

**TOWN OF LINCOLN, MASSACHUSETTS**

**Financial Statements**

**June 30, 2018**

**(With Accountants' Report Thereon)**

Town of Lincoln, Massachusetts

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Lincoln, Massachusetts as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Lincoln, Massachusetts as of June 30, 2018 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reported dated January 14, 2019, on our consideration of the Town of Lincoln, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Lincoln, Massachusetts' internal control over financial reporting and compliance.

*Giusti, Hingston and Company*

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

January 14, 2019

**Town of Lincoln, Massachusetts**  
**Management's Discussion and Analysis**  
**Required Supplementary Information**  
**June 30, 2018**

As management of the Town of Lincoln, Massachusetts, we offer readers of the Town of Lincoln, Massachusetts' financial statements this narrative overview and analysis of the financial activities of the Town of Lincoln, Massachusetts for the fiscal year ended June 30, 2018.

**Financial Highlights**

- The assets of the Town of Lincoln, Massachusetts assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$48,311,769 (*net position*).
- The government's total net position increased by \$12,542,006. The increase is primarily due to the recognition of the change in plan design (\$9,367,577) related to the Town's Other Post Employment Benefits plan.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,636,223, or 30.4% of total general fund expenditures.
- The Town of Lincoln, Massachusetts' debt decreased by \$1,591,098 or 15.7% during the current year.
- The deficit (\$27,678,846) in unrestricted net assets of the governmental activities is attributed to reflecting the Other Post Employment Benefit liability (\$21,310,340) and the Net Pension Liability (\$28,841,810) in the Statement of Net Position.
- In fiscal year 2018, the Town implemented Governmental Accounting Standards Board Statement # 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard requires reporting the entire Net OPEB **Liability**. Previous standards required reporting the liability over a thirty year "phase in" period. The resulting calculation was reported as the Net OPEB **Obligation**. Implementing the new standard required a prior period adjustment that reduced the Town's net position by \$5,390,912.

**Overview of the Financial Statements**

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

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

The *statement of net position* presents information on all of the Town of Lincoln, Massachusetts' assets/deferred outflows and liabilities/deferred inflows, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Lincoln, Massachusetts is improving or deteriorating.

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

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

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** - Activities reported here are for water supply and distribution. User fees charged to the customers receiving services finance these activities.

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

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

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

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

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

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

## Notes to the Financial Statements

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

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Town of Lincoln, Massachusetts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

### Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

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

### Financial Analysis of the Government-wide Financial Statements

#### Net Position

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

The following table reflects the condensed net position for the past two fiscal years. The fiscal year 2017 amounts were adjusted to reflect the prior period adjustment.

|                                | <u>Governmental Activities</u> |                   | <u>Business-type Activities</u> |                  | <u>Total</u>       |                    |
|--------------------------------|--------------------------------|-------------------|---------------------------------|------------------|--------------------|--------------------|
|                                | <u>2018</u>                    | <u>2017</u>       | <u>2018</u>                     | <u>2017</u>      | <u>2018</u>        | <u>2017</u>        |
| Current Assets                 | \$ 34,599,832                  | \$ 29,398,260     | \$ 1,696,415                    | \$ 1,809,193     | \$ 36,296,247      | \$ 31,207,453      |
| Noncurrent Assets              | 397,278                        | 348,004           | -                               | -                | 397,278            | 348,004            |
| Capital Assets                 | 63,553,603                     | 63,098,989        | 7,332,243                       | 7,488,871        | 70,885,846         | 70,587,860         |
| Total Assets                   | <u>98,550,713</u>              | <u>92,845,253</u> | <u>9,028,658</u>                | <u>9,298,064</u> | <u>107,579,371</u> | <u>102,143,317</u> |
| Deferred Outflows of Resources | 2,687,785                      | 2,748,699         | 736                             | -                | 2,688,521          | 2,748,699          |
| Current Liabilities            | 4,738,785                      | 4,665,319         | 314,000                         | 324,745          | 5,052,785          | 4,990,064          |
| Long Term Liabilities          | 52,358,334                     | 62,349,917        | 1,163,748                       | 1,467,276        | 53,522,082         | 63,817,193         |
| Total Liabilities              | <u>57,097,119</u>              | <u>67,015,236</u> | <u>1,477,748</u>                | <u>1,792,021</u> | <u>58,574,867</u>  | <u>68,807,257</u>  |
| Deferred Inflows of Resources  | 3,379,650                      | 314,996           | 1,606                           | -                | 3,381,256          | 314,996            |

|                            | <u>Governmental Activities</u> |                      | <u>Business-type Activities</u> |                     | <u>Total</u>         |                      |
|----------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
|                            | <u>2018</u>                    | <u>2017</u>          | <u>2018</u>                     | <u>2017</u>         | <u>2018</u>          | <u>2017</u>          |
| Net Position:              |                                |                      |                                 |                     |                      |                      |
| Invested in Capital Assets |                                |                      |                                 |                     |                      |                      |
| Net of Related Debt        | 56,308,526                     | 54,932,287           | 6,044,842                       | 5,968,990           | 62,353,368           | 60,901,277           |
| Restricted                 | 12,132,049                     | 10,089,532           | -                               | -                   | 12,132,049           | 10,089,532           |
| Unrestricted               | (27,678,846)                   | (36,758,099)         | 1,505,198                       | 1,537,053           | (26,173,648)         | (35,221,046)         |
| Total Net Position         | <u>\$ 40,761,729</u>           | <u>\$ 28,263,720</u> | <u>\$ 7,550,040</u>             | <u>\$ 7,506,043</u> | <u>\$ 48,311,769</u> | <u>\$ 35,769,763</u> |

The net position of the Town increased by \$12,542,006. The net position of the governmental activities increased by \$12,498,009 or 37% and the net position of the business-type activities increased by \$43,997 or 0.6%. The significant increase in the governmental activities relates primarily from recognizing the change in plan design related to the Town's OPEB liability.

#### Changes in Net Position

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

|  | <u>Governmental Activities</u> |                       | <u>Business-Type Activities</u> |                   | <u>Total</u>         |                       |
|--|--------------------------------|-----------------------|---------------------------------|-------------------|----------------------|-----------------------|
|  | <u>2018</u>                    | <u>2017</u>           | <u>2018</u>                     | <u>2017</u>       | <u>2018</u>          | <u>2017</u>           |
| <b>Revenues</b>  |                                |                       |                                 |                   |                      |                       |
| Program Revenues:                                      |                                |                       |                                 |                   |                      |                       |
| Charges for Services                                   | \$ 18,981,941                  | \$ 15,226,428         | \$ 1,050,079                    | \$ 1,322,195      | \$ 20,032,020        | \$ 16,548,623         |
| Operating Grants and Contributions                     | 8,687,105                      | 8,259,161             | 103,561                         | 105,219           | 8,790,666            | 8,364,380             |
| Capital Grants and Contributions                       | 9,000                          | -                     | -                               | -                 | 9,000                | -                     |
| General Revenues:                                      |                                |                       |                                 |                   |                      |                       |
| Property Taxes   | 29,828,313                     | 29,061,112            | -                               | -                 | 29,828,313           | 29,061,112            |
| Motor Vehicle and Other Excises                        | 1,291,344                      | 1,035,136             | -                               | -                 | 1,291,344            | 1,035,136             |
| Intergovernmental Not Restricted to a Specific Program | 1,020,641                      | 990,704               | -                               | -                 | 1,020,641            | 990,704               |
| Other  | 196,378                        | 307,697               | -                               | (8,302)           | 196,378              | 299,395               |
| <b>Total Revenues</b>                                  | <u>60,014,722</u>              | <u>54,880,238</u>     | <u>1,153,640</u>                | <u>1,419,112</u>  | <u>61,168,362</u>    | <u>56,299,350</u>     |
| <b>Expenses</b>  |                                |                       |                                 |                   |                      |                       |
| General Government                                     | 3,078,085                      | 3,285,340             | -                               | -                 | 3,078,085            | 3,285,340             |
| Public Safety  | 4,352,725                      | 4,339,726             | -                               | -                 | 4,352,725            | 4,339,726             |
| Education  | 35,677,933                     | 34,755,972            | -                               | -                 | 35,677,933           | 34,755,972            |
| Highways and Public Works                              | 2,689,876                      | 2,363,447             | -                               | -                 | 2,689,876            | 2,363,447             |
| Human Services   | 527,318                        | 381,041               | -                               | -                 | 527,318              | 381,041               |
| Culture and Recreation                                 | 2,547,905                      | 2,296,321             | -                               | -                 | 2,547,905            | 2,296,321             |
| Employee Benefits and Insurance - See Foot Note I      | (1,578,039)                    | 8,489,557             | -                               | -                 | (1,578,039)          | 8,489,557             |
| Interest on Debt Service                               | 280,910                        | 291,483               | -                               | -                 | 280,910              | 291,483               |
| Water Services   | -                              | -                     | 1,049,643                       | 1,163,462         | 1,049,643            | 1,163,462             |
| <b>Total Expenses</b>                                  | <u>47,576,713</u>              | <u>56,202,887</u>     | <u>1,049,643</u>                | <u>1,163,462</u>  | <u>48,626,356</u>    | <u>57,366,349</u>     |
| Increase (Decrease) in Net Position Before Transfers   | 12,438,009                     | (1,322,649)           | 103,997                         | 255,650           | 12,542,006           | (1,066,999)           |
| Transfers  | 60,000                         | 60,000                | (60,000)                        | (60,000)          | -                    | -                     |
| <b>Increase (Decrease) in Net Position</b>             | <u>\$ 12,498,009</u>           | <u>\$ (1,262,649)</u> | <u>\$ 43,997</u>                | <u>\$ 195,650</u> | <u>\$ 12,542,006</u> | <u>\$ (1,066,999)</u> |

#### Governmental Activities

In fiscal year 2018 property taxes accounted for approximately 50% of the revenues of the governmental activities. In 2017 and 2016 property taxes represented 53% and 54% (respectively) of the revenues of the governmental activities.

#### Business-type Activities

Water rates are structured to cover all costs related to the activity. In fiscal year 2018, the net position of the Water fund increased by \$43,997. In fiscal year 2017, net position increased by \$195,650. In fiscal year 2016, the net position increased by \$418,821.

## Financial Analysis of the Town's Funds

### Governmental Funds

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

**General Fund** – The year-end fund balance of the general fund was \$1,803,370 more than the prior year's fund balance.

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

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

| <u>Fiscal Year</u> | <u>Reserved for Encumbrances</u> | <u>Reserved for Debt Service</u> | <u>Reserved for Subsequent Year's Expenditure</u> | <u>Unreserved</u> | <u>Total Fund Balance</u> |
|--------------------|----------------------------------|----------------------------------|---|-------------------|---------------------------|
| 2009               | \$ 662,927                       | \$ 36,805                        | \$ 2,170,647                                      | \$ 3,728,659      | \$ 6,599,038              |
| 2010               | 476,436                          | 36,805                           | 2,475,675   | 3,667,864         | 6,656,780                 |

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows:

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

| <u>Fiscal Year</u> | <u>Free Cash</u> |
|--------------------|------------------|
| 2009               | \$ 3,385,755     |
| 2010               | 3,340,722        |
| 2011               | 3,960,149        |
| 2012               | 4,185,465        |
| 2013               | 4,122,717        |
| 2014               | 4,520,898        |
| 2015               | 4,662,890        |
| 2016               | 5,084,978        |
| 2017               | 5,258,677        |
| 2018               | 6,308,450        |

## Proprietary Funds

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

Unrestricted net position of the Water operation at the end of the year amounted to \$1,505,198. Unrestricted net position decreased by \$37,219. The total increase in net position was \$43,997.

## Capital Asset and Debt Administration

**Capital assets.** The Town of Lincoln, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2018, amounts to \$70,885,846 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset acquisitions during the year included:

|                                |           |
|--------------------------------|-----------|
| Bedford Road Land Improvements | \$978,497 |
| School Feasibility Study       | \$333,064 |
| School Technology              | \$162,825 |

### Capital Assets at June 30, 2018 (Net of Depreciation)

|                                   | <u>Governmental Activities</u> |                      | <u>Business-Type Activities</u> |                     | <u>Total</u>         |                      |
|-----------------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
|                                   | <u>2018</u>                    | <u>2017</u>          | <u>2018</u>                     | <u>2017</u>         | <u>2018</u>          | <u>2017</u>          |
| Land                              | \$ 39,998,345                  | \$ 39,998,345        | \$ 3,210,787                    | \$ 3,210,787        | \$ 43,209,132        | \$ 43,209,132        |
| Construction In Progress          | 1,633,107                      | 1,271,777            | 102,187                         | 84,121              | 1,735,294            | 1,355,898            |
| Buildings                         | 9,370,538                      | 9,750,260            | 20,895                          | 23,679              | 9,391,433            | 9,773,939            |
| Improvements Other Than Buildings | 4,158,671                      | 3,412,676            | 20,386                          | 25,788              | 4,179,057            | 3,438,464            |
| Infrastructure                    | 6,854,121                      | 7,008,393            | 3,905,631                       | 4,049,088           | 10,759,752           | 11,057,481           |
| Equipment                         | 903,650                        | 1,061,717            | 51,088                          | 68,062              | 954,738              | 1,129,779            |
| Vehicles                          | 635,171                        | 595,821              | 21,269                          | 27,346              | 656,440              | 623,167              |
| Total                             | <u>\$ 63,553,603</u>           | <u>\$ 63,098,989</u> | <u>\$ 7,332,243</u>             | <u>\$ 7,488,871</u> | <u>\$ 70,885,846</u> | <u>\$ 70,587,860</u> |

## Debt

The Town had \$8,537,362 in bonds outstanding on June 30, 2018 as follows:

| <b>Governmental Activities</b>   | <b>2018</b>         | <b>2017</b>          | <b>Increase<br/>(Decrease)</b> |
|----------------------------------|---------------------|----------------------|--------------------------------|
| General Obligation Bonds Payable | \$ 7,249,961        | \$ 8,608,579         | \$ (1,358,618)                 |
| <b>Business-Type Activities</b>  |                     |                      |                                |
| Water:                           |                     |                      |                                |
| General Obligation Bonds Payable | 1,287,401           | 1,519,881            | (232,480)                      |
| Total Debt                       | <u>\$ 8,537,362</u> | <u>\$ 10,128,460</u> | <u>\$ (1,591,098)</u>          |

The Town maintains a "AAA" rating from Standard and Poor's for general obligation debt.

## **Fiscal Year 2018 Budget**

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

## **Request for Information**

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

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

Town of Lincoln, Massachusetts  
Statement of Net Position  
June 30, 2018

|   | Governmental<br>Activities | Business - Type<br>Activities | Government-<br>Wide<br>Total |
|---|----------------------------|-------------------------------|------------------------------|
| <b>Assets</b>                               |                            |                               |                              |
| Current:                                    |                            |                               |                              |
| Cash/Investments                            | \$ 32,135,800              | \$ 1,669,273                  | \$ 33,805,073                |
| Petty Cash                                  | 1,845                      | -                             | 1,845                        |
| Accounts Receivable:                        |                            |                               |                              |
| Property Taxes                              | 232,243                    | -                             | 232,243                      |
| Tax Liens                                   | 81,168                     | -                             | 81,168                       |
| Excises                                     | 134,087                    | -                             | 134,087                      |
| Other                                       | 72,275                     | -                             | 72,275                       |
| User Charges                                | -                          | 23,720                        | 23,720                       |
| Liens                                       | -                          | 3,422                         | 3,422                        |
| Intergovernmental                           | 1,917,414                  | -                             | 1,917,414                    |
| Other Assets                                | 25,000                     | -                             | 25,000                       |
| Noncurrent:                                 |                            |                               |                              |
| Clause 41 A Property Taxes Receivable       | 397,278                    | -                             | 397,278                      |
| Capital Assets:                             |                            |                               |                              |
| Assets Not Being Depreciated                | 41,631,452                 | 3,312,974                     | 44,944,426                   |
| Assets Being Depreciated, Net               | 21,922,151                 | 4,019,269                     | 25,941,420                   |
| <b>Total Assets</b>                         | <b>98,550,713</b>          | <b>9,028,658</b>              | <b>107,579,371</b>           |
| Deferred Outflows of Resources:             |                            |                               |                              |
| Pensions                                    | 2,578,742                  | -                             | 2,578,742                    |
| Other Post Employment Benefits              | 109,043                    | 736                           | 109,779                      |
| <b>Total Deferred Outflows of Resources</b> | <b>2,687,785</b>           | <b>736</b>                    | <b>2,688,521</b>             |
| <b>Liabilities</b>                          |                            |                               |                              |
| Current:                                    |                            |                               |                              |
| Warrants Payable                            | 664,311                    | 40,188                        | 704,499                      |
| Accrued Salaries Payable                    | 2,093,515                  | 22,207                        | 2,115,722                    |
| Employees' Withholding Payable              | 477,744                    | -                             | 477,744                      |
| Unclaimed Checks                            | 20,910                     | -                             | 20,910                       |
| Accrued Interest Payable                    | 40,392                     | 6,663                         | 47,055                       |
| Other Liabilities                           | 25,112                     | -                             | 25,112                       |
| Compensated Absences Payable                | 216,954                    | 2,462                         | 219,416                      |
| Lease Payable                               | 4,237                      | -                             | 4,237                        |
| Bonds Payable, Net                          | 1,195,610                  | 242,480                       | 1,438,090                    |
| Noncurrent:                                 |                            |                               |                              |
| Compensated Absences Payable                | 144,636                    | 1,641                         | 146,277                      |
| Lease Payable                               | 7,197                      | -                             | 7,197                        |
| Bonds Payable, Net                          | 6,054,351                  | 1,044,921                     | 7,099,272                    |
| Net Pension Liability                       | 24,841,810                 | -                             | 24,841,810                   |
| Net Other Post Employment Benefit Liability | 21,310,340                 | 117,186                       | 21,427,526                   |
| <b>Total Liabilities</b>                    | <b>57,097,119</b>          | <b>1,477,748</b>              | <b>58,574,867</b>            |
| Deferred Inflows of Resources:              |                            |                               |                              |
| Pensions                                    | 1,584,506                  | -                             | 1,584,506                    |
| Unavailable Revenue                         | 1,557,046                  | -                             | 1,557,046                    |
| Other Post Employment Benefits              | 238,098                    | 1,606                         | 239,704                      |
| <b>Total Deferred Inflows of Resources</b>  | <b>3,379,650</b>           | <b>1,606</b>                  | <b>3,381,256</b>             |
| <b>Net Position</b>                         |                            |                               |                              |
| Net Investment in Capital Assets            | 56,308,526                 | 6,044,842                     | 62,353,368                   |
| Restricted for:                             |                            |                               |                              |
| Hanscom Schools                             | 5,628,119                  | -                             | 5,628,119                    |
| Community Preservation                      | 1,187,980                  | -                             | 1,187,980                    |
| Gifts and Grants                            | 2,715,996                  | -                             | 2,715,996                    |
| Perpetual Funds:                            |                            |                               |                              |
| Expendable                                  | 616,170                    | -                             | 616,170                      |
| Nonexpendable                               | 1,983,784                  | -                             | 1,983,784                    |
| Unrestricted                                | (27,678,846)               | 1,505,198                     | (26,173,648)                 |
| <b>Total Net Position</b>                   | <b>\$ 40,761,729</b>       | <b>\$ 7,550,040</b>           | <b>\$ 48,311,769</b>         |

Town of Lincoln, Massachusetts  
Statement of Activities  
Fiscal Year Ended June 30, 2018

| Functions/Programs                                   | Expenses             | Program Revenues           |  |  | Net (Expenses) Revenues and<br>Changes in Net Position |                             |                      |
|--|----------------------|----------------------------|--|--|--|-----------------------------|----------------------|
|  |                      | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                             | Business-Type<br>Activities | Total                |
| <b>Primary Government:</b>                           |                      |                            |  |  |  |                             |                      |
| <i>Governmental Activities:</i>                      |                      |                            |  |  |  |                             |                      |
| General Government                                   | \$ 3,078,085         | \$ 335,769                 | \$ 318,159                               | \$ -                                   | \$ (2,424,157)   | \$ -                        | \$ (2,424,157)       |
| Public Safety  | 4,352,725            | 1,613,427                  | 157,016                                  | -                                      | (2,582,282)  | -                           | (2,582,282)          |
| Education  | 35,677,933           | 16,205,007                 | 7,467,244                                | -                                      | (12,005,682)   | -                           | (12,005,682)         |
| Highways and Public Works                            | 2,689,876            | 37,055                     | 288,069                                  | -                                      | (2,364,752)  | -                           | (2,364,752)          |
| Human Services                                       | 527,318              | 84,896                     | 69,048                                   | 9,000                                  | (364,374)  | -                           | (364,374)            |
| Culture and Recreation                               | 2,547,905            | 705,787                    | 387,569                                  | -                                      | (1,454,549)  | -                           | (1,454,549)          |
| Employee Benefits and Insurance -<br>See Foot Note I | (1,578,039)          | -                          | -  | -                                      | 1,578,039  | -                           | 1,578,039            |
| Interest on Debt Service                             | 280,910              | -                          | -  | -                                      | (280,910)  | -                           | (280,910)            |
| Total Governmental Activities                        | <u>47,576,713</u>    | <u>18,981,941</u>          | <u>8,687,105</u>                         | <u>9,000</u>                           | <u>(19,898,667)</u>                                    | <u>-</u>                    | <u>(19,898,667)</u>  |
| <i>Business-Type Activities:</i>                     |                      |                            |  |  |  |                             |                      |
| Water Services                                       | 1,049,643            | 1,050,079                  | 103,561                                  | -                                      | -  | 103,997                     | 103,997              |
| Total Business-Type Activities                       | <u>1,049,643</u>     | <u>1,050,079</u>           | <u>103,561</u>                           | <u>-</u>                               | <u>-</u>   | <u>103,997</u>              | <u>103,997</u>       |
| Total  | <u>\$ 48,626,356</u> | <u>\$ 20,032,020</u>       | <u>\$ 8,790,666</u>                      | <u>\$ 9,000</u>                        | <u>(19,898,667)</u>                                    | <u>103,997</u>              | <u>(19,794,670)</u>  |
| <b>General Revenues:</b>                             |                      |                            |  |  |  |                             |                      |
| Property Taxes                                       |                      |                            |  |  | 29,828,313   | -                           | 29,828,313           |
| Motor Vehicle and Other Excise Taxes                 |                      |                            |  |  | 1,291,344  | -                           | 1,291,344            |
| Penalties and Interest on Taxes                      |                      |                            |  |  | 72,199   | -                           | 72,199               |
| Other Taxes, Assessments and in Lieu Payments        |                      |                            |  |  | 39,668   | -                           | 39,668               |
| Intergovernmental                                    |                      |                            |  |  | 1,020,641  | -                           | 1,020,641            |
| Interest and Investment Income                       |                      |                            |  |  | 73,591   | -                           | 73,591               |
| Other Revenue  |                      |                            |  |  | 175  | -                           | 175                  |
| Contributions to Permanent Funds                     |                      |                            |  |  | 10,745   | -                           | 10,745               |
| Transfers, Net                                       |                      |                            |  |  | 60,000   | (60,000)                    | -                    |
| Total General Revenues, Special Items and Transfers  |                      |                            |  |  | <u>32,396,676</u>                                      | <u>(60,000)</u>             | <u>32,336,676</u>    |
| Change in Net Position                               |                      |                            |  |  | 12,498,009   | 43,997                      | 12,542,006           |
| <b>Net Position:</b>                                 |                      |                            |  |  |  |                             |                      |
| Beginning of the Year                                |                      |                            |  |  | 33,649,268   | 7,511,407                   | 41,160,675           |
| Prior Period Adjustment                              |                      |                            |  |  | (5,385,548)  | (5,364)                     | (5,390,912)          |
| Beginning of the Year - Restated                     |                      |                            |  |  | <u>28,263,720</u>                                      | <u>7,506,043</u>            | <u>35,769,763</u>    |
| End of the Year                                      |                      |                            |  |  | <u>\$ 40,761,729</u>                                   | <u>\$ 7,550,040</u>         | <u>\$ 48,311,769</u> |

Town of Lincoln, Massachusetts  
Governmental Funds  
Balance Sheet  
June 30, 2018

|   | <u>General</u>       | <u>Hanscom<br/>School Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|----------------------|--------------------------------|--|---|
| <b>Assets:</b>  |                      |                                |  |   |
| Cash/Investments  | \$ 20,578,189        | \$ 5,157,041                   | \$ 6,400,570                               | \$ 32,135,800                           |
| Petty Cash  | 900                  | 725                            | 220  | 1,845                                   |
| <b>Accounts Receivable:</b>   |                      |                                |  |   |
| Property Taxes  | 226,573              | -                              | 5,670                                      | 232,243                                 |
| Tax Liens   | 80,119               | -                              | 1,049                                      | 81,168                                  |
| Excises   | 134,087              | -                              | -  | 134,087                                 |
| Clause 41A Property Taxes   | 397,278              | -                              | -  | 397,278                                 |
| Intergovernmental   | -                    | 1,485,833                      | 431,581                                    | 1,917,414                               |
| Tax Foreclosures  | 31,150               | -                              | -  | 31,150                                  |
| Other   | 286                  | -                              | 71,989                                     | 72,275                                  |
| Other Assets  | 25,000               | -                              | -  | 25,000                                  |
| Total Assets  | <u>\$ 21,473,582</u> | <u>\$ 6,643,599</u>            | <u>\$ 6,911,079</u>                        | <u>\$ 35,028,260</u>                    |
| <b>Liabilities:</b>   |                      |                                |  |   |
| Warrants Payable  | \$ 399,415           | \$ 108,144                     | \$ 156,752                                 | \$ 664,311                              |
| Accrued Salaries Payable  | 1,059,187            | 907,336                        | 126,992                                    | 2,093,515                               |
| Employees' Withholding Payable  | 477,744              | -                              | -  | 477,744                                 |
| Unclaimed Checks  | 20,910               | -                              | -  | 20,910                                  |
| Other Liabilities   | 25,039               | -                              | 73   | 25,112                                  |
| Total Liabilities   | <u>1,982,295</u>     | <u>1,015,480</u>               | <u>283,817</u>                             | <u>3,281,592</u>                        |
| <b>Deferred Inflows of Resources:</b>                                 |                      |                                |  |   |
| Unavailable Revenue   | 2,129,160            | -                              | 535,469                                    | 2,664,629                               |
| Total Deferred Inflows of Resources                                   | <u>2,129,160</u>     | <u>-</u>                       | <u>535,469</u>                             | <u>2,664,629</u>                        |
| <b>Fund Equity:</b>   |                      |                                |  |   |
| <b>Fund Balances:</b>   |                      |                                |  |   |
| Nonspendable  | -                    | -                              | 616,170                                    | 616,170                                 |
| Restricted  | -                    | 5,628,119                      | 5,009,575                                  | 10,637,694                              |
| Committed   | 523,910              | -                              | 506,612                                    | 1,030,522                               |
| Assigned  | 5,201,994            | -                              | -  | 5,201,994                               |
| Unassigned  | 11,636,223           | -                              | (40,564)                                   | 11,595,659                              |
| Total Fund Balances   | <u>17,362,127</u>    | <u>5,628,119</u>               | <u>6,091,793</u>                           | <u>29,082,039</u>                       |
| Total Liabilities, Deferred Inflows of<br>Resources and Fund Balances | <u>\$ 21,473,582</u> | <u>\$ 6,643,599</u>            | <u>\$ 6,911,079</u>                        | <u>\$ 35,028,260</u>                    |

Town of Lincoln, Massachusetts  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Fiscal Year Ended June 30, 2018

|   | <u>General</u>       | <u>Hanscom<br/>School</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|----------------------|---------------------------|--|---|
| <u>Revenues:</u>  |                      |                           |  |   |
| Property Taxes  | \$ 29,011,943        | \$ -                      | \$ 766,568                                 | \$ 29,778,511                           |
| Tax Liens   | 36,158               | -                         | -  | 36,158                                  |
| Excises   | 1,255,474            | -                         | -  | 1,255,474                               |
| Penalties and Interest  | 72,199               | -                         | -  | 72,199                                  |
| Licenses and Permits  | 1,319,468            | -                         | -  | 1,319,468                               |
| Intergovernmental   | 7,280,190            | 15,582,414                | 1,824,748                                  | 24,687,352                              |
| Fees and Other Departmental   | 347,203              | -                         | 42,190                                     | 389,393                                 |
| Charges for Services  | 379,298              | -                         | 1,272,512                                  | 1,651,810                               |
| Fines and Forfeits  | 29,589               | -                         | -  | 29,589                                  |
| Earnings on Investments   | 73,591               | -                         | 99,985                                     | 173,576                                 |
| In Lieu of Taxes  | 39,668               | -                         | -  | 39,668                                  |
| Contributions   | -                    | -                         | 411,769                                    | 411,769                                 |
| Miscellaneous   | 175                  | -                         | 9,042                                      | 9,217                                   |
| Total Revenues  | <u>39,844,956</u>    | <u>15,582,414</u>         | <u>4,426,814</u>                           | <u>59,854,184</u>                       |
| <u>Expenditures:</u>  |                      |                           |  |   |
| Current   |                      |                           |  |   |
| General Government  | 2,635,095            | -                         | 129,229                                    | 2,764,324                               |
| Public Safety   | 3,996,729            | -                         | 111,659                                    | 4,108,388                               |
| Education   | 20,610,630           | 13,550,638                | 1,902,583                                  | 36,063,851                              |
| Intergovernmental   | 168,164              | -                         | -  | 168,164                                 |
| Highways and Public Works   | 2,110,708            | -                         | 311,609                                    | 2,422,317                               |
| Human Services  | 286,982              | -                         | 133,722                                    | 420,704                                 |
| Culture and Recreation  | 1,749,543            | -                         | 1,631,512                                  | 3,381,055                               |
| Employee Benefits and Insurance   | 5,641,769            | -                         | -  | 5,641,769                               |
| Debt Service  | 1,023,425            | -                         | 621,570                                    | 1,644,995                               |
| Total Expenditures  | <u>38,223,045</u>    | <u>13,550,638</u>         | <u>4,841,884</u>                           | <u>56,615,567</u>                       |
| Excess of Revenues Over (Under) Expenditures  | <u>1,621,911</u>     | <u>2,031,776</u>          | <u>(415,070)</u>                           | <u>3,238,617</u>                        |
| Other Financing Sources (Uses):   |                      |                           |  |   |
| Transfers In  | 181,459              | -                         | 278,329                                    | 459,788                                 |
| Transfers (Out)   | -                    | (71,000)                  | (328,788)                                  | (399,788)                               |
| Total Other Financing Sources (Uses)  | <u>181,459</u>       | <u>(71,000)</u>           | <u>(50,459)</u>                            | <u>60,000</u>                           |
| Excess of Revenues and Other<br>Sources Over (Under)<br>Expenditures and Other Uses | 1,803,370            | 1,960,776                 | (465,529)                                  | 3,298,617                               |
| Fund Balance, Beginning   | <u>15,558,757</u>    | <u>3,667,343</u>          | <u>6,557,322</u>                           | <u>25,783,422</u>                       |
| Fund Balance, Ending  | <u>\$ 17,362,127</u> | <u>\$ 5,628,119</u>       | <u>\$ 6,091,793</u>                        | <u>\$ 29,082,039</u>                    |

Town of Lincoln, Massachusetts  
 Reconciliation of the Governmental Funds Balance Sheet  
 Total Fund Balances to the Statement of Net Position  
 June 30, 2018

|   |    |                          |
|---|----|--------------------------|
| Total Governmental Fund Balances  | \$ | 29,082,039               |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.   |    | 63,553,603               |
| Certain changes in the net pension and net OPEB liabilities are required to be included in the pension/OPEB expense in future periods. These changes do not consume current financial resources and, therefore, are not reported in the funds. They are reported in the entity wide statements as deferred outflows or deferred inflows of resources related to pensions/OPEB |    |                          |
| Deferred Outflows of Resources - Pensions   |    | 2,578,742                |
| Deferred Outflows of Resources - OPEB   |    | 109,043                  |
| Deferred Inflows of Resources - Pensions  |    | (1,584,506)              |
| Deferred Inflows of Resources - OPEB  |    | (238,098)                |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.  |    | 1,076,433                |
| Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.   |    |                          |
| Bonds Payable   |    | (7,249,961)              |
| Accrued Interest on Bonds   |    | (40,392)                 |
| Compensated Absences  |    | (361,590)                |
| Lease Payable   |    | (11,434)                 |
| Net Pension Liability   |    | (24,841,810)             |
| Other Post Employment Benefit Obligations   |    | (21,310,340)             |
| Net Position of Governmental Activities   | \$ | <u><u>40,761,729</u></u> |

Town of Lincoln, Massachusetts  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 3,298,617

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

|  |                    |         |
|--|--------------------|---------|
| Assets Acquired through Capital Outlay/Contributions | 1,984,446          |         |
| Depreciation   | <u>(1,519,346)</u> |         |
| Net Effect of Reporting Capital Assets               |                    | 465,100 |

In the statement of activities, the gain (loss) on the trade in of capital assets is reported, whereas in the governmental funds, the gain (loss) is not reported. (10,486)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. 151,538

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

|  |                  |           |
|--|------------------|-----------|
| Capital Lease Principal Payments       | 4,013            |           |
| Amortized Bond Premium                 | 18,618           |           |
| Principal Payments on Bonds            | <u>1,340,000</u> |           |
| Net Effect of Reporting Long Term Debt |                  | 1,362,631 |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These amounts represent the change in these accounts from the prior fiscal year.

|  |                  |                  |
|--|------------------|------------------|
| Compensated Absence Payable            | 5,334            |                  |
| Accrued Interest Payable               | 5,467            |                  |
| Other Post Employment Benefits Payable | 7,938,393        |                  |
| Net Pension Expenses                   | <u>(718,585)</u> |                  |
| Net Effect of Reporting Other Items    |                  | <u>7,230,609</u> |

Change in Net Position of Governmental Activities \$ 12,498,009

Town of Lincoln, Massachusetts  
Proprietary Funds  
Statement of Net Position  
June 30, 2018

|   | Business-Type<br><u>Activities</u><br>Enterprise Fund<br><u>Water</u> |
|---|---|
| <b>Assets</b>                                     |   |
| Current:  |   |
| Cash and Cash Investments                         | \$ 1,669,273  |
| Receivables, Net of Allowance for Uncollectibles: |   |
| User Charges                                      | 23,720  |
| Liens   | 3,422   |
| Noncurrent:                                       |   |
| Assets Not Being Depreciated                      | 3,312,974   |
| Assets Being Depreciated, Net                     | 4,019,269   |
| Total Assets                                      | 9,028,658   |
| Deferred Outflows of Resources:                   |   |
| Other Post Employment Benefits                    | 736   |
| Total Deferred Inflows of Resources               | 736   |
| <b>Liabilities</b>                                |   |
| Current:  |   |
| Warrants Payable                                  | 40,188  |
| Accrued Wages Payable                             | 22,207  |
| Accrued Interest Payable                          | 6,663   |
| Compensated Absences Payable                      | 2,462   |
| Bonds Payable                                     | 242,480   |
| Noncurrent:                                       |   |
| Compensated Absences Payable                      | 1,641   |
| Bonds Payable                                     | 1,044,921   |
| Other Post Employment Benefit Liability           | 117,186   |
| Total Liabilities                                 | 1,477,748   |
| Deferred Inflows of Resources:                    |   |
| Other Post Employment Benefits                    | 1,606   |
| Total Deferred Inflows of Resources               | 1,606   |
| <b>Net Position</b>                               |   |
| Net Investment in Capital Assets                  | 6,044,842   |
| Unrestricted                                      | 1,505,198   |
| Total Net Position                                | \$ 7,550,040  |

Town of Lincoln, Massachusetts  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds  
June 30, 2018

|  | Business-Type<br>Activities<br><u>Enterprise Fund</u><br><u>Water</u> |
|--|---|
| Operating Revenues:                            |   |
| Charges for Services                           | \$ 1,027,463  |
| Miscellaneous                                  | <u>22,616</u>   |
| Total Operating Revenues                       | <u>1,050,079</u>  |
| Operating Expenditures:                        |   |
| Personal Services                              | 394,597   |
| Nonpersonal Services                           | 432,826   |
| Depreciation                                   | <u>174,694</u>  |
| Total Operating Expenditures                   | <u>1,002,117</u>  |
| Operating Income                               | <u>47,962</u>   |
| Nonoperating Revenues (Expenses):              |   |
| Intergovernmental                              | 103,561   |
| Interest on Debt                               | <u>(47,526)</u>   |
| Total Nonoperating Revenues (Expenses)         | <u>56,035</u>   |
| Income Before Operating Transfers              | <u>103,997</u>  |
| Transfers In (Out):                            |   |
| Transfers Out                                  | <u>(60,000)</u>   |
| Total Transfers, Net                           | <u>(60,000)</u>   |
| Changes in Net Position                        | <u>43,997</u>   |
| Net Position, Beginning of the Year            | <u>7,511,407</u>  |
| Prior Period Adjustments                       | <u>(5,364)</u>  |
| Net Position, Beginning of the Year - Restated | <u>7,506,043</u>  |
| Net Position, End of the Year                  | <u><u>\$ 7,550,040</u></u>  |

Town of Lincoln, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
June 30, 2018

|  | <u>Business-Type<br/>Activities<br/>Enterprise Fund</u> |
|--|---|
|  | <u>Water</u>  |
| Cash Flows from Operating Activities:  |   |
| Receipts from Customers  | \$ 1,068,463  |
| Payments to Employees  | (396,817)   |
| Payments to Vendors  | <u>(504,594)</u>  |
| Net Cash Flows Provided (Used) by Operating Activities   | <u>167,052</u>  |
| Cash Flows from Non Capital Related Financing Activities:                                      |   |
| Transfers to/from Other Funds  | <u>(60,000)</u>   |
| Net Cash Flows Provided (Used) by Non Capital Related Financing Activities                     | <u>(60,000)</u>   |
| Cash Flows from Capital and Related Financing Activities:                                      |   |
| Acquisition of Capital Assets  | (18,066)  |
| Principal Payments on Notes and Bonds  | (158,257)   |
| Interest Expense   | <u>(19,759)</u>   |
| Net Cash Flows Provided (Used) by Capital and Related Financing Activities                     | <u>(196,082)</u>  |
| Net Increase (Decrease) in Cash and Cash Equivalents   | <u>(89,030)</u>   |
| Cash and Cash Equivalents, July 1, 2017  | <u>1,763,667</u>  |
| Prior Period Adjustments   | (5,364)   |
| Cash and Cash Equivalents, June 30, 2018   | <u>\$ 1,669,273</u>                                     |
| Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:              |   |
| Operating Income (Loss)  | \$ 47,962   |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: |   |
| Depreciation Expense   | 174,694   |
| (Increase) Decrease in Accounts Receivable   | 18,384  |
| Increase (Decrease) in Warrants Payable  | (18,167)  |
| Increase (Decrease) in Accrued Wages Payable   | 812   |
| Increase (Decrease) in Net Other Post Employment Benefit Liability                             | (54,471)  |
| Increase (Decrease) in Deferred Outflows of Other Post Employment Benefit                      | (736)   |
| Increase (Decrease) in Inferred Outflows of Other Post Employment Benefit                      | 1,606   |
| Increase (Decrease) in Compensated Absences Payable  | <u>(3,032)</u>  |
| Net Cash Provided by Operating Activities  | <u>\$ 167,052</u>                                       |

Town of Lincoln, Massachusetts  
Fiduciary Funds  
Statement of Net Position  
June 30, 2018

|                                | Private<br>Purpose<br>Trust Fund<br>Scholarship<br>and Charity | Other Post<br>Employment<br>Benefits<br>Trust | Agency<br>Funds |
|--------------------------------|--|---|-----------------|
| <b>Assets:</b>                 |  |   |                 |
| Cash and Cash Investments      | \$ 659,542   | \$ -  | \$ 225,468      |
| Fixed Income                   | -  | 1,764,039                                     | -               |
| Stock                          | -  | 3,067,895                                     | -               |
| Real Estate                    | -  | 1,073,763                                     | -               |
| Alternative Investments        | -  | 1,764,039                                     | -               |
|                                | <hr/>  | <hr/>   | <hr/>           |
| Total Assets                   | 659,542  | 7,669,736                                     | 225,468         |
|                                | <hr/>  | <hr/>   | <hr/>           |
| <b>Liabilities:</b>            |  |   |                 |
| Current:                       |  |   |                 |
| Warrants Payable               | -  | -   | 4,133           |
| Other Liabilities              | -  | -   | 221,335         |
|                                | <hr/>  | <hr/>   | <hr/>           |
| Total Liabilities              | -  | -   | 225,468         |
|                                | <hr/>  | <hr/>   | <hr/>           |
| <b>Net Position:</b>           |  |   |                 |
| Restricted:                    |  |   |                 |
| Other Post Employment Benefits | -  | 7,669,736                                     | -               |
| Scholarships and Charity:      |  |   |                 |
| Expendable                     | 159,196  | -   | -               |
| Nonexpendable                  | 500,346  | -   | -               |
|                                | <hr/>  | <hr/>   | <hr/>           |
| Total Net Position             | \$ 659,542   | \$ 7,669,736                                  | \$ -            |
|                                | <hr/> <hr/>  | <hr/> <hr/>                                   | <hr/> <hr/>     |

Town of Lincoln, Massachusetts  
Fiduciary Funds  
Statement of Changes in Net Position  
June 30, 2018

|                                | Private<br>Purpose<br>Trust Fund<br><u>Charity</u> | Other Post<br>Employment<br>Benefits<br><u>Trust</u> |
|--------------------------------|--|--|
| Revenues:                      |  |  |
| Gift                           | \$ 8,125   | \$ -   |
| Employer Contributions         | -  | 2,066,642  |
| Interest, Dividends, and Other | 32,628   | 631,220  |
| Total Additions                | 40,753   | 2,697,862  |
| Expenditures:                  |  |  |
| Scholarships Awarded           | 39,120   | -  |
| Benefit Payments               | -  | 1,186,642  |
| Total Distributions            | 39,120   | 1,186,642  |
| Change in Net Position         | 1,633  | 1,511,220  |
| Net Position:                  |  |  |
| Beginning of the Year          | 657,909  | 6,158,516  |
| End of the Year                | \$ 659,542   | \$ 7,669,736   |

Town of Lincoln, Massachusetts  
Notes to the Financial Statements  
June 30, 2018

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Lincoln, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2018, conform to accounting principles generally accepted in the United States of America for local government units.

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

(A) **Reporting Entity**

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

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

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

*Government-Wide Financial Statements*

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

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

*Fund Financial Statements*

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

### *Major Fund Criteria*

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

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

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

### (C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

#### *Government-Wide Financial Statements*

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

#### *Fund Financial Statements*

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

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

The Town reports the following major governmental funds:

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

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

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds

column on the governmental funds financial statements. The following types are funds are included in the nonmajor category:

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary fund:

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

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

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

i Deposits and Investments

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

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institution involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (“MMDT”).

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

ii Property Taxes

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

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

iii Capital Assets

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

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets lives is not capitalized.

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

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

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

iv. Deferred Outflows/Inflows of Resources

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

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

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

v. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

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

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

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

Fund Financial Statements (Fund Balances)

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

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

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

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

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

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

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

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

Details of Fund Balance Classifications

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

|                           | <u>General Fund</u> | <u>Hanscom</u>   | <u>Non Major<br/>Funds</u> | <u>Total</u>      |
|---------------------------|---------------------|------------------|----------------------------|-------------------|
| <b>Fund Balances:</b>     |                     |                  |                            |                   |
| <b>Nonspendable:</b>      |                     |                  |                            |                   |
| Cemetery Perpetual Care   | \$ -                | \$ -             | \$ 216,988                 | \$ 216,988        |
| Library Trust             | -                   | -                | 112,659                    | 112,659           |
| Other Trust               | -                   | -                | 286,523                    | 286,523           |
| <b>Total Nonspendable</b> | <b>-</b>            | <b>-</b>         | <b>616,170</b>             | <b>616,170</b>    |
| <b>Restricted for:</b>    |                     |                  |                            |                   |
| Hanscom Schools           | -                   | 5,628,119        | -                          | 5,628,119         |
| Community Preservation    | -                   | -                | 1,187,980                  | 1,187,980         |
| Other                     | -                   | -                | 11,704                     | 11,704            |
| Debt                      | -                   | -                | 66,173                     | 66,173            |
| School Gifts              | -                   | -                | 53,213                     | 53,213            |
| School Grants             | -                   | -                | 249,715                    | 249,715           |
| School Lunch              | -                   | -                | 60,688                     | 60,688            |
| School Receipts Reserved  | -                   | -                | 300                        | 300               |
| School Revolving          | -                   | -                | 487,144                    | 487,144           |
| Town Gifts                | -                   | -                | 407,079                    | 407,079           |
| Town Receipts Reserved    | -                   | -                | 191,945                    | 191,945           |
| Town Revolving            | -                   | -                | 293,532                    | 293,532           |
| Town Capital Projects     | -                   | -                | 14,717                     | 14,717            |
| School Capital Projects   | -                   | -                | 1,601                      | 1,601             |
| Cemetery Perpetual Care   | -                   | -                | 82,876                     | 82,876            |
| Affordable Housing        | -                   | -                | 1,593,566                  | 1,593,566         |
| Library Trust             | -                   | -                | 106,354                    | 106,354           |
| Other Trust               | -                   | -                | 200,988                    | 200,988           |
| <b>Total Restricted</b>   | <b>-</b>            | <b>5,628,119</b> | <b>5,009,575</b>           | <b>10,637,694</b> |

|                              | <u>General Fund</u>  | <u>Hanscom</u>      | <u>Non Major<br/>Funds</u> | <u>Total</u>         |
|------------------------------|----------------------|---------------------|----------------------------|----------------------|
| <b>Committed to:</b>         |                      |                     |                            |                      |
| Town Revolving               | -                    | -                   | 137,651                    | 137,651              |
| Town Receipts Reserved       | -                    | -                   | 363,360                    | 363,360              |
| School Revolving             | -                    | -                   | 5,601                      | 5,601                |
| General Government           | 107,871              | -                   | -                          | 107,871              |
| Public Safety                | 51,193               | -                   | -                          | 51,193               |
| Education                    | 191,688              | -                   | -                          | 191,688              |
| Highways and Public Works    | 81,202               | -                   | -                          | 81,202               |
| Human Services               | 74,829               | -                   | -                          | 74,829               |
| Culture and Recreation       | 17,127               | -                   | -                          | 17,127               |
| <b>Total Committed</b>       | <b>523,910</b>       | <b>-</b>            | <b>506,612</b>             | <b>1,030,522</b>     |
| <b>Assigned to:</b>          |                      |                     |                            |                      |
| General Government           | 126,937              | -                   | -                          | 126,937              |
| Public Safety                | 28,476               | -                   | -                          | 28,476               |
| Education                    | 845,350              | -                   | -                          | 845,350              |
| Highways and Public Works    | 112,506              | -                   | -                          | 112,506              |
| Human Services               | 139                  | -                   | -                          | 139                  |
| Culture and Recreation       | 7,009                | -                   | -                          | 7,009                |
| Free Cash to Reduce Tax Levy | 4,081,577            | -                   | -                          | 4,081,577            |
| <b>Total Assigned</b>        | <b>5,201,994</b>     | <b>-</b>            | <b>-</b>                   | <b>5,201,994</b>     |
| <b>Unassigned</b>            | <b>11,636,223</b>    | <b>-</b>            | <b>(40,564)</b>            | <b>11,595,659</b>    |
| <b>Total Fund Balances</b>   | <b>\$ 17,362,127</b> | <b>\$ 5,628,119</b> | <b>\$ 6,091,793</b>        | <b>\$ 29,082,039</b> |

#### Stabilization Fund

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

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

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

The Town’s stabilization fund has a current balance of \$4,766,537. The stabilization fund balance is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

vi Compensated Absences

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

vii Long-Term Obligations

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

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

viii Use of Estimates

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

ix Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1st and July 15th. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2018 and the corresponding credit is to the account entitled warrants payable.

x Total Column

*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

(E) Pensions

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

## II Stewardship, Compliance and Accountability

### (A) Budgetary Information

#### i General Budget Policies

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

#### ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheets and includes those amounts which pertain to fiscal 2018 adjusted for any special town meeting votes applicable to fiscal 2018 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (fund financial statements) for the year ended June 30, 2018.

|  |                      |
|--|----------------------|
|  | <u>Revenues</u>      |
| As Reported Budget Basis   | \$ 36,071,432        |
| Adjustments:   |                      |
| Sixty Day Accrual - Net  | (53,815)             |
| Earning on Investments - Stabilization Fund Reported in Statement<br>of Revenues, Expenditures, and Changes in Fund Balances | 23,249               |
| Fringe Benefits Reimbursement from Special Revenue Fund<br>Reported as Miscellaneous Revenue on Budget Basis                 | (1,275,012)          |
| Revenue Support for Pensions - Intergovernmental on GAAP Basis   | 5,079,102            |
| As Reported GAAP Fund Financial Statement  | <u>\$ 39,844,956</u> |
|  | <u>Expenditures</u>  |
| As Reported Budget Basis   | \$ 33,260,867        |
| Adjustments:   |                      |
| July 1, 2017 Encumbrances  | 1,914,914            |
| June 30, 2018 Encumbrances   | (1,606,826)          |
| Fringe Benefits Reimbursement from Special Revenue Fund<br>Reported as Employee Benefits Expenditure on Budget Basis         | (1,275,012)          |
| Contribution to OPEB Trust is a Transfer in Budget Basis, but, an<br>Expenditures in GAAP Basis                              | 850,000              |
| Pension Expense Paid by State - Education Expense GAAP Basis   | 5,079,102            |
| As Reported GAAP Fund Financial Statement  | <u>\$ 38,223,045</u> |

III **Detailed Notes on All Funds**

A. **Deposits and Investments**

i) **Deposits**

a) **Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2018, \$3,982,815 of the Town's bank balance of \$30,483,605 was exposed to credit risk.

|                                |                    |
|--------------------------------|--------------------|
| Uninsured and Uncollateralized | <u>\$3,982,815</u> |
|--------------------------------|--------------------|

ii) **Investments**

a) As of June 30, 2018, the Town had the following investments.

**Other Investments:**

|  |                             |
|--|-----------------------------|
| Money Market Funds                           | \$ 16,609                   |
| Mutual Funds                                 | 1,618,783                   |
| Equities                                     | 24,190                      |
| Pension Reserves Investment Management Board | 7,669,736                   |
| Massachusetts Municipal Depository Trust     | <u>2,674,100</u>            |
| Total Investments                            | <u><u>\$ 12,003,418</u></u> |

b) **Interest Rate Risk**

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

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

c) **Credit Risk**

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

d) **Concentration of Credit Risk**

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

Fair Value Measurement

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

The Town has the following recurring fair value measurements as of June 30, 2018:

|  |               | <u>Fair Value Measurements Using</u>                                 |   |  |
|--|---------------|--|---|--|
|  |               | <u>Level 1</u>   | <u>Level 2</u>                                      | <u>Level 3</u>                               |
|  |               | Quoted Prices<br>in Active<br>Markets for<br><u>Identical Assets</u> | Significant<br>Other<br>Observable<br><u>Inputs</u> | Significant<br>Unobservable<br><u>Inputs</u> |
| <u>Total</u>   |               |  |   |  |
| Investment by Fair Value Level:                            |               |  |   |  |
| Money Market Mutual Funds                                  | \$ 16,609     | \$ 16,609  | \$ -  | \$ -   |
| Mutual Funds   | 1,618,783     | 1,618,783  | -   | -  |
| Common Stock   | 24,190        | 24,190   | -   | -  |
| Total Assets in the Fair Value Hierarchy                   | 1,659,582     | \$ 1,659,582   | \$ -  | \$ -   |
| Investments Not Subject to Fair Value Hierarchy reporting: |               |  |   |  |
| Pension Reserves Investment Management Board               | 7,669,736     |  |   |  |
| Massachusetts Municipal Depository Trust                   | 2,674,100     |  |   |  |
| Total Investments  | \$ 12,003,418 |  |   |  |

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

## B. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

| <u>Government Activities:</u>               | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Reductions</u>   | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|---------------------|---------------------------|
| <u>Assets Not Being Depreciated:</u>        |                              |                    |                     |                           |
| Land  | \$ 39,998,345                | \$ -               | \$ -                | \$ 39,998,345             |
| Construction in Progress                    | 1,271,777                    | 466,330            | (105,000)           | 1,633,107                 |
| Total Capital Assets Not Being Depreciated  | <u>41,270,122</u>            | <u>466,330</u>     | <u>(105,000)</u>    | <u>41,631,452</u>         |
| <u>Assets Being Depreciated:</u>            |                              |                    |                     |                           |
| Buildings                                   | 15,483,974                   | -                  | -                   | 15,483,974                |
| Improvements Other Than Buildings           | 6,208,494                    | 1,149,181          | (139,417)           | 7,218,258                 |
| Infrastructure                              | 19,557,320                   | 146,000            | -                   | 19,703,320                |
| Equipment                                   | 5,521,949                    | 75,434             | (29,200)            | 5,568,183                 |
| Vehicles                                    | 2,558,501                    | 267,301            | (170,094)           | 2,655,708                 |
| Total Capital Assets Being Depreciated      | <u>49,330,238</u>            | <u>1,637,916</u>   | <u>(338,711)</u>    | <u>50,629,443</u>         |
| <u>Less Accumulated Depreciation for:</u>   |                              |                    |                     |                           |
| Buildings                                   | (5,733,714)                  | (379,722)          | -                   | (6,113,436)               |
| Improvements Other Than Buildings           | (2,795,818)                  | (403,186)          | 139,417             | (3,059,587)               |
| Infrastructure                              | (12,548,927)                 | (300,272)          | -                   | (12,849,199)              |
| Equipment                                   | (4,460,232)                  | (228,251)          | 23,950              | (4,664,533)               |
| Vehicles                                    | (1,962,680)                  | (207,915)          | 150,058             | (2,020,537)               |
| Total Accumulated Depreciation              | <u>(27,501,371)</u>          | <u>(1,519,346)</u> | <u>313,425</u>      | <u>(28,707,292)</u>       |
| Capital Assets Being Depreciated, Net       | <u>21,828,867</u>            | <u>118,570</u>     | <u>(25,286)</u>     | <u>21,922,151</u>         |
| Governmental Activities Capital Assets, Net | <u>\$ 63,098,989</u>         | <u>\$ 584,900</u>  | <u>\$ (130,286)</u> | <u>\$ 63,553,603</u>      |

Depreciation expense was charged to functions as follows:

|  |                     |
|--|---------------------|
| <u>Governmental Activities:</u>                    |                     |
| General Government                                 | \$ 259,441          |
| Public Safety                                      | 344,304             |
| Education  | 137,298             |
| Highways and Public works                          | 427,990             |
| Human Services                                     | 105,639             |
| Culture and Recreation                             | 244,674             |
| Total Governmental Activities Depreciation Expense | <u>\$ 1,519,346</u> |

B. Capital Assets (Continued)

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|
| <u>Business-Type Activities:</u>             |                              |                     |                   |                           |
| Assets Not Being Depreciated:                |                              |                     |                   |                           |
| Land   | \$ 3,210,787                 | \$ -                | \$ -              | \$ 3,210,787              |
| Construction in Progress                     | 84,121                       | 18,066              | -                 | 102,187                   |
| Total Capital Assets Not Being Depreciated   | <u>3,294,908</u>             | <u>18,066</u>       | <u>-</u>          | <u>3,312,974</u>          |
| Assets Being Depreciated:                    |                              |                     |                   |                           |
| Buildings                                    | 93,879                       | -                   | -                 | 93,879                    |
| Improvements Other than Buildings            | 44,841                       | -                   | -                 | 44,841                    |
| Infrastructure                               | 8,284,500                    | -                   | -                 | 8,284,500                 |
| Equipment                                    | 963,373                      | -                   | -                 | 963,373                   |
| Vehicles                                     | 103,746                      | -                   | (15,000)          | 88,746                    |
| Total Capital Assets Being Depreciated       | <u>9,490,339</u>             | <u>-</u>            | <u>(15,000)</u>   | <u>9,475,339</u>          |
| Less Accumulated Depreciation for:           |                              |                     |                   |                           |
| Buildings                                    | (70,200)                     | (2,784)             | -                 | (72,984)                  |
| Improvements Other than Buildings            | (19,053)                     | (5,402)             | -                 | (24,455)                  |
| Infrastructure                               | (4,235,412)                  | (143,457)           | -                 | (4,378,869)               |
| Equipment                                    | (895,311)                    | (16,974)            | -                 | (912,285)                 |
| Vehicles                                     | (76,400)                     | (6,077)             | 15,000            | (67,477)                  |
| Total Accumulated Depreciation               | <u>(5,296,376)</u>           | <u>(174,694)</u>    | <u>15,000</u>     | <u>(5,456,070)</u>        |
| Capital Assets Being Depreciated, Net        | <u>4,193,963</u>             | <u>(174,694)</u>    | <u>-</u>          | <u>4,019,269</u>          |
| Business-Type Activities Capital Assets, Net | <u>\$ 7,488,871</u>          | <u>\$ (156,628)</u> | <u>\$ -</u>       | <u>\$ 7,332,243</u>       |

Depreciation expense was charged to functions as follows:

Business-Type Activities:

Water \$ 174,694

C. Accounts Receivable

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

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes

|                         |                |                |
|-------------------------|----------------|----------------|
| 2018                    | \$ 222,113     |                |
| 2017                    | (2)            |                |
| 2016                    | 80             |                |
| 2013                    | 40             |                |
| Total Real Estate Taxes | <u>222,231</u> | <u>222,231</u> |

C. Accounts Receivable (Continued)

|  |                |                   |
|--|----------------|-------------------|
| Personal Property Taxes                |                |                   |
| 2018                                   | 1,163          |                   |
| 2017                                   | 1,159          |                   |
| 2016                                   | 543            |                   |
| 2015                                   | 3              |                   |
| 2013                                   | 658            |                   |
| 2012                                   | 606            |                   |
| 2011                                   | 4              |                   |
| 2009                                   | 24             |                   |
| 2008                                   | 180            |                   |
| Total Personal Property Taxes          | <u>4,340</u>   |                   |
| Community Preservation Act Taxes       |                |                   |
| 2018                                   | 5,672          |                   |
| Total Community Preservation Act Taxes | <u>5,672</u>   |                   |
| Total Property Taxes Receivable        |                | <u>\$ 232,243</u> |
| Tax Liens                              |                | <u>\$ 81,168</u>  |
| Excise Taxes Receivable:               |                |                   |
| Motor Vehicle Excise Tax               |                |                   |
| 2018                                   | \$ 64,128      |                   |
| 2017                                   | 20,707         |                   |
| 2016                                   | 9,536          |                   |
| 2015                                   | 5,278          |                   |
| 2014                                   | 6,122          |                   |
| 2013                                   | 5,422          |                   |
| 2012                                   | 6,064          |                   |
| 2011                                   | 4,524          |                   |
| 2010                                   | 4,289          |                   |
| 2009                                   | 4,124          |                   |
| 2008                                   | 3,893          |                   |
| Tax Excise Receivable                  | <u>134,087</u> | <u>\$ 134,087</u> |
| <u>Other:</u>                          |                |                   |
| Employees Health Insurance             | \$ 286         |                   |
| Details                                | <u>71,989</u>  | <u>\$ 72,275</u>  |

C. Accounts Receivable (Continued)

Intergovernmental:

Due from Commonwealth of Massachusetts:

Highway Grant (Chapter 90)

\$ 421,736

Federal - Hanscom

1,485,833

Other Grants

9,845

Total Intergovernmental

\$ 1,917,414

Clause 41A Property Tax

\$ 397,278

Business Type Activities

User Charges - Water

\$ 23,720

Liens

\$ 3,422

D. Debt

i Short Term Debt

The Town did not have any short term debt activity in fiscal year 2018.

ii Long Term Debt

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 30 years. General obligation bonds outstanding at June 30, 2018 are as follows:

(a) General Obligation Bonds Outstanding at June 30, 2018

| <b><u>Governmental Activities:</u></b>   |                  |                  |                      |                       |                     |               |                     |                      |
|--|------------------|------------------|----------------------|-----------------------|---------------------|---------------|---------------------|----------------------|
|  | Fiscal Year      | Original         | True Interest Rates  | Fiscal Year           | Balance             |               |                     | Balance              |
| <u>General Obligation Bond</u>           | <u>Sale Date</u> | <u>Borrowing</u> | <u>to Maturities</u> | <u>Final Maturity</u> | <u>July 1, 2017</u> | <u>Issued</u> | <u>Redeemed</u>     | <u>June 30, 2018</u> |
| Affordable Housing - NSR Project A       | 2008             | \$ 434,000       | 3.18%                | 2018                  | \$ 40,000           | \$ -          | \$ 40,000           | \$ -                 |
| Land Acquisition - NSR Project B         | 2008             | 330,000          | 3.18%                | 2018                  | 30,000              | -             | 30,000              | -                    |
| Library Roof Replacement - NSR Project C | 2008             | 242,000          | 3.18%                | 2018                  | 20,000              | -             | 20,000              | -                    |
| Departmental Equipment - NSR             | 2008             | 450,000          | 3.20%                | 2018                  | 45,000              | -             | 45,000              | -                    |
| Departmental Equipment - NSR             | 2008             | 200,000          | 3.20%                | 2018                  | 20,000              | -             | 20,000              | -                    |
| Road Improvements                        | 2010             | 4,000,000        | 2.14%                | 2019                  | 885,000             | -             | 445,000             | 440,000              |
| Road Improvements                        | 2010             | 1,500,000        | 2.45%                | 2020                  | 450,000             | -             | 150,000             | 300,000              |
| Equipment Information Technology         | 2011             | 725,000          | 1.86%                | 2020                  | 150,000             | -             | 50,000              | 100,000              |
| Land Acquisition                         | 2011             | 793,000          | 2.18%                | 2021                  | 310,000             | -             | 80,000              | 230,000              |
| Town Hall Remodeling                     | 2011             | 5,800,000        | 3.84%                | 2041                  | 4,975,000           | -             | 210,000             | 4,765,000            |
| Library Fire Suppression System          | 2014             | 860,000          | 0.89%                | 2019                  | 340,000             | -             | 170,000             | 170,000              |
| Land Acquisition                         | 2017             | 1,185,000        | 2.08%                | 2032                  | 1,185,000           | -             | 80,000              | 1,105,000            |
| Total Governmental Activities            |                  |                  |                      |                       | <u>\$ 8,450,000</u> | <u>\$ -</u>   | <u>\$ 1,340,000</u> | <u>\$ 7,110,000</u>  |
| <b><u>Business Type Activities:</u></b>  |                  |                  |                      |                       |                     |               |                     |                      |
|  |                  | Original         | Interest Rates       |                       | Balance             |               |                     | Balance              |
| <u>General Obligation Bond</u>           | <u>Sale Date</u> | <u>Borrowing</u> | <u>to Maturities</u> | <u>Final Maturity</u> | <u>July 1, 2017</u> | <u>Issued</u> | <u>Redeemed</u>     | <u>June 30, 2018</u> |
| Wastewater Treatment (MWPAT)             | 2006             | \$ 3,679,408     | 4.88%                | 2023                  | \$ 1,475,000        | \$ -          | \$ 225,000          | \$ 1,250,000         |
| Total Business Type Activities           |                  |                  |                      |                       | <u>\$ 1,475,000</u> | <u>\$ -</u>   | <u>\$ 225,000</u>   | <u>\$ 1,250,000</u>  |

D. Debt (Continued)

(b) Summary of Debt Service Requirements to Maturity

| <u>Fiscal Year Ended</u> | <u>Governmental</u> |                     | <u>Business-type</u> |                   | <u>Total</u>        |                     |
|--------------------------|---------------------|---------------------|----------------------|-------------------|---------------------|---------------------|
|                          | <u>Activities</u>   |                     | <u>Activities</u>    |                   |                     |                     |
|                          | <u>Principal</u>    | <u>Interest</u>     | <u>Principal</u>     | <u>Interest</u>   | <u>Principal</u>    | <u>Interest</u>     |
| 2019                     | \$ 1,180,000        | \$ 266,125          | \$ 235,000           | \$ 53,168         | \$ 1,415,000        | \$ 319,293          |
| 2020                     | 565,000             | 230,825             | 240,000              | 32,874            | 805,000             | 263,699             |
| 2021                     | 365,000             | 211,438             | 250,000              | 25,544            | 615,000             | 236,982             |
| 2022                     | 290,000             | 198,175             | 260,000              | 19,750            | 550,000             | 217,925             |
| 2023                     | 290,000             | 187,875             | 265,000              | 6,625             | 555,000             | 194,500             |
| 2024-2028                | 1,450,000           | 775,950             | -                    | -                 | 1,450,000           | 775,950             |
| 2029-2033                | 1,330,000           | 504,400             | -                    | -                 | 1,330,000           | 504,400             |
| 2034-2038                | 1,025,000           | 268,294             | -                    | -                 | 1,025,000           | 268,294             |
| 2039-2042                | <u>615,000</u>      | <u>53,812</u>       | <u>-</u>             | <u>-</u>          | <u>615,000</u>      | <u>53,812</u>       |
| Total                    | <u>\$ 7,110,000</u> | <u>\$ 2,696,894</u> | <u>\$ 1,250,000</u>  | <u>\$ 137,961</u> | <u>\$ 8,360,000</u> | <u>\$ 2,834,855</u> |

(c) Bond Authorizations

All long-term debt authorizations voted by the Town have either been issued or rescinded as of June 30, 2018.

(d) Subsidies through the Massachusetts Water Pollution Abatement Trust

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

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

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

| <u>SRF</u>      |                   |
|-----------------|-------------------|
| 2019            | \$ 103,630        |
| 2020            | 95,316            |
| 2021            | 93,543            |
| 2022            | 92,614            |
| 2023            | <u>87,750</u>     |
| Total Subsidies | <u>\$ 472,853</u> |

D. Debt (Continued)

iii Changes in the government's long-term liabilities for the year ended June 30, 2018 are as follows:

|  | Balance       |              |                | Balance       |                 |
|--|---------------|--------------|----------------|---------------|-----------------|
|  | July 1, 2017  | Additions    | Reductions     | June 30, 2018 | Current Portion |
| <b><u>Governmental Activities</u></b>  |               |              |                |               |                 |
| Bonds Payable                          | \$ 8,450,000  | \$ -         | \$ (1,340,000) | \$ 7,110,000  | \$ 1,180,000    |
| Add: Unamortized Premium               | 158,579       | -            | (18,618)       | 139,961       | 15,610          |
| Total Bonds Payable                    | 8,608,579     | -            | (1,358,618)    | 7,249,961     | 1,195,610       |
| Compensated Absences                   | 366,924       | 214,820      | (220,154)      | 361,590       | 216,954         |
| Capital Leases Payable                 | 15,447        | -            | (4,013)        | 11,434        | 4,237           |
| Net Pension Liability                  | 25,563,964    | 3,611,051    | (4,333,205)    | 24,841,810    | -               |
| Other Post Employment Benefits         | 20,071,669    | 4,223,293    | (2,984,622)    | 21,310,340    | -               |
| Total Governmental Activities          | \$ 54,626,583 | \$ 8,049,164 | \$ (8,900,612) | \$ 53,775,135 | \$ 1,416,801    |
| <b><u>Business Type Activities</u></b> |               |              |                |               |                 |
| Bonds Payable                          | \$ 1,475,000  | \$ -         | \$ (225,000)   | \$ 1,250,000  | \$ 235,000      |
| Add: Unamortized Premium               | 44,881        | -            | (7,480)        | 37,401        | 7,480           |
| Total Bonds Payable                    | 1,519,881     | -            | (232,480)      | 1,287,401     | 242,480         |
| Compensated Absences                   | 7,135         | 1,249        | (4,281)        | 4,103         | 2,462           |
| Other Post Employment Benefits         | 115,561       | 39,892       | (38,267)       | 117,186       | -               |
| Total Business Type Activities         | \$ 1,642,577  | \$ 41,141    | \$ (275,028)   | \$ 1,408,690  | \$ 244,942      |

E. Interfund Transfers

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

|   | <u>Transfer In</u> | <u>Transfer (Out)</u> | <u>Total</u> |
|---|--------------------|-----------------------|--------------|
| <b><u>Fund Financial Statements</u></b> |                    |                       |              |
| General                                 | \$ 181,459         | \$ -                  | \$ 181,459   |
| Hanscom                                 | -                  | (71,000)              | (71,000)     |
| Non-Major Governmental                  | 278,329            | (328,788)             | (50,459)     |
| Water - Business Type                   | -                  | (60,000)              | (60,000)     |
| Total                                   | \$ 459,788         | \$ (459,788)          | \$ -         |

IV Other Information

A. Pension Plans

General Information about the Pension Plan

Plan Description

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

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at <https://middlesexretirement.org/wp-content/uploads/2018/08/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2017.pdf> or by writing to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

Benefits Provided

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

Retirement Benefits

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

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

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

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

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

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

Retirement Benefits - Superannuation

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

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

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

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

Ordinary Disability Benefits

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

Accidental Disability Benefit

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

### Death Benefits

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

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

### Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2018 was 20.70% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$2,015,466 for the year ending June 30, 2018.

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

At June 30, 2018, the Town reported a liability of \$24,841,810 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2017, the Town's proportion was 1.750428%.

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

For the year ended June 30, 2018, the Town recognized pension expense of \$2,734,051. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ 83,773                                 | \$ 126,863                               |
| Net differences between projected and actual earnings on pension plan investments                             | -   | 674,750                                  |
| Change in assumptions   | 2,374,580                                 | -  |
| Changes in proportion and differences between contributions and proportionate share of contributions          | -   | -  |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 120,389                                   | 782,893                                  |
|   | <u>\$ 2,578,742</u>                       | <u>\$ 1,584,506</u>                      |

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

| Year ended June 30: | Amount            |
|---------------------|-------------------|
| 2019                | \$ 510,108        |
| 2020                | 492,352           |
| 2021                | 162,574           |
| 2022                | (170,798)         |
| Total               | <u>\$ 994,236</u> |

### Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2017:

|  |  |
|--|--|
| <b>Valuation date</b>                          | January 1, 2018  |
| <b>Actuarial Cost Method</b>                   | Entry age normal cost method   |
| <b>Amortization Method</b>                     | Prior year's total contribution increased by 6.5% for fiscal year 2018 through fiscal year 2024, and thereafter the remaining unfunded liability will be amortized on a 4.0% annual increasing basis; ERI Liability amortized in level payments. |
| <b>Remaining Amortization Period</b>           | As of July 1, 2018, 1 year remaining for the 2002 ERI liability; 2 years remaining for the 2003 ERI liability; 4 years remaining for the 2010 ERI liability and 17 years for the remaining unfunded liability.                                   |
| <b>Asset Valuation Method</b>                  | The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted, as necessary, to be within 20% of market value.                              |
| <b>Investment Rate of Return/Discount Rate</b> | 7.5% net of pension plan investment expense, including inflation (7.75% in previous valuation)   |
| <b>Inflation Rate</b>                          | 3.25% (3.5% in previous valuation)   |
| <b>Projected Salary Increases</b>              | Varies by length of service with ultimate rates of 4.00% for Group 1, 4.25% for Group 2 and 4.50% for Group 4  |
| <b>Cost of Living Adjustments</b>              | 3.00% of first \$14,000  |
| <b>Rates of Retirement</b>                     | Varies based upon age for general employees, police and fire employees.  |
| <b>Rates of Disability</b>                     | For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).                      |

#### **Mortality Rates were based on the tables noted below:**

|                 |   |
|-----------------|---|
| Pre-Retirement  | The RP-2014 Blue Collar Mortality Table projected generationally with Scale MP-2017 (previously RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D)  |
| Healthy Retiree | The RP-2014 Blue Collar Health Annuitant Mortality Table projected generationally with Scale MP-2017 (previously RP-2000 Health Annuitant Mortality Table projected generationally from 2009 with Scale BB2D)                           |
| Disabled        | The RP-2014 Blue Collar Health Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017 (previously RP-2000 Health Annuitant Mortality Table projected generationally from 2015 using Scale BB2D) |

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

### Changes in Assumptions

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

- The mortality tables for healthy participants were changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2017.
- The mortality tables for disabled participants were changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.
- The long-term salary increase assumption was lowered by 0.25%, to 4.00% for Group 1 participants, 4.25% for Group 2 participants, and 4.50% for Group 4 participants.
- The investment rate of return assumption was reduced from 7.75% to 7.50%. The inflation rate was reduced to 3.25% from the previous rate of 3.50%.

### Changes in Plan Provisions

There were not any changes in the Plan provisions.

### Investment Policy

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

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

|  | <u>Target<br/>Allocation</u> | <u>Long Term<br/>Expected<br/>Rate of Return</u> |
|--|------------------------------|--|
| Domestic Equity                        | 17.50%                       | 6.15%  |
| International Developed Markets Equity | 15.50%                       | 7.11%  |
| International Emerging Markets Equity  | 6.00%                        | 9.41%  |
| Core Fixed Income                      | 12.00%                       | 1.68%  |
| High-Yield Fixed Income                | 10.00%                       | 4.13%  |
| Real Estate                            | 10.00%                       | 4.90%  |
| Commodities                            | 4.00%                        | 4.71%  |
| Hedge Funds, GTAA, Risk Parity         | 13.00%                       | 3.84%  |
| Private Equity                         | 12.00%                       | 10.28%   |
|  | <u>100.00%</u>               |  |

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2017 (net of investment expenses) was 17.25%. (7.35% for December 31, 2016). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.5% (7.75% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Middlesex County Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Middlesex County Retirement System, calculated using the discount rate of 7.5%, as well as what the Middlesex County Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

|   | 1%<br>Decrease | Discount<br>Rate | 1%<br>Increase |
|---|----------------|------------------|----------------|
|   | <u>6.50%</u>   | <u>7.50%</u>     | <u>8.50%</u>   |
| Town's proportionate share of the Net Pension Liability | \$30,489,170   | \$24,841,810     | \$20,080,329   |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Middlesex County Retirement System financial report. The System issues a stand-alone financial report is available that can be obtained through the System's website at <https://middlesexretirement.org/wp-content/uploads/2018/08/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2017.pdf>

c. Massachusetts Teachers Retirement System

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

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

For the fiscal year ended June 30, 2018, the Town's proportionate share of the collective pension expense was \$5,079,102. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. Accordingly, the accompanying financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2018, or fund balance/net position at June 30, 2018.

The Commonwealth's proportionate share of net pension liability associated with the Town is \$48,663,025. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy17.pdf>

#### *Benefits provided*

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

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

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

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

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

In addition, members who join the system on or after April 2, 2012 will have their withholding rate reduced to 8% after achieving 30 years of creditable service.

#### Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

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

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset

allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2017 are summarized in the following table:

|                                 | <u>Target<br/>Allocation</u> | <u>Long- Term<br/>Expected Real<br/>Rate of Return</u> |
|---------------------------------|------------------------------|--|
| Global Equity                   | 40.00%                       | 5.00%  |
| Portfolio Completion Strategies | 13.00%                       | 3.60%  |
| Core fixed income               | 12.00%                       | 11.00%   |
| Private Equity                  | 11.00%                       | 6.60%  |
| Value Added Fixed Income        | 10.00%                       | 3.80%  |
| Real Estate                     | 10.00%                       | 3.60%  |
| Timber/Natural Resources        | 4.00%                        | 3.20%  |
| Hedge Funds                     | 0.00%                        | 3.60%  |
|                                 | <u>100.00%</u>               |  |

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan’s fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy17.pdf>

**B. Other Postemployment Benefits (OPEB) Disclosures**

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (which became effective for the June 30, 2017 reporting period) and Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective for the June 30, 2018 reporting period). GASB Statements #74 and #75 relate to reporting requirements of the Town’s OPEB Trust fund and the Town’s OPEB liability. The net other post-employment benefits **liability** reported in the Town’s statement of net position under the new standards differs from the net other post-employment benefits **obligation** amount previously reported (in accordance with the prior standards guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*). Under GASB Statement #45, the reporting of the Town’s net other post-employment benefits liability was “phased in” over a thirty-year period. The new standards eliminate the thirty-year phase in period and require reporting the entire other post-employment benefits liability.

Summary of Significant Accounting Policies (OPEB)

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

## General Information About the Plan

### Plan Description

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

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

*Contributions.* The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. The Town contributed \$880,000 beyond the pay-as-you-go cost for the period ending on the July 1, 2017 Measurement Date. For the period ending on the July 1, 2017, Measurement Date total Town premiums plus implicit costs for the retiree medical program were \$1,487,353.

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

### Employer Reporting (GASB 75)

#### Net OPEB Liability

The Town's net OPEB liability was measured as of July 1, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

|  |   |
|--|---|
| Inflation  | 2.75%   |
| Salary Increases   | 3.0%  |
| Investment Rate of Return  | 7.04%, net of OPEB plan investment expense, including inflation   |
| Health Cost Trend Rates  | 5.00%   |
| Mortality Rates were based on the tables noted below:            |   |
| Pre-Retirement   | RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females         |
| Post-Retirement  | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females |
| Disabled Mortality   | RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females           |
| Plan Membership:   |   |
| Inactive employees or beneficiaries currently receiving benefits | 318   |
| Current active members   | <u>320</u>  |
| Total  | <u>638</u>  |

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

*Changes in Assumptions.* The following changes in assumptions were effective July 1, 2017:

- Discount rate is 7.00% previously 4.47%
- The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The Actuarial Cost Method is Entry Age Normal - previously Projected Unit Credit

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class summarized in the target asset allocation as of July 1, 2017, are summarized in the table below:

|   | <u>Target<br/>Allocation</u> | <u>Long Term Expected<br/>Rate of Return</u> |
|---|------------------------------|--|
| Domestic Equity - Large Cap             | 14.50%                       | 4.00%  |
| Domestic Equity - Small/Mid Cap         | 3.50%                        | 6.00%  |
| International Equity - Developed Market | 16.00%                       | 4.50%  |
| International Equity - Emerging Market  | 6.00%                        | 7.00%  |
| Domestic Fixed Income                   | 20.00%                       | 2.00%  |
| International Fixed Income              | 3.00%                        | 3.00%  |
| Alternatives                            | 23.00%                       | 6.50%  |
| Real Estate                             | 14.00%                       | 6.25%  |
|   | <u>100.00%</u>               |  |

*Discount rate:* The discount rate used to measure the total OPEB liability was 7.0% (4.7% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Changes in Net OPEB Liability**

|   | Increase (Decrease)            |                                 |                                    |
|---|--------------------------------|---------------------------------|------------------------------------|
|   | Plan                           |                                 |                                    |
|   | Total OPEB<br>Liability<br>(a) | Fidciary<br>Net Position<br>(b) | Net OPEB<br>Liability<br>(a) - (b) |
| <b>Balances 6/30/17</b>                           | \$ 34,177,786                  | \$ 4,622,979                    | \$ 29,554,807                      |
| Service cost                                      | 1,672,168                      | -                               | 1,672,168                          |
| Interest  | 2,458,320                      | -                               | 2,458,320                          |
| Changes of benefit terms                          | (9,367,577)                    | -                               | (9,367,577)                        |
| Difference between expected and actual experience | 132,697                        | -                               | 132,697                            |
| Changes in assumptions                            | -                              | -                               | -                                  |
| Contributions - employer                          | -                              | 2,367,353                       | (2,367,353)                        |
| Net investment income                             | -                              | 655,536                         | (655,536)                          |
| Benefit payments                                  | (1,487,353)                    | (1,487,353)                     | -                                  |
| <b>Net changes</b>                                | <u>(6,591,745)</u>             | <u>1,535,536</u>                | <u>(8,127,281)</u>                 |
| <b>Balances 6/30/18</b>                           | <u>\$ 27,586,041</u>           | <u>\$ 6,158,515</u>             | <u>\$ 21,427,526</u>               |

*Benefit changes:*

- HMO Network Blue to HMO Blue NE
- Eliminated Blue Choice option for new employees
- Increased emergency room co-pays

*Changes in assumption:*

- Discount rate is 7.00% previously 4.47%
- The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The Actuarial Cost Method is Entry Age Normal - previously Projected Unit Credit

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

|                            | 1%<br>Decrease | Discount<br>Rate | 1%<br>Increase |
|----------------------------|----------------|------------------|----------------|
|                            | <u>6%</u>      | <u>7%</u>        | <u>8%</u>      |
| Net OPEB Liability (asset) | \$25,151,184   | \$21,427,526     | \$17,703,868   |

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

|                            | 1% Decrease  | Healthcare<br>Cost Trend | 1% Increase  |
|----------------------------|--------------|--------------------------|--------------|
|                            | <u>4%</u>    | <u>5%</u>                | <u>6%</u>    |
| Net OPEB Liability (asset) | \$16,226,745 | \$21,427,526             | \$27,832,387 |

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

For the year ended June 30, 2018, the Town recognized OPEB expense of *negative* \$7,997,357. *The negative amount occurred because the town recognized (in accordance with GASB standards) the deferred inflow related to change in plan design (\$9,367,577).* At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Differences between expected and actual experience                             | \$ 109,779                                | \$ -                                     |
| Change in assumptions  | -   | -  |
| Net differences between projected and actual earnings on OPEB plan investments | -   | 239,704                                  |
|  | <u>\$ 109,779</u>                         | <u>\$ 239,704</u>                        |

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

| Year ended June 30: | Amount           |
|---------------------|------------------|
| 2019                | \$ (37,008)      |
| 2020                | (37,008)         |
| 2021                | (37,008)         |
| 2022                | (37,008)         |
| 2023                | 18,107           |
| Total               | <u>(129,925)</u> |

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

**Plan Reporting – Fiduciary Funds (GASB 74 Reporting)**

**Investments**

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

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

expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class summarized in the target asset allocation as of June 30, 2018, are summarized in the table below:

|   | <u>Target<br/>Allocation</u> | <u>Long Term Expected<br/>Rate of Return</u> |
|---|------------------------------|--|
| Domestic Equity - Large Cap             | 14.50%                       | 4.00%  |
| Domestic Equity - Small/Mid Cap         | 3.50%                        | 6.00%  |
| International Equity - Developed Market | 16.00%                       | 4.50%  |
| International Equity - Emerging Market  | 6.00%                        | 7.00%  |
| Domestic Fixed Income                   | 20.00%                       | 2.00%  |
| International Fixed Income              | 3.00%                        | 3.00%  |
| Alternatives                            | 23.00%                       | 6.50%  |
| Real Estate                             | 14.00%                       | 6.25%  |
|   | <u>100.00%</u>               |  |

#### *Concentrations*

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

#### *Rate of Return*

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 9.58%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

|                             |                     |
|-----------------------------|---------------------|
| Total OPEB Liability        | \$29,221,596        |
| Plan Fiduciary Net Position | (7,669,736)         |
| Net OPEB Liability          | <u>\$21,551,860</u> |

|   |        |
|---|--------|
| Plan fiduciary net position as a percentage of the total OPEB liability | 26.25% |
|---|--------|

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 (rolled forward to June 30, 2018), using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

|  |   |
|--|---|
| Inflation  | 2.75% as of June 30, 2018 and for the future periods  |
| Salary Increases   | 3.00% as of June 30, 2018 and for the future periods  |
| Investment Rate of Return  | 7.04%, net of OPEB plan investment expense, including inflation   |
| Health Cost Trend Rates  | 5.00%   |
| Mortality Rates were based on the tables noted below:            |   |
| Pre-Retirement   | RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females         |
| Post-Retirement  | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females |
| Disabled Mortality   | RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females           |
| Plan Membership:   |   |
| Inactive employees or beneficiaries currently receiving benefits | 318   |
| Current active members   | <u>320</u>  |
| Total  | <u>638</u>  |

*Changes in Assumption:*

The changes in assumptions for GASB Statement # 74 reporting are the same as noted previously in the GASB Statement # 75 notes to the financial statements.

*Discount rate:* The discount rate used to measure the total OPEB liability was 7.0% (4.47% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that Town contributions will not be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, a blended long-term expected rate of return on OPEB plan investments was applied to determine the total OPEB liability.

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

|                            | 1%<br>Decrease<br><u>6%</u> | Discount<br>Rate<br><u>7%</u> | 1%<br>Increase<br><u>8%</u> |
|----------------------------|-----------------------------|-------------------------------|-----------------------------|
| Net OPEB Liability (asset) | \$25,496,291                | \$21,551,860                  | \$17,607,429                |

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

|                            | 1% Decrease  | Healthcare<br>Cost Trend | 1% Increase  |
|----------------------------|--------------|--------------------------|--------------|
|                            | <u>4%</u>    | <u>5%</u>                | <u>6%</u>    |
| Net OPEB Liability (asset) | \$16,042,373 | \$21,551,860             | \$28,336,899 |

C. Subsequent Year Authorizations

On March 24, 2018, the Town adopted a fiscal 2019 operating and capital budget of \$40,107,869. Fiscal 2019 budgetary amounts will be financed by the following sources:

|  |                      |
|--|----------------------|
| 2019 Property Taxes, State Aid<br>and Non-Property Tax Revenue | \$ 33,384,318        |
| Enterprise Fund Revenues                                       | 1,196,885            |
| Enterprise Fund Retained Earnings                              | 170,000              |
| Community Preservation Estimated Revenues                      | 621,860              |
| Restricted Fund Balance:                                       |                      |
| Hanscom Fund   | 71,000               |
| Non-Major Fund   | 544,729              |
| Committed Fund Balance:  |                      |
| General Fund   | 37,500               |
| Assigned Fund Balance:   |                      |
| General Fund   | 4,081,577            |
| Total  | <u>\$ 40,107,869</u> |

D. Significant Commitments

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The assigned fund balance in the general fund includes encumbrances of \$1,120,417.

E. Commitments and Contingencies

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

F. Implementation of New GASB Pronouncements

During fiscal year 2018, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this standard required reporting the entire net OPEB liability in the financial statements. In addition, the standard required significant note disclosures and additional required supplementary information.

- The GASB issued Statement No 81, Irrevocable Split-Interest Agreements, which is required to be implemented in reporting periods beginning after December 15, 2016. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 which is required to be implemented in fiscal year 2018. This Statement amends Statements 67 and 68 to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The statement was implemented.
- The GASB issued Statement No. 85, Omnibus 2017 which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 86, Certain Debt Extinguishment Issues which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this pronouncement did not impact the financial statements.

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

- The GASB issued Statement No. 83, Certain Asset Retirement Obligations which is required to be implemented for reporting periods beginning after June 15, 2018.
- The GASB issued Statement No. 84, Fiduciary Activities which is required to be implemented in reporting periods beginning after December 15, 2018.
- The GASB issued Statement No. 87, Leases which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements which is required to be implemented in reporting periods beginning after June 15, 2018.
- The GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 90 Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61 which is required to be implemented in reporting periods beginning after December 15, 2018.

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

#### G. Prior Period Adjustment

Governmental Accounting Standards Board Statement #45 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*) required reporting the net Other Post Employment Benefits (OPEB) liability over a thirty year phase in period. Beginning in fiscal year 2018, the implementation of Governmental Accounting Standards Board Statement #75 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*) eliminated the phase in period and the entire net Other Post Employment Benefits (OPEB) liability must be reported. As a result, a prior period adjustment was required to reflect the entire net OPEB liability at the beginning

of the fiscal year. The net position prior to the adjustment, the prior period adjustment and the net position after the prior period adjustment are as follows:

|                                   | <u>Total</u>         | <u>Governmental<br/>Activities</u> | <u>Business Type<br/>Activities</u> |
|-----------------------------------|----------------------|------------------------------------|-------------------------------------|
| Net Position Prior to Adjustment  | \$ 41,160,675        | \$ 33,649,268                      | \$ 7,511,407                        |
| Prior Period Adjustment           | (5,390,912)          | (5,385,548)                        | (5,364)                             |
| Net Position After the Adjustment | <u>\$ 35,769,763</u> | <u>\$ 28,263,720</u>               | <u>\$ 7,506,043</u>                 |

H. Subsequent Events

Subsequent to the balance sheet date, the Town authorized a school building project. The Town approved a project cost of \$93,900,000. The project will be funded by the issuance of “Proposition 2½ debt excluded” long-term debt (\$88,500,000), the Stabilization Fund (\$4,400,000) and Free Cash (\$1,000,000). The Stabilization Fund and Free Cash are reported in the financial statements as general fund - unassigned fund balance (fund financial statements) and governmental activities – unrestricted net position (entity-wide financial statements).

I. Employee Benefits Expense – GASB 75

The Statement of Activities reflects a “negative expenditure” in the amount of \$1,578,039. The negative expenditure occurred because a change in benefit terms (plan design) related to Town’s Other Post-Employment Benefits decreased the liability by a significant amount. In certain instances (i.e. “change in assumptions,” “differences in projected and actual earnings on plan assets”...) the large amounts are “deferred” and amortized over a period of years in order to “smooth out” the impact on the financial statements. However, GASB standards require that increases/decreases in the Net OPEB Liability that occur due to “changes in plan design” must be recognized in the current fiscal year.

The Town’s GASB 75 actuarial valuation report reflects \$9,367,577 (reduction of expenditure) as “change in plan design.” When recognizing that amount along with the other items that normally increase the OPEB expenditures, the Town still has an actuarially calculated “negative expenditure” of \$7,997,357 that must be recorded for financial reporting purposes (\$7,938,393) in the governmental activities and \$58,964 in the Water enterprise fund).

The following schedule displays the Employee Benefits expenditures as reported in the fund financial statements and the changes made to get to the expenditures reported on the entity wide financial statements:

|  |                              |
|--|------------------------------|
| As reported in Governmental Funds financial statements | \$ 5,641,769                 |
| GASB Statement #75 OPEB expenditure adjustment         | (7,938,393)                  |
| GASB Statement #68 Pension expenditure adjustment      | 718,585                      |
| As reported in Entity-wide financial statements        | <u><u>\$ (1,578,039)</u></u> |

# **REQUIRED SUPPLEMENTARY INFORMATION**

Town of Lincoln, Massachusetts  
Required Supplementary Information  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
June 30, 2018

|  | <u>Budgeted Amounts</u> |                    | <u>Actual<br/>Amounts</u> | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------------|--------------------|---------------------------|---|
|  | <u>Original</u>         | <u>Final</u>       |                           |   |
| <u>Revenues</u>  |                         |                    |                           |   |
| Property Taxes   | \$ 29,034,333           | \$ 29,034,333      | \$ 29,023,034             | \$ (11,299)   |
| Tax Liens  | -                       | -                  | 36,158                    | 36,158  |
| Excises  | 490,221                 | 490,221            | 1,298,198                 | 807,977   |
| Penalties and Interest   | 35,839                  | 35,839             | 72,199                    | 36,360  |
| Licenses and Permits   | 88,823                  | 88,823             | 1,319,468                 | 1,230,645   |
| Intergovernmental  | 2,057,842               | 2,057,842          | 2,201,088                 | 143,246   |
| Fees and Other Departmental  | 222,376                 | 222,376            | 347,203                   | 124,827   |
| Charges for Services   | 163,952                 | 163,952            | 379,298                   | 215,346   |
| Fines and Forfeits   | 27,408                  | 27,408             | 29,589                    | 2,181   |
| Earnings on Investments  | 5,826                   | 5,826              | 50,342                    | 44,516  |
| In Lieu of Taxes   | 116                     | 116                | 39,668                    | 39,552  |
| Miscellaneous  | 403,516                 | 403,516            | 1,275,187                 | 871,671   |
| Total Revenues   | <u>32,530,252</u>       | <u>32,530,252</u>  | <u>36,071,432</u>         | <u>3,541,180</u>  |
| <u>Expenditures</u>  |                         |                    |                           |   |
| Current:   |                         |                    |                           |   |
| General Government   | 3,235,502               | 3,001,615          | 2,661,519                 | 340,096   |
| Public Safety  | 4,033,717               | 4,061,959          | 3,943,500                 | 118,459   |
| Education  | 16,012,266              | 15,435,468         | 15,241,460                | 194,008   |
| Highway and Public Works   | 1,977,592               | 2,176,037          | 2,132,950                 | 43,087  |
| Health and Human Services  | 387,501                 | 387,501            | 361,611                   | 25,890  |
| Culture and Recreation   | 1,716,397               | 1,723,597          | 1,666,572                 | 57,025  |
| Intergovernmental  | 174,391                 | 174,391            | 168,164                   | 6,227   |
| Employee Benefits and Insurance  | 6,975,010               | 6,975,010          | 6,061,666                 | 913,344   |
| Debt Service   | 1,048,425               | 1,048,425          | 1,023,425                 | 25,000  |
| Total Expenditures   | <u>35,560,801</u>       | <u>34,984,003</u>  | <u>33,260,867</u>         | <u>1,723,136</u>  |
| Excess (Deficiency) of Revenues Over Expenditures  | <u>(3,030,549)</u>      | <u>(2,453,751)</u> | <u>2,810,565</u>          | <u>5,264,316</u>  |
| <u>Other Financing Sources (Uses):</u>   |                         |                    |                           |   |
| Transfers In   | 176,549                 | 176,549            | 181,459                   | 4,910   |
| Transfers Out  | (1,160,000)             | (1,736,798)        | (1,736,798)               | -   |
| Free Cash and Other Available Funds  | 4,014,000               | 4,014,000          | 4,014,000                 | -   |
| Total Other Financing Sources (Uses)   | <u>3,030,549</u>        | <u>2,453,751</u>   | <u>2,458,661</u>          | <u>4,910</u>  |
| Revenues and Other Financing Sources Over<br>(Under) Expenditures and Other Financing Uses | <u>\$ -</u>             | <u>\$ -</u>        | <u>\$ 5,269,226</u>       | <u>\$ 5,269,226</u>                                     |

**See Notes to the Required Supplementary Information**

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

|  | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u>   | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------|-------------|-------------|---|-------------|-------------|-------------|-------------|-------------|
| Town's proportionate share of net pension liability (asset) (%)                                    | 1.750428%   | 1.804248%   | 1.834594%   | 1.809632%   | <i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i> |             |             |             |             |             |
| Town's proportionate share of net pension liability (asset) (\$)                                   | 24,841,810  | 25,563,964  | 23,666,611  | 21,739,395  |   |             |             |             |             |             |
| Town's Covered Payroll   | 9,736,776   | 9,468,363   | 9,595,007   | 9,225,968   |   |             |             |             |             |             |
| Town's proportionate share of net pension liability (asset) as a percentage of its Covered Payroll | 255.13%     | 269.99%     | 246.66%     | 235.63%     |   |             |             |             |             |             |
| Plan fiduciary net position as a percentage of the pension liability                               | 49.27%      | 45.49%      | 46.13%      | 47.65%      |   |             |             |             |             |             |

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

**See Notes to the Required Supplementary Information**

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

|  | <u>2018</u>        | <u>2017</u>        | <u>2016</u>        | <u>2015</u>        | <u>2014</u>   | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|--------------------|--------------------|--------------------|--------------------|---|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution                                  | \$ 2,015,466       | \$ 1,922,136       | \$ 1,802,909       | \$ 1,622,193       | <i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i> |             |             |             |             |             |
| Contributions in relation to the contractually required contribution | <u>(2,015,466)</u> | <u>(1,922,136)</u> | <u>(1,802,909)</u> | <u>(1,622,193)</u> | <u>-</u>  | <u>-</u>    | <u>-</u>    | <u>-</u>    | <u>-</u>    | <u>-</u>    |
| Contribution deficiency (excess)                                     | <u>\$ -</u>   | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Town's covered payroll   | 9,736,776          | 9,468,363          | 9,595,007          | 9,225,968          | -   | -           | -           | -           | -           | -           |
| Contributions as a percentage of covered payroll                     | 20.70%             | 20.30%             | 18.79%             | 17.58%             | -   | -           | -           | -           | -           | -           |

**See Notes to the Required Supplementary Information**

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

|   | <u>2018</u>          | <u>2017</u>          | <u>2016</u>          | <u>2015</u>          | <u>2014</u>  | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|----------------------|----------------------|--|-------------|-------------|-------------|-------------|-------------|
| Town's proportionate share of the collective net pension liability (asset) (%)                                    | 0.00%                | 0.00%                | 0.00%                | 0.00%                | <i><b>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</b></i> |             |             |             |             |             |
| Town's proportionate share of the collective net pension liability (asset) (\$)                                   | \$ -                 | \$ -                 | \$ -                 | \$ -                 |  |             |             |             |             |             |
| State's proportionate share of the collective net pension liability (asset) associated with Town (\$)             | <u>\$ 48,663,025</u> | <u>\$ 46,567,518</u> | <u>\$ 44,588,867</u> | <u>\$ 34,861,016</u> |  |             |             |             |             |             |
| Total   | <u>\$ 48,663,025</u> | <u>\$ 46,567,518</u> | <u>\$ 44,588,867</u> | <u>\$ 34,861,016</u> |  |             |             |             |             |             |
| Town's Covered Payroll  | \$ 14,439,115        | \$ 13,700,071        | \$ 13,794,498        | \$ 13,446,489        |  |             |             |             |             |             |
| Town's proportionate share of the collective net pension liability (asset) as a percentage of its Covered Payroll | 0.00%                | 0.00%                | 0.00%                | 0.00%                |  |             |             |             |             |             |
| Plan fiduciary net position as a percentage of the pension liability  | 54.25%               | 52.73%               | 55.38%               | 61.64%               |  |             |             |             |             |             |
| Town's expense and revenue recognized for Commonwealth support  | <u>\$ 5,079,102</u>  | <u>\$ 4,750,192</u>  | <u>\$ 3,616,554</u>  | <u>\$ 2,421,962</u>  |  |             |             |             |             |             |

**See Notes to the Required Supplementary Information**

Town of Lincoln, Massachusetts  
Required Supplementary Information  
Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB 75 Employer Reporting)  
June 30, 2018  
Last 10 Fiscal Years

|  | 2018  | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---|------|------|------|------|------|------|------|------|------|
| <b>Total OPEB liability</b>  | <i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i> |      |      |      |      |      |      |      |      |      |
| Service cost   | \$ 1,672,168  |      |      |      |      |      |      |      |      |      |
| Interest   | 2,458,320   |      |      |      |      |      |      |      |      |      |
| Changes of benefit terms   | (9,367,577)   |      |      |      |      |      |      |      |      |      |
| Difference between expected and actual experience                              | 132,697   |      |      |      |      |      |      |      |      |      |
| Changes in assumptions   | -   |      |      |      |      |      |      |      |      |      |
| Benefit payments   | (1,487,353)   |      |      |      |      |      |      |      |      |      |
| <b>Net change in total OPEB liability</b>                                      | <u>(6,591,745)</u>  |      |      |      |      |      |      |      |      |      |
| <b>Total OPEB liability - beginning</b>  | 34,177,786  |      |      |      |      |      |      |      |      |      |
| <b>Total OPEB liability - ending (a)</b>                                       | <u><u>\$ 27,586,041</u></u>   |      |      |      |      |      |      |      |      |      |
| <b>Plan Fiduciary net position</b>   |   |      |      |      |      |      |      |      |      |      |
| Contributions - employer   | \$ 2,367,353  |      |      |      |      |      |      |      |      |      |
| Net investment income  | 655,536   |      |      |      |      |      |      |      |      |      |
| Benefit payments   | (1,487,353)   |      |      |      |      |      |      |      |      |      |
| Administrative expense   | -   |      |      |      |      |      |      |      |      |      |
| <b>Net change in plan fiduciary net position</b>                               | <u>1,535,536</u>  |      |      |      |      |      |      |      |      |      |
| <b>Plan fiduciary net position - beginning</b>                                 | 4,622,979   |      |      |      |      |      |      |      |      |      |
| <b>Plan fiduciary net position - ending (b)</b>                                | <u><u>\$ 6,158,515</u></u>  |      |      |      |      |      |      |      |      |      |
| <b>Town's net OPEB liability - ending (a) - (b)</b>                            | <u><u>\$ 21,427,526</u></u>   |      |      |      |      |      |      |      |      |      |
| <b>Plan fiduciary net position as a percentage of the total OPEB liability</b> | 22.32%  |      |      |      |      |      |      |      |      |      |
| <b>Covered Payroll</b>   | \$ 21,176,540   |      |      |      |      |      |      |      |      |      |
| <b>Town's net OPEB liability as a percentage of covered payroll</b>            | 101.19%   |      |      |      |      |      |      |      |      |      |

*Benefit changes:*

- HMO Network Blue to HMO Blue NE
- Eliminated Blue Choice option for new employees
- Increased emergency room co-pays

*Changes in assumption:*

- Discount rate is 7.00% previously 4.47%
- The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The Actuarial Cost Method is Entry Age Normal - previously Projected Unit Credit

**See Notes to the Required Supplementary Information**

Town of Lincoln, Massachusetts  
 Required Supplementary Information  
 Schedule of Contributions (GASB 75 Employer Reporting)  
 June 30, 2018  
 Last 10 Fiscal Years

|  | 2018              | 2017        | 2016  | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|-------------------|-------------|---|------|------|------|------|------|------|------|
| Actuarial determined contribution                                    | \$ 3,285,969      | \$ -        | <i>This schedule is intended to show information for 10 years. Additional years' will be displayed as it becomes available.</i> |      |      |      |      |      |      |      |
| Contributions in relating to the actuarially determined contribution | 2,367,353         | -           |   |      |      |      |      |      |      |      |
| Contribution deficiency (excess)                                     | <u>\$ 918,616</u> | <u>\$ -</u> |   |      |      |      |      |      |      |      |
| Covered Payroll  | \$ 21,176,540     | \$ -        |   |      |      |      |      |      |      |      |
| Contributions as a percentage of Covered Payroll                     | 11.18%            |             |   |      |      |      |      |      |      |      |

**Notes to Schedule**

Valuation date: 7/1/2017

Methods and assumptions used to determine contribution rates:

|                           |   |
|---------------------------|---|
| Actuarial cost method     | Individual Entry Age Normal   |
| Asset valuation method    | Market Value as of the Measurement Date, July 1, 2017   |
| Inflation                 | 2.75%   |
| Salary increases          | 3.00% annually  |
| Investment rate of return | 7.04%, net of OPEB plan investment expense, including inflation   |
| Pre-Retirement Mortality  | RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for male and females.         |
| Post-Retirement Mortality | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for male and females. |
| Disabled Mortality        | RP-2000 Healthy Annuitant Table projected generationally with Sacle BB and a base year 2012 for males and females           |

Other Information:

The results of the July 1, 2017 valuation reflect a modification in benefit terms that increase co-pays on emergency room visits and changes in the HMO plans available.

**See Notes to the Required Supplementary Information**

Town of Lincoln, Massachusetts  
Required Supplementary Information  
Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB 74 Plan Reporting)  
June 30, 2018  
Last 10 Fiscal Years

|  | 2018                 | 2017                 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|----------------------|----------------------|------|------|------|------|------|------|------|------|
| <b>Total OPEB liability</b>  |                      |                      |      |      |      |      |      |      |      |      |
| Service cost   | \$ 877,083           | \$ 1,664,991         |      |      |      |      |      |      |      |      |
| Interest   | 1,951,373            | 2,429,044            |      |      |      |      |      |      |      |      |
| Changes of benefit terms   | (9,924,742)          | -                    |      |      |      |      |      |      |      |      |
| Difference between expected and actual experience                              | (12,519,029)         | (263,639)            |      |      |      |      |      |      |      |      |
| Changes in assumptions   | (12,658,695)         | 5,068,773            |      |      |      |      |      |      |      |      |
| Benefit payments   | (1,186,642)          | (1,487,353)          |      |      |      |      |      |      |      |      |
| <b>Net change in total OPEB liability</b>                                      | <b>(33,460,652)</b>  | <b>7,411,816</b>     |      |      |      |      |      |      |      |      |
| <b>Total OPEB liability - beginning</b>  | <b>62,682,248</b>    | <b>55,270,432</b>    |      |      |      |      |      |      |      |      |
| <b>Total OPEB liability - ending (a)</b>                                       | <b>\$ 29,221,596</b> | <b>\$ 62,682,248</b> |      |      |      |      |      |      |      |      |
| <b>Plan Fiduciary net position</b>   |                      |                      |      |      |      |      |      |      |      |      |
| Contributions - employer   | \$ 2,066,642         | \$ 2,367,353         |      |      |      |      |      |      |      |      |
| Net investment income  | 631,220              | 655,540              |      |      |      |      |      |      |      |      |
| Benefit payments   | (1,186,642)          | (1,487,353)          |      |      |      |      |      |      |      |      |
| Administrative expense   | -                    | -                    |      |      |      |      |      |      |      |      |
| <b>Net change in plan fiduciary net position</b>                               | <b>1,511,220</b>     | <b>1,535,540</b>     |      |      |      |      |      |      |      |      |
| <b>Plan fiduciary net position - beginning</b>                                 | <b>6,158,516</b>     | <b>4,622,976</b>     |      |      |      |      |      |      |      |      |
| <b>Plan fiduciary net position - ending (b)</b>                                | <b>\$ 7,669,736</b>  | <b>\$ 6,158,516</b>  |      |      |      |      |      |      |      |      |
| <b>Town's net OPEB liability - ending (a) - (b)</b>                            | <b>\$ 21,551,860</b> | <b>\$ 56,523,732</b> |      |      |      |      |      |      |      |      |
| <b>Plan fiduciary net position as a percentage of the total OPEB liability</b> | <b>26.25%</b>        | <b>9.82%</b>         |      |      |      |      |      |      |      |      |
| <b>Covered Payroll</b>   | <b>\$ 26,015,853</b> | <b>\$ 21,176,540</b> |      |      |      |      |      |      |      |      |
| <b>Town's net OPEB liability as a percentage of covered payroll</b>            | <b>82.84%</b>        | <b>266.92%</b>       |      |      |      |      |      |      |      |      |

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

*Benefit changes:*

- HMO Network Blue to HMO Blue NE
- Eliminated Blue Choice option for new employees
- Increased emergency room co-pays

*Changes in assumption:*

- Discount rate is 7.00% previously 4.47%
- The assumed pre-retirement mortality table is the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The assumed post-retirement mortality table is the RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females previously RP-2014 Employee and Healthy Annuitant with Scale MP-2015 generational improvements from 2006
- The Actuarial Cost Method is Entry Age Normal - previously Projected Unit Credit

**See Notes to the Required Supplementary Information**

Town of Lincoln, Massachusetts  
Required Supplementary Information  
Schedule of Contributions (GASB 74 Plan Reporting)  
June 30, 2018  
Last 10 Fiscal Years

|  | 2018                | 2017                | 2016  | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---------------------|---------------------|---|------|------|------|------|------|------|------|
| Actuarial determined contribution                                    | \$ 5,134,134        | \$ 1,715,840        | <i>This schedule is intended to show information for 10 years. Additional years' will be displayed as it becomes available.</i> |      |      |      |      |      |      |      |
| Contributions in relating to the actuarially determined contribution | 2,066,642           | 2,367,353           |   |      |      |      |      |      |      |      |
| Contribution deficiency (excess)                                     | <u>\$ 3,067,492</u> | <u>\$ (651,513)</u> |   |      |      |      |      |      |      |      |
| Covered Payroll  | \$ 26,015,853       | \$ 21,176,540       |   |      |      |      |      |      |      |      |
| Contributions as a percentage of Covered Payroll                     | 7.94%               | 11.18%              |   |      |      |      |      |      |      |      |

**Notes to Schedule**

Valuation date: 7/1/2017 7/1/2015

Methods and assumptions used to determine contribution rates:

|                           |   |
|---------------------------|---|
| Actuarial cost method     | Individual Entry Age Normal   |
| Asset valuation method    | Market Value as of the Reporting Date, June 30,2018   |
| Inflation                 | 2.75% as of June 30, 2018 and for the future periods  |
| Salary increases          | 3.00% as of June 30, 2018 and for the future periods  |
| Investment rate of return | 7.04%, net of OPEB plan investment expense, including inflation   |
| Pre-Retirement Mortality  | RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females         |
| Post-Retirement Mortality | RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females |
| Disabled Mortality        | RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females           |

**See Notes to the Required Supplementary Information**

Town of Lincoln, Massachusetts  
 Required Supplementary Information  
 Schedule of Investment Returns (GASB 74 Plan Reporting)  
 June 30, 2018  
 Last 10 Fiscal Years

|  | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|------|------|------|------|------|------|------|------|------|------|
|--|------|------|------|------|------|------|------|------|------|------|

Annual money-weighted rate of return,  
 net of investment expense

|  |       |        |   |  |  |  |  |  |  |  |
|--|-------|--------|---|--|--|--|--|--|--|--|
|  | 9.58% | 12.95% | <i>This schedule is intended to show information for 10 years. Additional years' will be displayed as it becomes available.</i> |  |  |  |  |  |  |  |
|--|-------|--------|---|--|--|--|--|--|--|--|

**See Notes to the Required Supplementary Information**

Town of Lincoln, Massachusetts  
Notes to the Required Supplementary Information  
June 30, 2018

(A) Budgetary Information

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

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

(B) Pension Plans

a. Plan Description

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

The Town is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex County Retirement System issues a stand-alone financial report that is available to the public at:

<https://middlesexretirement.org/wp-content/uploads/2018/08/FINAL-MCRS-Audit-Report-of-Financial-Statements-12-31-2017.pdf>

or by writing to the to the Middlesex County Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

b. Funding Plan

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

c. Change in Assumptions

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

- The mortality tables for healthy participants were changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2017.
- The mortality tables for disabled participants were changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.
- The long-term salary increase assumption was lowered by 0.25%, to 4.00% for Group 1 participants, 4.25% for Group 2 participants, and 4.50% for Group 4 participants.
- The investment rate of return assumption was reduced from 7.75% to 7.50%. The inflation rate was reduced to 3.25% from the previous rate of 3.50%.

Changes in Plan Provisions

There were not any changes in the Plan provisions.

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

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

e. Schedule of the Town's Contributions

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

f. Massachusetts Teachers Retirement System

Special Funding Situation

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

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

For the fiscal year ended June 30, 2018, the Town's proportionate share of the collective pension expense was \$5,079,102. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. Accordingly, the accompanying financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2018, or fund balance/net position at June 30, 2018.

The Commonwealth's proportionate share of net pension liability associated with the Town is \$48,663,025.

The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy17.pdf>

#### Benefits provided

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

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

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

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

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

In addition, members who join the system on or after April 2, 2012 will have their withholding rate reduced to 8% after achieving 30 years of creditable service.

#### Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

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

#### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy17.pdf>

#### g. Schedule of the Proportionate Share of the Collective Net Pension Liability

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

(C) Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (which became effective for the June 30, 2017 reporting period) and Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective for the June 30, 2018 reporting period). GASB Statements #74 and #75 relate to reporting requirements of the Town's OPEB Trust fund and the Town's OPEB liability. The net other post-employment benefits **liability** reported in the Town's statement of net position under the new standards differs from the net other post-employment benefits **obligation** amount previously reported (in accordance with the prior standards guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the Town's net other post-employment benefits liability was "phased in" over a thirty-year period. The new standards eliminate the thirty-year phase in period and require reporting the entire other post-employment benefits liability.

**Plan Description**

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

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

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

iii. Schedules of Net OPEB Liability and Related Ratios (GASB 74 and GASB 75)

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

iv. Schedules of Contributions - Other Post Employment Benefits (GASB 74 and GASB 75)

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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Town of Lincoln, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Lincoln, Massachusetts' basic financial statements, and have issued our report thereon dated January 14, 2019.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
Georgetown, Massachusetts  
January 14, 2019