

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF LINCOLN, MASSACHUSETTS

Report on Examination of the Basic Financial Statements and
Additional Information

Year Ended June 30, 2021



TOWN OF LINCOLN, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2021

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-10
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Net Position – Fiduciary Funds	20
Statement of Changes in Net Position – Fiduciary Funds	21
Notes to Basic Financial Statements	22-48
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of the Town's Proportionate Share of the Net Pension Liability	49
Schedule of the Town's Contribution to Pension Plan	49
Schedule of Changes in Net OPEB Liability and Related Ratios	50
Schedule of Contributions – OPEB Plan	51
Schedule of Investment Returns – OPEB Plan	51
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	52
Notes to Required Supplementary Information	53



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Lincoln, Massachusetts, (the "Town") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Town as of June 30, 2021 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement of Prior Year Ending Balances

As more fully described in Note IV, a restatement of prior year ending net position balances was made to the Town's governmental activities and business-type activities and its nonmajor governmental funds and water enterprise fund. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2022, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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.

Town of Lincoln, Massachusetts
Page Three

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 2, 2022

Management's Discussion and Analysis

As the management of the Town of Lincoln, Massachusetts (The Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by nearly \$60.7 million (*total net position*). Approximately \$52.1 million represented net position of the governmental and the net position of the business-type activities was approximately \$8.6 million.
- The government's total net position increased by approximately \$6.1 million. The governmental activities increased net position by approximately \$5.2 million while the business-type activities increased net position by nearly \$0.9 million.
- The Town's unassigned fund balance reported in the General Fund was approximately \$10.9 million (23.8% of General Fund expenditures). Total fund balance in the General Fund was approximately \$19.0 million (41.4% of General Fund expenditures). The Town reported a restricted fund balance of nearly \$7.4 million in the Hanscom School Fund, a restricted fund balance of over \$28.4 million in the School Building Capital Project Fund and reported total fund balances of over \$7.9 million in the combined Nonmajor Governmental Funds.
- The Town's debt decreased over \$0.1 million. During the fiscal year the Town issued nearly \$2.0 million of business-type activity debt and refunded approximately \$4.1 million of governmental activities debt.

Overview of the Financial Statements

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

Government-wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of position* presents information on all of the Town's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported net as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

The government-wide financial statements consist of two classifications; (1) those whose activities are principally supported by taxes and intergovernmental revenue (*governmental activities*), and (2) those

whose activities are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town consist of water utility activities.

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

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

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

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

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

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

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

Proprietary Funds – Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The Town utilizes the proprietary funds to report activities of its enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water utility activities.

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

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which includes the schedules of the Town's proportionate share of the net pension liability, contributions to the pension plan, the funding progress and contribution funding of its obligation to provide other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and notes to this schedule.

Government-wide Financial Analysis

The condensed statement of net position is as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
<u>Assets</u>						
Current and other assets	\$ 72,296,668	\$ 108,872,530	\$ 3,231,742	\$ 1,582,527	\$ 75,528,410	\$ 110,455,057
Capital assets, net	119,889,817	75,699,574	8,257,464	7,539,485	128,147,281	83,239,059
Total Assets	192,186,485	184,572,104	11,489,206	9,122,012	203,675,691	193,694,116
Deferred outflows of resources	4,963,860	5,886,361	12,768	11,730	4,976,628	5,898,091
<u>Liabilities</u>						
Long-term liabilities	130,558,717	132,665,403	2,872,513	636,858	133,431,230	133,302,261
Other liabilities	8,932,233	7,036,684	37,242	1,353,996	8,969,475	8,390,680
Total Liabilities	139,490,950	139,702,087	2,909,755	1,990,854	142,400,705	141,692,941
Deferred inflows of resources	5,557,937	3,683,092	13,541	7,830	5,571,478	3,690,922
<u>Net Position</u>						
Net investment in capital assets	66,587,698	58,853,919	6,390,444	6,298,265	72,978,142	65,152,184
Restricted	15,570,329	19,508,092	-	-	15,570,329	19,508,092
Unrestricted	(30,056,569)	(31,288,725)	2,188,234	836,793	(27,868,335)	(30,451,932)
Net Position	\$ 52,101,458	\$ 47,073,286	\$ 8,578,678	\$ 7,135,058	\$ 60,680,136	\$ 54,208,344

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by nearly \$60.7 million (*total net position*). This was an increase of nearly \$6.1 million over the preceding year, net of beginning net position restatements. This was primarily the result of positive results in the general fund of over \$5.2 million, in the governmental activities and positive water business-type operations of nearly \$0.9 million.

By far the largest portion (approximately \$73.0 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$15.6 million) represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position* reflects the remainder of net position, a deficit of approximately \$27.9 million. This is due to the recognition of the other postemployment benefits liability of approximately \$21.4 million as a result of the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as previously discussed, and the implementation of GASB 68 in 2015, which has resulted in the recognition of almost \$26.5 million in net pension liabilities.

The condensed statement of changes in net position is as follows:

	Governmental Activities		Business-type Activities		Total	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenues						
Program revenues:						
Charges for services	\$ 2,774,751	\$ 18,140,464	\$ 2,395,810	\$ 1,480,786	\$ 5,170,561	\$ 19,621,250
Operating grants and contributions	28,513,185	10,646,286	-	95,316	28,513,185	10,741,602
Capital grants and contributions	882,956	-	-	-	882,956	-
General revenues:						
Property taxes	35,502,451	34,677,211	-	-	35,502,451	34,677,211
Intergovernmental	1,085,981	1,048,344	-	-	1,085,981	1,048,344
Other	1,670,357	3,270,641	5,055	26,195	1,675,412	3,296,836
Total Revenues	70,429,681	67,782,946	2,400,865	1,602,297	72,830,546	69,385,243
Expenses						
General government	4,494,427	3,837,036	-	-	4,494,427	3,837,036
Public safety	7,338,913	5,337,336	-	-	7,338,913	5,337,336
Education	44,095,884	45,063,264	-	-	44,095,884	45,063,264
Public works	3,044,725	2,927,745	-	-	3,044,725	2,927,745
Health and human services	686,268	634,310	-	-	686,268	634,310
Culture and recreation	2,716,755	2,752,932	-	-	2,716,755	2,752,932
Debt service	2,893,662	3,056,685	-	-	2,893,662	3,056,685
Water	-	-	1,455,155	1,773,873	1,455,155	1,773,873
Total Expenses	65,270,634	63,609,308	1,455,155	1,773,873	66,725,789	65,383,181
Excess (deficiency) in net position before transfers	5,159,047	4,173,638	945,710	(171,576)	6,104,757	4,002,062
Transfers	60,000	60,000	(60,000)	(60,000)	-	-
Change in net position	5,219,047	4,233,638	885,710	(231,576)	6,104,757	4,002,062
Net position, beginning of year	47,073,286	42,839,648	7,135,058	7,366,634	54,208,344	50,206,282
Restatement for agency funds	(190,875)	-	-	-	(190,875)	-
Restatement for unbilled receivables	-	-	557,910	-	557,910	-
Net position, beginning of year, as restated	46,882,411	42,839,648	7,692,968	7,366,634	54,575,379	50,206,282
Net position, end of year	\$ 52,101,458	\$ 47,073,286	\$ 8,578,678	\$ 7,135,058	\$ 60,680,136	\$ 54,208,344

Governmental Activities - The Town relies significantly on property taxes, which, during 2021, made up approximately 50.4% of total revenues, down from 51.2% in the prior year. Actual revenues increased by 2.4% as expected based on property tax laws in Massachusetts. Operating grants and contributions made up approximately 40.5% of total revenues. In the prior year, revenues were classified in different categories, so it is best to compare total revenues for more accurate comparison. Total revenues increased almost \$2.7 million, made up mostly of the property tax increase previously discussed in addition to a \$1.0 million increase in on-behalf pension payments and a \$0.3 million increase in pandemic assistance.

No other revenues were greater than 10% of total revenues in 2021 or 2020.

Major expenditures were for education which continues to be an area that the town devotes significant resources. Education represented 67.6% of total expenses, down from the prior year of 70.8%. Public safety expenses represented 11.2% of total expenses, up from the prior year of 8.4%. The increase is primarily due to \$0.7 million of public safety detail activity that was previously presented as a fiduciary activity. No other expense types were greater than 10% of total expenses in 2021 or 2020.

Business-type Activities - Major revenue sources consist of revenue from user charges, which represented approximately 99.8% of total fiscal year 2021 and 2020 revenues. Water expenses decreased over \$0.3 million, primarily from less non-capital maintenance costs.

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$63.2 million. This represents a decrease of over \$40.4 million over the previous year from expenditures in the School Building Capital Projects major fund of \$44.9 million which was offset by positive results in the general fund, Hanscom school fund and nonmajor governmental funds of \$1.5 million, \$0.8 million and \$1.0 million, respectively. Of the ending fund balance approximately \$10.8 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$10.9 million, while total fund balance totaled over \$19.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 23.8% of total general fund expenditures, while total fund balance represents approximately 41.4% of that same amount.

The Hanscom School fund was used as a funding source for the education of student from military families. The balance of this fund increased nearly \$0.8 million as revenues exceeded expenditures.

The Capital Building Capital Project fund was used as a funding source for the construction of a new school building. As a result, this fund decreased by approximately \$43.7 million to a fund balance of approximately \$28.8 million as a result of capital outlays in the current year exceeding operating transfers.

The combined Nonmajor funds increased from prior year by approximately \$1.0 million. Fund balances at year end were approximately \$7.9 million. This was mainly due to nearly \$0.4 million in unspent gifts and nearly \$0.4 million of unspent trust income.

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At June 30, 2021, net position of the water enterprise fund was approximately \$8.6 million, which represents an increase of approximately \$0.9 from the prior year. The increased was primarily due to revenues exceeding estimates by approximately \$0.4 million and unspent appropriations of approximately \$0.3 million.

General Fund Budgetary Highlights

The final amended budget was unchanged however the budgets for individual functions and transfers were affected by subsequent appropriations. The schedule of budgetary information, which summarizes these changes, is provided as *Required Supplementary Information*.

Capital Asset and Debt Administration

Capital Assets - The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2021, amounts to approximately \$128.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, machinery, equipment and vehicles and reflects an increase of approximately \$44.9 million due to capital additions exceeding annual depreciation. The majority of the Town's capital expenditures are for the construction of a new school which is presented in the School Building Capital Projects major fund. The Town is also funding variance community preservation, water infrastructure and other projects.

Additional information on the Town capital assets can be found Note II. Subsection D of this report.

Long-term Debt - At the end of the current fiscal year, the Town had total bonded debt outstanding of approximately \$70.1 million. Of this amount approximately \$78.6 million represents debt of the governmental activities and approximately \$0.5 million represents general obligation bonds of business-type activities.

The Town's total debt, including unamortized bond premiums, decreased over \$0.1 million. During the fiscal year the Town issued nearly \$2.0 million of business-type activity debt and refunded approximately \$4.1 million of governmental activities debt.

The Town maintains a bond rating of "AAA" as set by Standard and Poor's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$116 million, which is in excess of the Town's outstanding general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services to the Town. The debt service from such arrangements is assessed annually to the Town.

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

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate tax base is made up predominantly of residential taxes, which comprise over 95% of the Town's real estate tax base. The Town also relies to a much lesser extent on its commercial and industrial real estate tax base, which in aggregate comprise over 2% of the Town's real estate tax base. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy. This limit may be exceeded through a majority vote at Board of Selectmen along with ballot approval.
- The Town's property values have been steadily increasing over the past several years. Property values are at all-time highs in many Town neighborhoods and the Town's equalized valuation is over \$2.3 billion.

- The Town's unemployment rate remains stable, however unemployment rates throughout the Commonwealth and the nation have fluctuated due to the impact of the COVID-19 pandemic.
- The Town anticipates receiving approximately the same amount of state aid for 2022 as in the previous fiscal year based on state budget estimates.

The above items were considered when the Town developed its budget for fiscal year 2022.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Department, PO Box 6353, 16 Lincoln Road, Lincoln, Massachusetts 01773.

TOWN OF LINCOLN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2021

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 59,638,431	\$ 2,563,584	\$ 62,202,015
Investments	9,947,592	-	9,947,592
Receivables (net):			
Property taxes	475,879	-	475,879
Excise taxes	272,190	-	272,190
User fees	-	668,158	668,158
Departmental and other	503,935	-	503,935
Intergovernmental	1,402,491	-	1,402,491
Tax foreclosures	31,150	-	31,150
Other asset	25,000	-	25,000
Capital assets, not being depreciated	99,562,132	4,574,901	104,137,033
Capital assets, net of accumulated depreciation	20,327,685	3,682,563	24,010,248
Total Assets	192,186,485	11,489,206	203,675,691
Deferred Outflows of Resources			
Related to net other postemployment benefits liability	3,318,209	12,768	3,330,977
Related to net pension liability	1,645,651	-	1,645,651
Total Deferred Outflows of Resources	4,963,860	12,768	4,976,628
Liabilities			
Warrants and accounts payable	3,264,850	21,398	3,286,248
Accrued payroll and withholdings	1,882,902	15,844	1,898,746
Retainage payable	2,267,362	-	2,267,362
Accrued interest expense	977,083	-	977,083
Unearned revenue	369,061	-	369,061
Other liabilities	170,975	-	170,975
Long-term liabilities:			
Due within one year	2,124,689	529,862	2,654,551
Due in more than one year	128,434,028	2,342,651	130,776,679
Total Liabilities	139,490,950	2,909,755	142,400,705
Deferred Inflows of Resources			
Related to net other postemployment benefits liability	3,519,156	13,541	3,532,697
Related to net pension liability	2,038,781	-	2,038,781
Total Deferred Inflows of Resources	5,557,937	13,541	5,571,478
Net Position			
Net investment in capital assets	66,587,698	6,390,444	72,978,142
Restricted:			
Nonexpendable permanent funds	699,610	-	699,610
Expendable permanent funds	1,007,382	-	1,007,382
Community preservation	2,175,523	-	2,175,523
Hanscom School	7,375,827	-	7,375,827
Other purposes	4,311,987	-	4,311,987
Unrestricted	(30,056,569)	2,188,234	(27,868,335)
Total Net Position	\$ 52,101,458	\$ 8,578,678	\$ 60,680,136

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

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	\$ 4,494,427	\$ 482,963	\$ 84,200	\$ 193,209	\$ (3,734,055)		\$ (3,734,055)
Public safety	7,338,913	1,323,391	134,551	-	(5,880,971)		(5,880,971)
Education	44,095,884	286,242	28,087,630	178,410	(15,543,602)		(15,543,602)
Public works	3,044,725	60,461	26,010	126,353	(2,831,901)		(2,831,901)
Health and human services	686,268	81,615	129,797	-	(474,856)		(474,856)
Culture and recreation	2,716,755	540,079	50,997	384,984	(1,740,695)		(1,740,695)
Debt service	2,893,662	-	-	-	(2,893,662)		(2,893,662)
Total Governmental Activities	65,270,634	2,774,751	28,513,185	882,956	(33,099,742)		(33,099,742)
<i>Business-Type Activities:</i>							
Water	1,455,155	2,395,810	-	-		\$ 940,655	940,655
Total Business-Type Activities	1,455,155	2,395,810	-	-		940,655	940,655
Total Primary Government	\$ 66,725,789	\$ 5,170,561	\$ 28,513,185	\$ 882,956	(33,099,742)	940,655	(32,159,087)
General Revenues:							
					35,502,451	-	35,502,451
					1,119,695	-	1,119,695
					104,937	-	104,937
					1,085,981	-	1,085,981
					445,725	5,055	450,780
					-	-	-
					60,000	(60,000)	-
Total General Revenues and Transfers					38,318,789	(54,945)	38,263,844
Change in Net Position					5,219,047	885,710	6,104,757
Net Position:							
Beginning of year, as restated (see Note IV)					46,882,411	7,692,968	54,575,379
End of year					\$ 52,101,458	\$ 8,578,678	\$ 60,680,136

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2021

	General Fund	Hanscom School Fund	School Building Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 20,725,700	\$ 6,716,647	\$ 25,481,509	\$ 6,714,575	\$ 59,638,431
Investments	-	-	8,287,088	1,660,504	9,947,592
Receivables, net of allowance for uncollectibles:					
Property taxes	465,114	-	-	10,765	475,879
Excise taxes	272,190	-	-	-	272,190
Departmental and other	347,677	-	-	156,258	503,935
Intergovernmental	-	1,325,800	-	76,691	1,402,491
Tax foreclosures	31,150	-	-	-	31,150
Other assets	25,000	-	-	-	25,000
Total Assets	<u>21,866,831</u>	<u>8,042,447</u>	<u>33,768,597</u>	<u>8,618,793</u>	<u>72,296,668</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 21,866,831</u>	<u>\$ 8,042,447</u>	<u>\$ 33,768,597</u>	<u>\$ 8,618,793</u>	<u>\$ 72,296,668</u>
Liabilities:					
Warrants and accounts payable	\$ 479,626	\$ 40,770	\$ 2,658,177	\$ 86,277	\$ 3,264,850
Accrued payroll and withholdings	1,218,146	625,850	-	38,906	1,882,902
Retainage payable	-	-	2,267,362	-	2,267,362
Other liabilities	146,748	-	-	24,227	170,975
Unearned revenues	-	-	-	369,061	369,061
Total Liabilities	<u>1,844,520</u>	<u>666,620</u>	<u>4,925,539</u>	<u>518,471</u>	<u>7,955,150</u>
Deferred Inflows of Resources:					
Unavailable revenues - property taxes	340,890	-	-	10,765	351,655
Unavailable revenues - excise taxes	272,190	-	-	-	272,190
Unavailable revenues - other	378,827	-	-	156,258	535,085
Total Deferred Inflows of Resources	<u>991,907</u>	<u>-</u>	<u>-</u>	<u>167,023</u>	<u>1,158,930</u>
Fund Balances:					
Nonspendable	-	-	-	699,610	699,610
Restricted	-	7,375,827	28,843,058	7,342,007	43,560,892
Committed	462,304	-	-	-	462,304
Assigned	7,645,674	-	-	-	7,645,674
Unassigned	10,922,426	-	-	(108,318)	10,814,108
Total Fund Balances	<u>19,030,404</u>	<u>7,375,827</u>	<u>28,843,058</u>	<u>7,933,299</u>	<u>63,182,588</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 21,866,831</u>	<u>\$ 8,042,447</u>	<u>\$ 33,768,597</u>	<u>\$ 8,618,793</u>	<u>\$ 72,296,668</u>

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2021

Total Governmental Fund Balances	\$ 63,182,588
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	119,889,817
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.	1,158,930
Deferred outflows and inflows of resources to be recognized in future fiscal years are not available resources and, therefore, are not reported in the funds:	
Deferred outflows related to other postemployment benefits	3,318,209
Deferred outflows related to pensions	1,645,651
Deferred inflows related to other postemployment benefits	(3,519,156)
Deferred inflows related to pensions	(2,038,781)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(78,565,000)
Less: Unamortized bond premiums	(3,594,315)
Compensated absences	(628,346)
Net pension liability	(26,477,563)
Net other postemployment benefits liability	(21,293,493)
Net Position of Governmental Activities	<u>\$ 52,101,458</u>

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2021

	General Fund	Hanscom School Fund	School Building Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Real estate and personal property taxes, net	\$ 34,465,500	\$ -	\$ -	\$ 928,501	\$ 35,394,001
Intergovernmental	10,983,101	15,937,667	-	2,902,200	29,822,968
Motor vehicle and other excises	1,068,506	-	-	-	1,068,506
Departmental and other revenue	980,951	-	-	1,584,395	2,565,346
Licenses and permits	369,003	-	-	-	369,003
Penalties and interest on taxes	104,937	-	-	-	104,937
Fines and forfeitures	15,394	-	-	-	15,394
Investment income	86,003	-	-	359,722	445,725
Contributions and donations	-	-	-	659,154	659,154
Total Revenues	<u>48,073,395</u>	<u>15,937,667</u>	<u>-</u>	<u>6,433,972</u>	<u>70,445,034</u>
Expenditures:					
Current:					
General government	2,982,175	-	-	434,727	3,416,902
Public safety	4,492,225	-	-	749,462	5,241,687
Education	15,911,571	15,107,932	44,862,161	2,472,278	78,353,942
Public works	2,101,126	-	-	150,774	2,251,900
Health and human services	362,908	-	-	115,102	478,010
Culture and recreation	1,561,881	-	-	649,478	2,211,359
Pensions and other fringes	14,043,665	-	-	-	14,043,665
State and county tax assessments	161,734	-	-	-	161,734
Debt service:					
Principal	1,440,000	-	-	290,000	1,730,000
Interest	2,928,887	-	-	209,000	3,137,887
Total Expenditures	<u>45,986,172</u>	<u>15,107,932</u>	<u>44,862,161</u>	<u>5,070,821</u>	<u>111,027,086</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,087,223</u>	<u>829,735</u>	<u>(44,862,161)</u>	<u>1,363,151</u>	<u>(40,582,052)</u>
Other Financing Sources (Uses):					
Issuance of refunding bonds	3,900,000	-	-	-	3,900,000
Premiums from issuance of bonds and notes	329,771	-	-	-	329,771
Payments on refunding bonds	(4,135,000)	-	-	-	(4,135,000)
Transfers in	167,092	-	1,153,945	290,197	1,611,234
Transfers out	(830,142)	(71,000)	-	(650,092)	(1,551,234)
Total Other Financing Sources (Uses)	<u>(568,279)</u>	<u>(71,000)</u>	<u>1,153,945</u>	<u>(359,895)</u>	<u>154,771</u>
Net Change in Fund Balances	<u>1,518,944</u>	<u>758,735</u>	<u>(43,708,216)</u>	<u>1,003,256</u>	<u>(40,427,281)</u>
Fund Balances - Beginning, as restated (see Note IV)	<u>17,511,460</u>	<u>6,617,092</u>	<u>72,551,274</u>	<u>6,930,043</u>	<u>103,609,869</u>
Fund Balances - Ending	<u>\$ 19,030,404</u>	<u>\$ 7,375,827</u>	<u>\$ 28,843,058</u>	<u>\$ 7,933,299</u>	<u>\$ 63,182,588</u>

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (40,427,281)**

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

Capital outlays	45,769,645	
Depreciation expense	(1,579,402)	
	44,190,243	
Net effect of reporting capital assets		44,190,243

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

Repayments of debt	1,730,000	
Repayments of capital lease obligations	2,724	
Payments on refunded debt	4,135,000	
Amortization of premiums from issuance of bonds and notes	213,881	
Premiums from issuance of bonds and notes	(329,771)	
Issuance of refunding bonds	(3,900,000)	
	1,851,834	
Net effect of reporting long-term debt		1,851,834

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenues for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from unavailable revenue. (15,353)

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This represents the difference between the accruals between this year and the prior year. 30,344

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

Compensated absences	(109,527)	
Pension benefits	(336,328)	
Other postemployment benefits	35,115	
	(410,740)	
Net effect of reporting long-term liabilities		(410,740)

Change in Net Position of Governmental Activities **\$ 5,219,047**

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021**

	Business-type Activities Enterprise Funds
	Water
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 2,563,584
Receivables, net of allowance for uncollectibles:	
User charges	668,158
Intergovernmental	-
Other	-
Total Current Assets	3,231,742
Noncurrent assets:	
Capital assets, not being depreciated	4,574,901
Capital assets, net of accumulated depreciation	3,682,563
Total Noncurrent Assets	8,257,464
Total Assets	11,489,206
Deferred Outflows of Resources:	
Related to net other postemployment benefits liability	12,768
Total Deferred Outflows of Resources	12,768
Liabilities:	
Current Liabilities:	
Warrants and accounts payable	21,398
Accrued payroll and withholdings	15,844
Bonds and notes payable	524,922
Compensated absences	4,940
Total Current Liabilities	567,104
Noncurrent Liabilities:	
Bonds and notes payable	2,245,900
Compensated absences	14,818
Net other postemployment benefits liability	81,933
Total Noncurrent Liabilities	2,342,651
Total Liabilities	2,909,755
Deferred Inflows of Resources:	
Related to net other postemployment benefits liability	13,541
Total Deferred Inflows of Resources	13,541
Net Position:	
Net investment in capital assets	6,390,444
Unrestricted	2,188,234
Total Net Position	\$ 8,578,678

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

	<u>Business-type Activities Enterprise Funds</u>
	<u>Water</u>
Operating Revenues:	
Charges for services	\$ 2,252,746
Other operating income	<u>143,064</u>
Total Operating Revenues	<u>2,395,810</u>
Operating Expenses:	
Operating costs	1,237,072
Depreciation	<u>183,284</u>
Total Operating Expenses	<u>1,420,356</u>
Operating Income (Loss)	<u>975,454</u>
Nonoperating Revenues (Expenses):	
Interest income	5,055
Interest expense	<u>(34,799)</u>
Total Nonoperating Revenues (Expenses), net	<u>(29,744)</u>
Income (Loss) Before Transfers	945,710
Transfers out	<u>(60,000)</u>
Change in Net Position	885,710
Net Position - Beginning, as restated (see Note IV)	<u>7,692,968</u>
Net Position - Ending	<u><u>\$ 8,578,678</u></u>

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

	Business-type Activities Enterprise Funds
	<u>Water</u>
Cash Flows from Operating Activities:	
Receipts from users	\$ 2,209,778
Other receipts	143,064
Payments to employees	(552,216)
Payments to vendors	<u>(713,726)</u>
Net Cash Provided by (Used For) Operating Activities	<u>1,086,900</u>
Cash Flows from Noncapital Related Financing Activities:	
Transfers out	<u>(60,000)</u>
Net Cash Provided by (Used For) Noncapital Related Financing Activities	<u>(60,000)</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from issuance of bond and note debt	1,990,000
Proceeds from bond premiums	257,000
Acquisition and construction of capital assets	(901,262)
Principal payments on bonds and notes	(1,260,000)
Interest expense	<u>(69,356)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>16,382</u>
Cash Flows from Investing Activities:	
Investment income	<u>5,055</u>
Net Cash Provided by Investing Activities	<u>5,055</u>
Net Change in Cash and Cash Equivalents	<u>1,048,337</u>
Cash and Cash Equivalents:	
Beginning of year	<u>1,515,247</u>
End of year	<u>\$ 2,563,584</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) for Operating Activities:	
Operating income (loss)	\$ 975,454
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	183,284
Changes in assets and liabilities:	
Receivables	(42,968)
Deferred outflows	(1,038)
Accounts payable and accrued expenses	(23,104)
Compensated absences	(5,631)
Net other postemployment benefits liability	(4,808)
Deferred inflows	<u>5,711</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,086,900</u>
Noncash Investing, Capital, and Financing Activities:	
Amortization of bond premium	\$ 23,619

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2021**

	<u>Other Postemployment Benefits Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Assets:		
Cash and cash equivalents	\$ 400,000	\$ -
Investments:		
Pooled investments - State PRIM	14,086,390	-
Equity mutual funds	-	833,508
Total Assets	<u>14,486,390</u>	<u>833,508</u>
 Liabilities:		
Other liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
 Net Position:		
Restricted for other postemployment benefits	14,486,390	-
Held in trust for other purposes	<u>-</u>	<u>833,508</u>
Total Net Position	<u><u>\$ 14,486,390</u></u>	<u><u>\$ 833,508</u></u>

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

	<u>Other Postemployment Benefits Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Additions:		
Investment income	\$ 3,155,979	\$ 168,105
Employer contributions	2,359,415	-
Other contributions	-	9,265
Total Additions	<u>5,515,394</u>	<u>177,370</u>
Deductions:		
Retiree benefits	1,569,415	-
Scholarships	-	8,374
Total Deductions	<u>1,569,415</u>	<u>8,374</u>
Change in Net Position	3,945,979	168,996
Net Position - Beginning	<u>10,540,411</u>	<u>664,512</u>
Net Position - Ending	<u>\$ 14,486,390</u>	<u>\$ 833,508</u>

See accompanying notes to basic financial statements.

TOWN OF LINCOLN, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Lincoln is located in Middlesex County and was incorporated as a town in 1754. An elected five-member Board of Selectmen governs the Town with an appointed Town Administrator. The Town provides governmental services for the territory within its boundaries, including police and fire protection, highway services, water, street maintenance, parks and recreational facilities. Water services are funded almost entirely with user charges.

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

The Town is a member community of the Lincoln-Sudbury Regional School District that provides a public high school to the two member communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2021, the Town's share of the operating and debt service expenses was \$3,629,702. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 390 Lincoln Road, Sudbury, MA 01776.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

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

Hanscom School Fund – is used to account for educational services for children of military personnel.

School Building Capital Project Fund – is used to account for a kindergarten through eighth grade school building renovation project.

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

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

Capital Project Funds – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Water Enterprise Fund – is used to account for user charges collected to finance costs associated with operating and maintaining the Town’s water utility.

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

The government reports the following fiduciary funds:

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of other postemployment benefits for retirees such as health and life insurance.

Private-Purpose Trust Funds – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used for educational scholarships.

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

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

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

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are due in two installments on November 1 and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water user fees and betterments may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible accounts comprised of those outstanding amounts greater than five years old. Departmental and other receivables are shown net of an allowance for uncollectible accounts comprised of those outstanding amounts greater than ninety days old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, library materials and infrastructure (e.g. roads, water mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

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

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

Buildings and improvements	3-40 years
Machinery, equipment and vehicles	3-25 years
Infrastructure	10-50 years

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

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

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

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of 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. The Town has two types of items that are reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability and the other postemployment benefit liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A.

The deferred other postemployment benefits will be recognized in employee benefits expense in future years as more fully described in Note III, subsection C.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or 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 has three types of items, which qualify for reporting in this category. The first arises only under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise taxes and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts became available. The other types of items that qualify for reporting as a deferred inflow are reported on the government-wide statement of net position. This relates to inflows from changes in the net pension liability which will be recognized in pension expense in future years as more fully described in Note III subsection A and inflows from the changes in the net other postemployment benefits liability which will be recognized in employee benefits expense in future years as more fully described in Note III, subsection C.

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

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

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

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

Community preservation represents assets that are restricted by state law for the purposes of acquiring or developing open space, recreational facilities, historic resources and affordable housing associated with the Massachusetts Community Preservation Act.

Hanscom School represents assets that are restricted for educational services for children of military personnel.

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

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

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

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

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

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

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Town Administrator to assign fund balance. The Board of Selectmen may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

Stabilization Fund – The Town maintains a capital stabilization fund under MGL Chapter 40, Section 5B which may be used for any capital purpose upon a two-thirds vote of the Board of Selectmen. The balance of the fund totals \$2,504,585 at June 30, 2021 and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Administrator and Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$1,761,861 of encumbrances from normal purchasing activity in the general fund as assigned and \$462,304 of encumbrances from Town Meeting votes in the general fund as committed. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations:

	General	Hanscom School Fund	School Building Capital Project Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 699,610	\$ 699,610
Restricted:					
General government	-	-	-	432,078	432,078
Ambulance	-	-	-	415,463	415,463
Other public safety	-	-	-	223,171	223,171
Education	-	7,375,827	-	2,049,911	9,425,738
Public works	-	-	-	159,550	159,550
Health and human services	-	-	-	302,362	302,362
Culture and recreation	-	-	-	250,035	250,035
Community preservation	-	-	-	2,164,758	2,164,758
Affordable housing	-	-	-	590,078	590,078
Capital outlay	-	-	28,843,058	14,138	28,857,196
Cemetery trusts	-	-	-	175,792	175,792
Library trusts	-	-	-	461,104	461,104
Other purposes	-	-	-	103,567	103,567
Committed:					
General government	229,228	-	-	-	229,228
Other purposes	233,076	-	-	-	233,076
Assigned:					
Purchase orders	1,761,861	-	-	-	1,761,861
Subsequent years' budget	5,883,813	-	-	-	5,883,813
Unassigned	10,922,426	-	-	(108,318)	10,814,108
	<u>\$19,030,404</u>	<u>\$7,375,827</u>	<u>\$ 28,843,058</u>	<u>\$ 7,933,299</u>	<u>\$63,182,588</u>

D. Excess of Expenditures Over Appropriations and Deficits

The Town incurred individual fund deficits totaling \$108,318 in the nonmajor governmental funds. These deficits will be funded through grants, bond proceeds and available funds in future fiscal years.

E. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings.

At year-end, the carrying amount of the Town's deposits was \$41,857,139 and the bank balance was \$36,619,671. Of the Town's bank balance, \$2,498,615 was covered by either federal depository insurance or by the depositors' insurance fund; \$19,212,064 was collateralized and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings.

The Town's investments in mutual funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the counterparty. The Town's common stock investments totaling are not exposed to custodial credit risk because they are held with the Town. The Town's investments in negotiable certificates of deposit are fully insured by federal depository insurance. The Town does not have a formal investment policy related to custodial credit risk.

Fair Value of Investments – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

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

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2021:

	Fair value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
Negotiable certificates of deposit	\$ 8,287,088	\$ -	\$ 8,287,088	\$ -
Bond mutual funds	645,728	-	645,728	-
Total debt securities	8,932,816	-	8,932,816	-
Equity securities:				
Common stock	942	942	-	-
Equity mutual funds	1,847,342	-	1,847,342	-
Total equity securities	1,848,284	942	1,847,342	-
Total investments by fair value level	10,781,100	\$ 942	\$ 10,780,158	\$ -
Investments measured at amortized cost				
State investment pool - MMDT	7,445,794			
Money market mutual funds	13,299,082			
Total investments by fair value level	20,744,876			
Investments measured at net asset value				
Pension Reserve Investment Trust (PR)	14,086,390			
Total investments	\$ 45,612,366			

Investments	Fair value	Maturities in Years		
		Less than 1	1 - 5	6 - 10
Negotiable certificates of deposit	\$ 8,287,088	\$ 5,745,082	\$ 2,542,006	\$ -
Bond mutual funds	645,728	645,728	-	-
Total investments with maturities	\$ 8,932,816	\$ 6,390,810	\$ 2,542,006	\$ -

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Negotiable certificates of deposit and mutual funds classified in Level 2 are valued using matrix pricing based on the securities’ relationship to benchmark quoted prices.

The State Treasurer’s investment pool (MMDT) is valued at amortized cost. The MMDT’s investment advisor may value the pool using an alternative valuation method that more accurately reflects the fair value in accordance with the pools fair value pricing policies should amortized

cost not approximate the fair value of the pool. There are no restrictions or limits on withdrawals from the pool and no direct fees are charged to participants.

The Town's investment in PRIT are shown at net asset value (NAV) and are administered by the Pension Reserves Investment Management Board (PRIM). Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of the assets.

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

At June 30, 2021, the Town had the following investments with maturities:

Investments	Fair value	Maturities in Years		
		Less than 1	1 - 5	6 - 10
Negotiable certificates of deposit	\$ 8,287,088	\$ 5,745,082	\$ 2,542,006	\$ -
Bond mutual funds	645,728	645,728	-	-
Total investments with maturities	<u>\$ 8,932,816</u>	<u>\$ 6,390,810</u>	<u>\$ 2,542,006</u>	<u>\$ -</u>

Concentration of Credit Risk – 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.

Credit Risk – The Town's formal policy on credit risk requires that investments in corporate bonds must be rated A or higher by Moody's or Standard and Poor's. Town's investments in negotiable certificates of deposit and bond mutual funds are not rated.

B. Receivables

Receivables as of year-end for the Town's individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 465,114	\$ -	\$ 465,114
Community preservation surcharges	10,765	-	10,765
Excise	272,190	-	272,190
Tax liens and deferrals	342,633	-	342,633
Ambulance fees	49,498	-	49,498
Public safety detail fees	103,760	-	103,760
Departmental and other	8,044	-	8,044
Intergovernmental	1,402,491	-	1,402,491
Total	<u>\$ 2,654,495</u>	<u>\$ -</u>	<u>\$ 2,654,495</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water - user fees	\$ 668,158	\$ -	\$ 668,158
Total	<u>\$ 668,158</u>	<u>\$ -</u>	<u>\$ 668,158</u>

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

	General Fund	Other Governmental Funds	Total
Receivable and other asset type:			
Real estate and personal property taxes	\$ 340,890	\$ -	\$ 340,890
Community preservation surcharges	-	10,765	10,765
Tax liens and deferrals	342,633	-	342,633
Excise	272,190	-	272,190
Ambulance fees	-	49,498	49,498
Public safety detail fees	-	103,760	103,760
Departmental and other	5,044	3,000	8,044
Tax foreclosures	31,150	-	31,150
Total	<u>\$ 991,907</u>	<u>\$ 167,023</u>	<u>\$ 1,158,930</u>

C. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2021, are as follows:

Transfers Out	Transfers In			Total
	General Fund	School Building Capital Project Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 828,945	\$ 1,197	\$ 830,142 (1)
Hanscom School Fund	71,000	-	-	71,000 (2)
Nonmajor Governmental Funds	36,092	325,000	289,000	650,092 (3)
Water Enterprise Fund	60,000	-	-	60,000 (4)
Total	<u>\$ 167,092</u>	<u>\$ 1,153,945</u>	<u>\$ 290,197</u>	<u>\$ 1,611,234</u>

- (1) Transfers for school building and other capital outlays.
- (2) Transfers to general fund to supplement operating budgets.
- (3) Transfers to general fund to supplement operating budgets, transfers for school buildings and transfers between nonmajor governmental funds for conservation and education purposes.
- (4) Transfers to general fund for indirect costs.

D. Capital Assets

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 40,055,313	\$ -	\$ -	\$ 40,055,313
Construction in process	15,139,176	44,367,643	-	59,506,819
Total capital assets not being depreciated	55,194,489	44,367,643	-	99,562,132
Capital assets being depreciated:				
Buildings and improvements	22,834,761	962,813	-	23,797,574
Infrastructure	19,862,711	87,856	-	19,950,567
Machinery, equipment and vehicles	9,178,392	351,333	-	9,529,725
Total capital assets being depreciated	51,875,864	1,402,002	-	53,277,866
Less accumulated depreciation for:				
Buildings and improvements	(10,790,569)	(774,802)	-	(11,565,371)
Infrastructure	(13,470,294)	(321,807)	-	(13,792,101)
Machinery, equipment and vehicles	(7,109,916)	(482,793)	-	(7,592,709)
Total accumulated depreciation	(31,370,779)	(1,579,402)	-	(32,950,181)
Total capital assets being depreciated, net	20,505,085	(177,400)	-	20,327,685
Total governmental activities capital assets, net	<u>\$ 75,699,574</u>	<u>\$ 44,190,243</u>	<u>\$ -</u>	<u>\$ 119,889,817</u>
<i><u>Business-type Activities: Water</u></i>				
Capital assets not being depreciated:				
Land	\$ 3,210,787	\$ -	\$ -	\$ 3,210,787
Construction in process	494,852	869,262	-	1,364,114
Total capital assets not being depreciated	3,705,639	869,262	-	4,574,901
Capital assets being depreciated:				
Buildings and improvements	165,570	-	-	165,570
Infrastructure	8,363,431	-	-	8,363,431
Machinery, equipment and vehicles	1,077,194	32,000	-	1,109,194
Total capital assets being depreciated	9,606,195	32,000	-	9,638,195
Less accumulated depreciation for:				
Buildings and improvements	(103,997)	(7,970)	-	(111,967)
Infrastructure	(4,676,564)	(149,349)	-	(4,825,913)
Machinery, equipment and vehicles	(991,787)	(25,965)	-	(1,017,752)
Total accumulated depreciation	(5,772,348)	(183,284)	-	(5,955,632)
Total capital assets being depreciated, net	3,833,847	(151,284)	-	3,682,563
Total business-type activities capital assets, net	<u>\$ 7,539,486</u>	<u>\$ 717,978</u>	<u>\$ -</u>	<u>\$ 8,257,464</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 257,449	Water	\$ 183,284
Health and human services	105,038		<u>\$ 183,284</u>
Culture and recreation	267,715		
Education	150,692		
Public Safety	366,313		
Public Works	432,195		
	<u>\$ 1,579,402</u>		

F. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively.

Temporary notes outstanding at June 30, 2021, are payable as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
BAN	2.00%	Matured	<u>\$ 1,010,000</u>	<u>\$ -</u>	<u>\$ (1,010,000)</u>	<u>\$ -</u>
Total Temporary Notes Payable			<u>\$ 1,010,000</u>	<u>\$ -</u>	<u>\$ (1,010,000)</u>	<u>\$ -</u>

BAN activity during the fiscal year was for various water enterprise projects.

G. Long-Term Obligations

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds	\$ 80,530,000	\$ 3,900,000	\$ (5,865,000)	\$ 78,565,000	\$ 1,710,000
Unamortized bond premium	3,478,425	329,771	(213,881)	3,594,315	257,602
Compensated absences	518,819	420,818	(311,291)	628,346	157,087
Net pension liability	27,767,333	4,416,700	(5,706,470)	26,477,563	-
Net other postemployment benefits liability	22,543,043	5,633,466	(6,883,016)	21,293,493	-
Total Governmental Activities	\$ 134,837,620	\$ 14,700,755	\$ (18,979,658)	\$ 130,558,717	\$ 2,124,689
<i>Business-type Activities: Water</i>					
General obligation bonds	\$ -	\$ 1,990,000	\$ -	\$ 1,990,000	\$ 210,000
Unamortized bond premium	22,441	257,000	(23,619)	255,822	54,922
Notes from direct borrowings and placements	775,000	-	(250,000)	525,000	260,000
Compensated absences	25,389	2,747	(8,378)	19,758	4,940
Net other postemployment benefits liability	86,741	21,676	(26,484)	81,933	-
Total Business-type Activities: Water	\$ 909,571	\$ 2,271,423	\$ (308,481)	\$ 2,872,513	\$ 529,862

The governmental activities will be liquidated by the general fund. The business-type activities liabilities will be liquidated by the water enterprise fund.

H. Long-Term Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

The following is a summary of outstanding long-term debt obligations as of June 30, 2021:

Description of Issue	Interest Rate	Beginning Balance	Issuances	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.08 - 3.84%	\$ 80,530,000	\$ -	\$ (5,865,000)	\$ 74,665,000
Refunding Bonds	1.00 - 4.00%	-	3,900,000	-	3,900,000
Total General Obligation Bonds		80,530,000	3,900,000	(5,865,000)	78,565,000
Add: Unamortized bond premium		3,478,425	329,771	(213,881)	3,594,315
Total General Obligation Bonds, net		84,008,425	4,229,771	(6,078,881)	82,159,315
Total Governmental Activities debt		<u>\$ 84,008,425</u>	<u>\$ 4,229,771</u>	<u>\$ (6,078,881)</u>	<u>\$ 82,159,315</u>
<i>Business-Type Activities - Water</i>					
General Obligation Bonds	4.00%	\$ -	\$ 1,990,000	\$ -	\$ 1,990,000
Total General Obligation Bonds		-	1,990,000	-	1,990,000
Add: Unamortized bond premium		22,441	257,000	(23,619)	255,822
Total General Obligation Bonds, net		22,441	2,247,000	(23,619)	2,245,822
Massachusetts Water Resource Authority	5.00%	775,000	-	(250,000)	525,000
Total notes from direct borrowings and placements		775,000	-	(250,000)	525,000
Total Business-type Activities - Water debt		<u>\$ 797,441</u>	<u>\$ 2,247,000</u>	<u>\$ (273,619)</u>	<u>\$ 2,770,822</u>

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

Authorized and Unissued Debt - At June 30, 2021, the Town had authorized and unissued debt of \$8,500,000 for Lincoln School construction.

Current Refunding – On March 4, 2021, the Town issued general obligation refunding bonds of \$3,900,000, paying interest at rates of 1% - 4% per annum. The proceeds, along with \$329,771 of premiums and \$81,313 of available funds, were used to retire \$4,135,000 of callable general obligation bonds. As a result of the current refunding, the Town reduced its total debt service requirements by \$1,278,600, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,126,375.

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

Year Ending June 30	General Obligation Bonds		Direct Borrowings and Placements	
	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>				
2022	\$ 1,710,000	\$ 3,006,641	\$ -	\$ -
2023	1,800,000	2,907,660	-	-
2024	1,875,000	2,819,810	-	-
2025	1,955,000	2,728,210	-	-
2026	2,045,000	2,632,610	-	-
2027-2031	11,545,000	11,623,650	-	-
2032-2036	13,380,000	9,222,513	-	-
2037-2041	15,260,000	7,042,641	-	-
2042-2046	17,085,000	4,380,802	-	-
2047-2049	11,910,000	965,200	-	-
Total	<u>\$ 78,565,000</u>	<u>\$ 47,329,736</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Business-Type Activities: Water</u>				
2022	\$ 210,000	\$ 75,400	\$ 260,000	\$ 19,750
2023	205,000	67,100	265,000	6,625
2024	215,000	58,700	-	-
2025	225,000	49,900	-	-
2026	230,000	40,800	-	-
2027-2031	905,000	90,900	-	-
Total	<u>\$ 1,990,000</u>	<u>\$ 382,800</u>	<u>\$ 525,000</u>	<u>\$ 26,375</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Middlesex County Regional Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and administered by the Middlesex Regional Retirement Board. Stand-alone audited financial statements for the year ended December 31, 2020 were issued and may be obtained by writing to the Middlesex County Regional Retirement System, 25 Linnell Circle, Billerica, Massachusetts 01865.

Membership – Membership in the System as of December 31, 2019, was as follows:

Retired participants and beneficiaries receiving benefits	5,862
Inactive participants entitled to a return of their employee contributions	3,082
Active members	9,282
Inactive participants with a vested right to a deferred or immediate benefit	381
Total	<u>18,607</u>

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

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

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

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

The Town contributed \$247,338 to the System in fiscal year 2021, which was the actuarially determined contribution requirement for the fiscal year. The Town’s contributions as a percentage of covered payroll was approximately 33.6% in fiscal year 2021.

Net Pension Liability – At June 30, 2021, the Town reported a liability of \$3,240,627 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020 and the total pension liability used to calculate the net pension liability was

determined by an actuarial valuation as of January 1, 2020. These figures were updated by the independent actuary as of December 31, 2020. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the System relative to the projected contributions of all employers. The Town's proportion was approximately 0.21% at December 31, 2020.

Pension Expense – The Town recognized \$374,736 in pension expense in the statement of activities in fiscal year 2021.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2021, 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>
Net differences between projected and actual earnings on pension plan investments	\$ -	\$ 183,706
Differences between expected and actual experience	59,270	3,835
Changes of assumptions	123,707	-
Changes in proportion and differences between District contributions and proportionate share of contributions	68,943	94,000
Total	<u>\$ 251,920</u>	<u>\$ 281,541</u>

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

<u>Year ended June 30,</u>	
2022	\$ 55,721
2023	(9,130)
2024	(42,763)
2025	(33,449)
Total	<u>\$ (29,621)</u>

Discount Rate – The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial Valuation – The measurement of the System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2020. The significant actuarial assumptions used in the January 1, 2020 actuarial valuation included:

Investment rate of return	Full prefunding: 7.3% per year, net of investment expenses
Discount Rate	7.30%
Inflation	3.25%
Salary Increases	Varies by length of service 4.00% group one, 4.25% group two, and 4.50% group four
Cost of Living Adjustment	3% of first \$16,000 of retirement income
Pre-Retirement Mortality	RP-2014 Blue Collar with Scale MP-2017 (projected generationally)
Post-Retirement Mortality	RP-2014 Blue Collar Healthy Annuitant Mortality with Scale MP-2017 (projected generationally)
Disabled Mortality	RP-2014 Blue Collar Healthy Annuitant Mortality with Scale MP-2017; set forward one year (projected generationally)

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 allocations and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.00%	6.28%
International developed markets equity	12.00%	7.00%
International emerging markets equity	5.00%	8.82%
Core fixed income	15.00%	0.38%
High-yield fixed income	8.00%	2.97%
Real estate	10.00%	3.50%
Timber	4.00%	3.45%
Hedge funds PCS	10.00%	2.35%
Private equity	14.00%	10.11%
Total	100.00%	

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.30% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.30%) or one percentage point higher (8.30%) than the current rate:

	<u>Current rate</u>	<u>Decrease 1%</u>	<u>Current</u>	<u>Increase 1%</u>
Net pension liability	7.30%	\$ 32,993,895	\$ 26,477,563	\$ 20,995,247

B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the School Department participate in the Massachusetts Teachers’ Retirement System (“MTRS”), a cost-sharing multiple employer defined benefit pension plan. The MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth’s legislature has the authority to amend or modify the MTRS’s funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2021, the Commonwealth contributed \$3,258,152 to the MTRS on behalf of the Town. The Town’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.209739%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town’s proportionate share of the following:

	<u>Commonwealth Portion</u>	<u>Paid (or assumed) On Behalf of the Town</u>	<u>Town Portion</u>
Net pension liability	\$ 59,869,615	\$ (59,869,615)	\$ —
Pension expense	7,394,755	(7,394,755)	—

In addition to pension expense reported as previously discussed, the Town has recognized intergovernmental revenue and pension expense of \$7,394,755 associated with this arrangement.

C. Other Postemployment Benefits (OPEB)

In addition to the pension benefits previously described, the Town provides health and life insurance benefits (other postemployment benefits, or OPEB) to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law (“MGL”) Chapter 32B Section 20 (hereinafter referred to as the “OPEB Plans”).

The Town operate OPEB Plans, while all benefits are provided through the Town’s insurance program. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. The OPEB Plan does not require a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the OPEB Plans.

OPEB Plan disclosures that impact the net OPEB liability using a measurement date of June 30, 2021, are summarized as follows:

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

Active employees	313
Inactive employees or beneficiaries currently receiving benefits	<u>240</u>
Total	<u>553</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of premiums for medical plans and the group term life insurance plan. The remainder of the cost is funded by general revenues of the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis and annually anticipates contributing additional funding above that amount into the OPEB Trust Fund. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2021, the Town’s average contribution rate was approximately 10.3% of covered payroll.

Net OPEB Liability – The Town’s net OPEB liability was measured as of June 30, 2021, using an actuarial valuation as of July 1, 2019. The components of the net OPEB liability are as follows:

Total OPEB Liability	\$ 35,861,816
Plan fiduciary net position	<u>(14,486,390)</u>
Net OPEB liability	<u>\$ 21,375,426</u>
Plan fiduciary net position as a percentage of the total OPEB liability	40.4%

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

Investment rate of return	6.77%, net of OPEB plan investment expense, including inflation.
Municipal bond rate	2.18% as of June 30, 2021
Discount Rate	6.77%, net of OPEB plan investment expense including inflation.
Inflation	2.50% annually as of July 1, 2019 and for future periods
Health Care Trend Rate	4.50%
Salary Increases	3.00% annually as of July 1, 2019 and for future periods
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement Mortality	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and 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
Actuarial Cost Method	Individual Entry Age Normal

Discount Rate – The discount rate used to measure the total OPEB liability was 6.77%. This was reduced from the amount used in the prior year of 7.00% and reflects the Town’s estimate of investment return.

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return were as reflected in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity - Large Cap	14.50%	4.90%
Domestic Equity - Small/Mid Cap	3.50%	5.40%
International Equity - Developed Market	16.00%	5.32%
International Equity - Emerging Market	6.00%	6.26%
Domestic Fixed Income	20.00%	1.40%
International Fixed Income	3.00%	1.30%
Alternatives	23.00%	6.32%
Real Estate	14.00%	6.25%
	100.00%	
Real rate of return		4.77%
Inflation assumption		2.50%
Total nominal rate of return		7.27%
Investment expense		-0.50%
Net investment return		6.77%

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

	Current Rate	Discount Rate		
		1% Decrease	At Current Rate	1% Increase
Net OPEB liability	6.77%	\$ 26,053,718	\$ 21,375,426	\$ 17,512,447
		Health Care Trend Rate		
Net OPEB liability	4.50%	\$ 17,066,783	\$ 21,375,426	\$ 26,652,531

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2021:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2020	\$ 33,170,195	\$ 10,540,411	\$ 22,629,784
Changes for the year:			
Service cost	834,538	-	834,538
Interest	2,326,331	-	2,326,331
Change in assumptions	1,100,167	-	1,100,167
Net investment income	-	3,155,979	(3,155,979)
Employer contributions	-	2,359,415	(2,359,415)
Benefit payments withdrawn from trust	(1,569,415)	(1,569,415)	-
Net changes	2,691,621	3,945,979	(1,254,358)
Balances at June 30, 2021	\$ 35,861,816	\$ 14,486,390	\$ 21,375,426

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended June 30, 2021, the Town recognized OPEB expense of approximately \$2.4 million. Deferred outflows of resources and deferred inflows of resources related to OPEB were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings	\$ 328,727	\$ 1,992,798
Changes of assumptions	2,961,225	-
Differences between actual and expected experience	41,025	1,539,899
	<u>\$ 3,330,977</u>	<u>\$ 3,532,697</u>

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

June 30	
2022	\$ (96,816)
2023	(41,702)
2024	(77,000)
2025	(175,115)
2026	185,253
thereafter	<u>3,660</u>
	<u>\$ (201,720)</u>

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

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

Investment Rate of Return – For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 29.35%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Risk Financing

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

The Town participates in a health insurance risk pool administered by the Massachusetts Inter-local Insurance Association, Inc. (MIIA). MIIA offers a variety of premium based health plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the MIIA.

E. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2021, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2021.

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

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

F. Implementation of GASB Pronouncements

Current Year Implementations –

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement was to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement became effective for the Town in fiscal year 2021. In connection with the adoption of this accounting standard, certain previously reported agency balances are now reported in the governmental funds and government-wide financial statements. See Note IV for the impact on the Town's financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement was to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement became effective for the Town in fiscal year 2021. The adoption of this standard did not have an impact on the Town's financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*. In addition to accounting and financial reporting implications that result from the replacement of an interbank offered rate (which become effective in fiscal year 2022), this Statement eliminated the use of LIBOR as an appropriate benchmark interest rate for derivative instruments that hedge interest rate risk of taxable debt for reporting periods effective fiscal year 2021. The adoption of this standard did not have an impact on the Town's financial statements.

Future Implementations –

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The reporting provisions of this Statement are effective for financial reporting periods beginning after June 15, 2020 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The objective of this Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined

contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Prior Period Restatement

The adoption of GASB Statement No. 84 required certain accounts previously reported as agency accounts in the Statement of Fiduciary Activities to be reclassified into nonmajor governmental funds. Also, the Town reported an adjustment to its unbilled water enterprise fund receivables.

The impact is illustrated in the table below:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water</u>
Prior year as presented	\$ 47,073,286	\$ 7,135,058	\$ 7,135,058
Restate agency funds	(190,875)	-	-
Restate unbilled receivable	-	557,910	557,910
As restated	<u>\$ 46,882,411</u>	<u>\$ 7,692,968</u>	<u>\$ 7,692,968</u>
	<u>Nonmajor Governmental</u>		
Prior year as presented	\$ 7,120,918		
Restate agency funds	(190,875)		
As restated	<u>\$ 6,930,043</u>		

TOWN OF LINCOLN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2021

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	Year Ended June 30,						
	2021	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability (asset)	1.73%	1.74%	1.78%	1.75%	1.80%	1.83%	1.81%
Town's proportionate share of the net pension liability (asset)	\$ 26,477,563	\$ 27,767,333	\$ 27,722,484	\$ 24,841,810	\$ 25,563,964	\$ 23,666,611	\$ 21,739,395
Town's covered payroll	\$ 11,002,408	\$ 10,549,034	\$ 10,130,693	\$ 9,736,776	\$ 9,468,363	\$ 9,595,007	\$ 9,225,968
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	240.7%	263.2%	273.6%	255.1%	270.0%	246.7%	235.6%
Plan fiduciary net position as a percentage of the total pension liability	53.4%	49.5%	46.4%	49.3%	45.5%	46.1%	47.7%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO PENSION PLAN
(dollar amounts are in thousands)

	Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,434,008	\$ 2,274,023	\$ 2,148,246	\$ 2,015,466	\$ 1,922,136	\$ 1,802,909	\$ 1,622,193
Contributions in relation to the actuarially determined contribution	2,434,721	2,274,023	2,153,104	2,015,466	1,922,136	1,802,909	1,622,193
Contribution deficiency (excess)	\$ (713)	\$ -	\$ (4,858)	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 11,002,408	\$ 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	22.1%	21.6%	21.3%	20.7%	20.3%	18.8%	17.6%

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

See accompanying independent auditor's report.

TOWN OF LINCOLN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
 YEAR ENDED JUNE 30, 2021

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
 MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM
 (dollar amounts are in thousands)

	Year Ended June 30,					
	2020	2019	2018	2017	2016	2015
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$28,544,844	\$25,214,020	\$23,711,289	\$22,885,391	\$22,357,928	\$20,489,643
Commonwealth's actuarially determined contribution	\$1,553,433	\$1,443,710	\$1,314,783	\$1,235,515	\$1,124,583	\$1,021,930

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

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

See accompanying independent auditor's report.

TOWN OF LINCOLN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEAR ENDED JUNE 30, 2021

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

	June 30				
	2021	2020	2019	2018	2017
Total OPEB liability:					
Service cost	\$ 834,538	\$ 793,183	\$ 930,633	\$ 877,083	\$ 1,664,991
Interest	2,326,331	2,171,593	2,068,064	1,951,373	2,429,044
Change in benefit terms	-	-	-	(9,924,742)	-
Difference between expected and actual plan experience	-	(2,306,015)	-	(12,519,029)	(263,639)
Change in assumptions	1,100,167	3,060,629	-	(12,658,695)	5,068,773
Benefit payments	(1,569,415)	(1,531,623)	(1,237,865)	(1,186,642)	(1,487,353)
Net change in total OPEB liability	2,691,621	2,187,767	1,760,832	(33,460,652)	7,411,816
Total OPEB liability - beginning of year	33,170,195	30,982,428	29,221,596	62,682,248	55,270,432
Total OPEB liability - end of year (a)	<u>\$ 35,861,816</u>	<u>\$ 33,170,195</u>	<u>\$ 30,982,428</u>	<u>\$ 29,221,596</u>	<u>\$ 62,682,248</u>
Plan fiduciary net position:					
Contributions - employer	\$ 2,359,415	\$ 2,421,623	\$ 2,517,865	\$ 2,066,642	\$ 2,367,353
Net investment income	3,155,979	202,404	498,271	631,220	655,540
Benefit payments	(1,569,415)	(1,531,623)	(1,237,865)	(1,186,642)	(1,487,353)
Administrative expenses	-	-	-	-	-
Other	-	-	-	-	-
Net change in Plan fiduciary net position	3,945,979	1,092,404	1,778,271	1,511,220	1,535,540
Plan fiduciary net position - beginning of year	10,540,411	9,448,007	7,669,736	6,158,516	4,622,976
Plan fiduciary net position - end of year (b)	<u>\$ 14,486,390</u>	<u>\$ 10,540,411</u>	<u>\$ 9,448,007</u>	<u>\$ 7,669,736</u>	<u>\$ 6,158,516</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 21,375,426</u>	<u>\$ 22,629,784</u>	<u>\$ 21,534,421</u>	<u>\$ 21,551,860</u>	<u>\$ 56,523,732</u>
Plan fiduciary net position as a percentage of the total OPEB liability	40.40%	31.78%	30.49%	26.25%	9.82%
Covered-employee payroll	\$ 22,950,092	\$ 22,281,643	\$ 22,466,191	\$ 26,015,853	\$ 21,176,540
Net OPEB liability as a percentage of covered-employee payroll	93.14%	101.56%	95.85%	82.84%	266.92%

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

See independent auditors' report.

TOWN OF LINCOLN, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEAR ENDED JUNE 30, 2021

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS

	June 30				
	2021	2020	2019	2018	2017
Actuarially-determined contribution	\$ 1,975,787	\$ 2,497,532	\$ 2,552,485	\$ 5,134,134	\$ 1,715,840
Contributions in relation to the actuarially-determined contribution	<u>(2,359,415)</u>	<u>(2,421,623)</u>	<u>(2,517,865)</u>	<u>(2,066,642)</u>	<u>(2,367,353)</u>
Contribution deficiency (excess)	<u>\$ (383,628)</u>	<u>\$ 75,909</u>	<u>\$ 34,620</u>	<u>\$ 3,067,492</u>	<u>\$ (651,513)</u>
Covered-employee payroll	\$ 22,950,092	\$ 22,281,643	\$ 22,466,191	\$ 26,015,853	\$ 21,176,540
Contribution as a percentage of covered-employee payroll	10.3%	10.9%	11.2%	7.9%	11.2%
Valuation Date	July 1, 2019				
Amortization Period	30 years				
Investment rate of return	6.77%				
Municipal Bond Rate	2.18%				
Single Equivalent Discount Rate	6.75%				
Inflation	2.50%				
Healthcare cost trend rates	4.50%				
Salary increases	3.00%				
Actuarial Cost Method	Individual Entry Age Normal				
Asset Valuation Method	Market Value of Assets as of Reporting Date				

SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS

	June 30				
	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	29.35%	2.08%	5.94%	9.58%	12.95%

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

See independent auditors' report.

TOWN OF LINCOLN, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues						
Real estate and personal property taxes, net	\$ 34,637,485	\$ 34,637,485	\$ 34,813,512	\$ -	\$ 34,813,512	\$ 176,027
Intergovernmental	1,906,660	1,906,660	3,588,346	-	3,588,346	1,681,686
Motor vehicle and other excises	228,340	228,340	1,068,506	-	1,068,506	840,166
Departmental and other revenue	516,732	516,732	980,951	-	980,951	464,219
Licenses and permits	84,957	84,957	369,003	-	369,003	284,046
Penalties and interest on taxes	34,279	34,279	104,937	-	104,937	70,658
Fines and forfeitures	26,215	26,215	15,394	-	15,394	(10,821)
Investment income	5,573	5,573	49,973	-	49,973	44,400
Total Revenues	37,440,241	37,440,241	40,990,622	-	40,990,622	3,550,381
Expenditures						
General government	4,244,951	3,888,122	2,893,994	340,046	3,234,040	654,082
Public safety	4,563,298	4,587,829	4,492,225	70,534	4,562,759	25,070
Education	17,987,366	17,915,491	15,911,571	1,471,134	17,382,705	532,786
Public works	2,260,624	2,463,513	2,101,126	278,184	2,379,310	84,203
Health and human services	292,273	392,273	362,908	2,000	364,908	27,365
Culture and recreation	1,840,454	1,839,330	1,561,881	25,926	1,587,807	251,523
Pensions and fringe benefits	7,388,505	7,453,505	6,298,910	36,341	6,335,251	1,118,254
State and county tax assessments	185,126	185,126	161,734	-	161,734	23,392
Debt service	4,393,888	4,393,888	4,368,887	-	4,368,887	25,001
Total Expenditures	43,156,485	43,119,077	38,153,236	\$ 2,224,165	40,377,401	2,741,676
Other Financing Sources (Uses)						
Premiums on bonds and notes	-	-	6,590	-	6,590	6,590
Transfers in	167,092	167,092	167,092	-	167,092	-
Transfers out	(1,199,959)	(1,201,156)	(1,363,661)	-	(1,363,661)	(162,505)
Total Other Financing Sources (Uses)	(1,032,867)	(1,034,064)	(1,189,979)	-	(1,189,979)	(155,915)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses Of Prior Year Budgetary Fund Balance	(6,749,111)	(6,712,900)	\$ 1,647,407	-	\$ (576,758)	\$ 6,136,142
Other Budgetary Items						
Use of free cash (unassigned fund balance)	4,727,676	4,727,676	-	-	-	-
Prior year encumbrances	2,021,435	2,021,435	-	-	-	-
Other items	-	(36,211)	-	-	-	-
	\$ -	\$ -	-	-	-	-

See notes to the required supplementary information of this schedule.

TOWN OF LINCOLN, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2021**

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Town Administrator and approved by the Board of Selectmen. Expenditures may not legally exceed appropriations at the department level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unassigned fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2021, Town Meeting approved subsequent changes between appropriations that did not materially impact the total budget. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis of accounting other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2021, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 40,990,622
Stabilization revenues	\$ -	\$ 36,030	36,030
60-day accrual	(348,012)	-	(348,012)
On-behalf pension payments	7,394,755	-	7,394,755
Revenues on a GAAP basis	<u>\$ 7,046,743</u>	<u>\$ 36,030</u>	<u>\$ 48,073,395</u>
Expenditures on a budgetary basis			\$ 38,153,236
OPEB transfer	\$ -	\$ 350,000	350,000
Refunding transaction	88,181	-	88,181
On-behalf pension payments	7,394,755	-	7,394,755
Expenditures on a GAAP basis	<u>\$ 7,482,936</u>	<u>\$ 350,000</u>	<u>\$ 45,986,172</u>
Net other financing sources (uses) on a budgetary basis			\$ (1,189,979)
Stabilization transfers	\$ -	\$ 183,519	183,519
OPEB transfer	-	350,000	350,000
Refunding transaction	88,181	-	88,181
Net other financing sources (uses) on a GAAP basis	<u>\$ 88,181</u>	<u>\$ 533,519</u>	<u>\$ (568,279)</u>