142	1,314,120	958,978
Total Revenues	<u>37,371,952</u>	<u>37,371,952</u>	<u>41,141,450</u>	<u>3,769,498</u>
<u>Expenditures</u>				
Current:				
General Government	3,437,052	3,306,568	2,709,189	597,379
Public Safety	4,250,484	4,350,484	4,207,644	142,840
Education	16,684,229	16,340,936	15,894,717	446,219
Highway and Public Works	1,984,968	1,988,852	1,862,028	126,824
Health and Human Services	288,650	324,150	297,838	26,312
Culture and Recreation	1,804,138	1,804,959	1,733,801	71,158
Intergovernmental	179,125	179,125	187,618	(8,493)
Employee Benefits and Insurance	7,297,973	7,297,973	6,413,968	884,005
Debt Service	4,605,051	4,605,051	4,584,918	20,133
Total Expenditures	<u>40,531,670</u>	<u>40,198,098</u>	<u>37,891,721</u>	<u>2,306,377</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,159,718)</u>	<u>(2,826,146)</u>	<u>3,249,729</u>	<u>6,075,875</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	181,649	181,649	181,649	-
Transfers Out	(1,199,331)	(1,543,172)	(1,543,172)	-
Free Cash and Other Available Funds	4,177,400	4,187,669	4,187,669	-
Total Other Financing Sources (Uses)	<u>3,159,718</u>	<u>2,826,146</u>	<u>2,826,146</u>	<u>-</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,075,875</u>	<u>\$ 6,075,875</u>

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Lincoln, Massachusetts' Proportionate Share of the Net Pension Liability
Middlesex County Retirement System
Last Ten Fiscal Years**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of net pension liability (asset) (%)	1.735398%	1.777690%	1.750428%	1.804248%	1.834594%	1.809632%
Town's proportionate share of net pension liability (asset) (\$)	27,767,333	27,722,484	24,841,810	25,563,964	23,666,611	21,739,395
Town's Covered Payroll	10,549,034	10,130,693	9,736,776	9,468,363	9,595,007	9,225,968
Town's proportionate share of net pension liability (asset) as a percentage of its Covered Payroll	263.22%	273.65%	255.13%	269.99%	246.66%	235.63%
Plan fiduciary net position as a percentage of the pension liability	49.45%	46.40%	49.27%	45.49%	46.13%	47.65%

** The amounts presented for each fiscal year were determined as of December 31.

This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Lincoln, Massachusetts' Contributions
Middlesex County Retirement System
Last Ten Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,274,023	\$ 2,148,246	\$ 2,015,466	\$ 1,922,136	\$ 1,802,909	\$ 1,622,193
Contributions in relation to the contractually required contribution	<u>(2,274,023)</u>	<u>(2,153,104)</u>	<u>(2,015,466)</u>	<u>(1,922,136)</u>	<u>(1,802,909)</u>	<u>(1,622,193)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (4,858)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	10,549,034	10,130,693	9,736,776	9,468,363	9,595,007	9,225,968
Contributions as a percentage of covered payroll	21.56%	21.25%	20.70%	20.30%	18.79%	17.58%

This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Lincoln Massachusetts' Proportionate Share of the Collective Net Pension Liability
Massachusetts Teachers' Retirement System
Last Ten Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of the collective net pension liability (asset) (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Town's proportionate share of the collective net pension liability (asset) (\$)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the collective net pension liability (asset) associated with Town (\$)	<u>\$ 52,425,174</u>	<u>\$ 50,387,226</u>	<u>\$ 48,663,025</u>	<u>\$ 46,567,518</u>	<u>\$ 44,588,867</u>	<u>\$ 34,861,016</u>
Total	<u>\$ 52,425,174</u>	<u>\$ 50,387,226</u>	<u>\$ 48,663,025</u>	<u>\$ 46,567,518</u>	<u>\$ 44,588,867</u>	<u>\$ 34,861,016</u>
Town's Covered Payroll	\$ 15,130,719	\$ 14,923,801	\$ 14,439,115	\$ 13,700,071	\$ 13,794,498	\$ 13,446,489
Town's proportionate share of the collective net pension liability (asset) as a percentage of its Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the pension liability	53.95%	54.84%	54.25%	52.73%	55.38%	61.64%
Town's expense and revenue recognized for Commonwealth support	<u>\$ 6,357,462</u>	<u>\$ 5,106,016</u>	<u>\$ 5,079,102</u>	<u>\$ 4,750,192</u>	<u>\$ 3,616,554</u>	<u>\$ 2,421,962</u>

This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.

See Notes to the Required Supplementary Information

Town of Lincoln, Massachusetts
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB 74 & GASB 75)
June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017
Total OPEB liability				
Service cost	\$ 793,183	\$ 930,633	\$ 877,083	\$ 1,664,991
Interest	2,171,593	2,068,064	1,951,373	2,429,044
Changes of benefit terms	-	-	(9,924,742)	-
Difference between expected and actual experience	(2,306,015)	-	(12,519,029)	(263,639)
Changes in assumptions	3,060,629	-	(12,658,695)	5,068,773
Benefit payments	(1,531,623)	(1,237,865)	(1,186,642)	(1,487,353)
Net change in total OPEB liability	2,187,767	1,760,832	(33,460,652)	7,411,816
Total OPEB liability - beginning	30,982,428	29,221,596	62,682,248	55,270,432
Total OPEB liability - ending (a)	\$ 33,170,195	\$ 30,982,428	\$ 29,221,596	\$ 62,682,248
Plan Fiduciary net position				
Contributions - employer	\$ 2,421,623	\$ 2,517,865	\$ 2,066,642	\$ 2,367,353
Net investment income	202,404	498,271	631,220	655,540
Benefit payments	(1,531,623)	(1,237,865)	(1,186,642)	(1,487,353)
Administrative expense	-	-	-	-
Net change in plan fiduciary net position	1,092,404	1,778,271	1,511,220	1,535,540
Plan fiduciary net position - beginning	9,448,007	7,669,736	6,158,516	4,622,976
Plan fiduciary net position - ending (b)	\$ 10,540,411	\$ 9,448,007	\$ 7,669,736	\$ 6,158,516
Town's net OPEB liability - ending (a) - (b)	\$ 22,629,784	\$ 21,534,421	\$ 21,551,860	\$ 56,523,732
Plan fiduciary net position as a percentage of the total OPEB liability	31.78%	30.49%	26.25%	9.82%
Covered Payroll	\$ 22,281,643	\$ 22,466,191	\$ 26,015,853	\$ 21,176,540
Town's net OPEB liability as a percentage of covered payroll	101.56%	95.85%	82.84%	266.92%

Benefit changes:
None

Changes in assumption:

Based on recommendations by PERAC, the mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females

The expected long-term medical trend has been updated to 4.50%

Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care was updated.

This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.

See Notes to the Required Supplementary Information

Town of Lincoln, Massachusetts
Required Supplementary Information
Schedule of Contributions (GASB 74 and GASB 75)
June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017
Actuarial determined contribution	\$ 2,497,532	\$ 2,552,485	\$ 5,134,134	\$ 1,715,840
Contributions in relating to the actuarially determined contribution	2,421,623	2,517,865	2,066,642	2,367,353
Contribution deficiency (excess)	<u>\$ 75,909</u>	<u>\$ 34,620</u>	<u>\$ 3,067,492</u>	<u>\$ (651,513)</u>
Covered Payroll	\$ 22,281,643	\$ 22,466,191	\$ 26,015,853	\$ 21,176,540
Contributions as a percentage of covered payroll	10.87%	11.21%	7.94%	11.18%

Notes to Schedule

Valuation date: Actuarially Determined Contribution was calculated as of July 1, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value as of the Measurement Date, June 30, 2020
Inflation	2.50% as of June 30, 2020 and future periods (2.75% in prior report)
Salary increases	3.00% as of June 30, 2020 and for the future periods
Investment rate of return	7.01%, net of OPEB plan investment expense, including inflation (7.04% in prior report)
Municipal Bond Rate	2.66% as of June 30, 2020 (source: S&P Municipal 20 Year High
Single Equivalent Discount Rate	7.00%, net of OPEB plan investment expense, including inflation

Mortality Rates were based on the tables noted below:

Pre-Retirement	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled Mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females

This schedule is intended to show information for 10 years. Additional years' will be displayed as it becomes available.

See Notes to the Required Supplementary Information

Town of Lincoln, Massachusetts
Required Supplementary Information
Schedule of Investment Returns (GASB 74 Plan Reporting)
June 30, 2020
Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	2.08%	5.94%	9.58%	12.95%

This schedule is intended to show information for 10 years. Additional years' will be displayed as it becomes available.

See Notes to the Required Supplementary Information

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

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until March, which is when the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures or liabilities.

(B) Pension Plans

a. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Middlesex County Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The Town is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at: <https://middlesexretirement.org/wp-content/uploads/2020/08/FINAL-Audit-Report-Middlesex-Retirement-12-31-2019.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

b. Funding Plan

Active members of the Middlesex County Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex County Retirement System with the approval of the Public Employee Retirement Administration Commission.

c. Change in Assumptions and Plan Provisions

The following assumption changes were reflected in the January 1, 2020 actuarial valuation:

Changes in Assumptions

- The net investment rate of return assumption was reduced from 7.50% to 7.30%.

Changes in Plan Provisions

- As permitted by Section 19 of Chapter 188 of the Acts of 2010, the Cost of Living Adjustment base was increased from \$14,000 to \$16,000 as of July 1, 2019.

d. Schedule of Town's Proportionate Share of the Net Pension Liability - Middlesex County Retirement System

The schedule details the Town's percentage of the collective net pension liability, the proportionate amount of the collective net pension liability, the Town's covered payroll, the Town's proportionate share of the collective net pension liability as a percentage of the Town's covered payroll and the fiduciary net position of the plan as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

e. Schedule of the Town's Contributions – Middlesex County Retirement System

The schedule details the Town's contractually required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered payroll and the Town's contributions as a percentage of covered payroll. As more information becomes available, this will be a ten year schedule.

f. Massachusetts Teachers Retirement System

Special Funding Situation

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. The MTRS covers certified teachers and certain school administrators. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a "special funding situation" according to GASB Statement # 68 Accounting and Financial Reporting for Pensions. Since the Town does not contribute to the MTRS it does not have a pension liability to report.

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

For the fiscal year ended June 30, 2020, the Town's proportionate share of the collective pension expense was \$3,800,125. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. Accordingly, the accompanying financial statements include the required adjustments, which have increased both

Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2020, or fund balance/net position at June 30, 2020.

The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy2019.pdf>

Benefits provided

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

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

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984-6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation
1979 to present	An additional 2% of regular compensation over \$30,000

In addition, members who join the system on or after April 2, 2012 and who have achieved 30 years of creditable service, will have their withholding rate reduced to 8% for those participating in RetirementPlus, otherwise the withholding are reduced to 6% plus 2% on earnings over \$30,000 per year.

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% investment rate of return (7.35% in the previous valuation), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
4. An Experience Study was performed as follows:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect post-retirement mortality through January 1, 2017.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy2019.pdf>

g. Schedule of Proportionate Share of the Net Pension Liability – Massachusetts Teachers Retirement System

The schedule provides information about the net pension liability for the Town's teachers. The Commonwealth of Massachusetts is responsible for the entire liability.

h. Schedule of the Proportionate Share of the Collective Net Pension Liability

The schedule details the Town's proportionate percentage of the collective net pension liability, the Town's proportionate amount of the collective net pension liability, the State's proportionate share of the collective net pension liability associated with the Town, the Town's covered payroll, the Town's proportionate share of the collective net pension liability as a percentage of the Town's covered payroll, the fiduciary net position of the plan as a percentage of the collective net pension liability and the Town's expense and revenue recognized for Commonwealth support. As more information becomes available, this will be a ten year schedule.

(C) Other Postemployment Benefits (OPEB) Disclosures

Plan Description

Plan Administration: The Town administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the Town. Management of the plan is vested in the Board of Selectmen and the Town's Treasurer. The Town's Board of Selectmen has the authority to establish and amend benefit terms.

Benefits Provided: The Town provides retired employees and their spouses and dependents with payments for a portion of their health care, dental care and life insurance benefits. Benefits are provided through a third party insurer.

Contributions. The Town pays 83% of the premiums for individual coverage and 71% of the premiums for the family plans (60% of either plan for employees hired after January 4, 1990) and 100% of the premiums for a \$1,000 life insurance policy up to the age of 75. The contribution requirements of plan members and the Town may be amended from time to time.

a. Schedule of Net OPEB Liability and Related Ratios (GASB 74 and GASB 75)

The schedules provides information about the changes in the OPEB liability and the changes in the fiduciary net position of the plan. The schedules, also, provides the plan fiduciary net position as a percentage of the total OPEB liability, the covered payroll and the Town's net OPEB liability as a percentage of covered payroll.

b. Schedule of Contributions - Other Post Employment Benefits (GASB 74 and GASB 75)

The schedules detail the Town's actuarially required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered payroll and the Town's contributions as a percentage of covered payroll.

c. Schedule of Investment Rate of Returns - Other Post Employment Benefits (GASB 74)

The schedule details the Town's annual money weighted rate of return, net of investment expense.

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

Board of Selectmen
Town of Lincoln
P.O. Box 6353
16 Lincoln Road
Lincoln, MA 01864

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Town of Lincoln, Massachusetts, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Lincoln, Massachusetts' basic financial statements, and have issued our report thereon dated March 25, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
March 25, 2021