

TOWN OF LANCASTER, MASSACHUSETTS

**REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2020

TOWN OF LANCASTER, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Lancaster, Massachusetts

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as 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 report dated March 22, 2021, on our consideration of the Town of Lancaster, 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 the Town of Lancaster, Massachusetts' internal control over financial reporting and compliance.

Powers + Sullivan, LLC

March 22, 2021

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Lancaster, Massachusetts (Town) we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2020. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). We encourage readers to consider the information presented in this report.

The GASB is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Lancaster exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$34.2 million.
- At the close of the current year, the Town's general fund reported an ending fund balance of \$4.3 million, a decrease of \$524,000 in comparison with the prior year. Total fund balance represents 18.5% of general fund expenditures.
- The Town has recorded an \$9.6 million net pension liability and a \$159,000 other postemployment benefit (OPEB) liability.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements report functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, COVID-19, and interest. The business-type activities consist of water and solar field activities.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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 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*.

The Town of Lancaster adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains one type of proprietary fund.

Enterprise Funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and solar field activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs.

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

COVID-19

On March 27, 2020, the United States Federal Government established the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the economic downfall caused by the COVID-19 pandemic. This Act requires that the payment from these funds be used only to cover expenses that; are necessary due to the public health emergency with respect COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021. As of June 30, 2020, the Town incurred COVID-19 related expenses totaling \$15,393. The Town anticipates being reimbursed for these costs through the Coronavirus Relief Fund and has recorded receivables related to the anticipated reimbursements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Lancaster's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$34.2 million at the close of 2020, an increase of \$372,000 from the prior year.

The largest portion of the Town's net position, \$31.2 million (91.2%), reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net position \$1.6 million (4.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$1.4 million (4.2%).

Governmental Activities

The Town of Lancaster's assets and deferred outflows exceeded liabilities and deferred inflows for governmental activities by \$26.3 million at the close of 2020. Details are presented below.

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Assets: | | |
| Current assets..... | \$ 9,219,814 | \$ 8,694,513 |
| Noncurrent assets (excluding capital)..... | 589,318 | 703,865 |
| Capital assets, nondepreciable..... | 2,683,182 | 2,556,133 |
| Capital assets, net of accumulated depreciation... | 29,924,518 | 30,168,205 |
| Total assets..... | 42,416,832 | 42,122,716 |
| Deferred outflows of resources..... | 1,305,567 | 1,165,166 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 1,652,610 | 1,237,353 |
| Noncurrent liabilities (excluding debt)..... | 8,971,077 | 9,522,433 |
| Current debt..... | 1,092,256 | 1,023,471 |
| Noncurrent debt..... | 4,958,355 | 5,126,492 |
| Total liabilities..... | 16,674,298 | 16,909,749 |
| Deferred inflows of resources..... | 756,777 | 139,648 |
| Net position: | | |
| Net investment in capital assets..... | 26,557,089 | 26,574,375 |
| Restricted..... | 1,566,168 | 1,701,554 |
| Unrestricted..... | (1,831,933) | (2,037,444) |
| Total net position..... | \$ 26,291,324 | \$ 26,238,485 |

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-----------------------------|
| Program Revenues: | | |
| Charges for services..... | \$ 1,589,357 | \$ 1,247,303 |
| Operating grants and contributions..... | 362,837 | 783,692 |
| Capital grants and contributions..... | 324,396 | 364,323 |
| General Revenues: | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 19,872,030 | 18,371,713 |
| Tax and other liens..... | 29,578 | 100,610 |
| Motor vehicle and other excise taxes..... | 1,223,061 | 1,216,430 |
| Penalties and interest on taxes..... | 80,258 | 115,104 |
| Payments in lieu of taxes..... | 100,185 | 99,500 |
| Grants and contributions not restricted to specific programs..... | 1,247,807 | 1,220,142 |
| Unrestricted investment income..... | 107,133 | 192,254 |
| Miscellaneous..... | 42,851 | 329,603 |
| Total revenues..... | <u>24,979,493</u> | <u>24,040,674</u> |
| Expenses: | | |
| General government..... | 2,564,202 | 2,707,906 |
| Public safety..... | 3,440,258 | 3,545,497 |
| Education..... | 15,831,531 | 15,096,531 |
| Public works..... | 2,146,033 | 2,108,030 |
| Health and human services..... | 214,273 | 169,552 |
| Culture and recreation..... | 568,580 | 740,830 |
| COVID-19..... | 15,393 | - |
| Interest..... | 146,384 | 169,954 |
| Total expenses..... | <u>24,926,654</u> | <u>24,538,300</u> |
| Change in net position..... | 52,839 | (497,626) |
| Net position, beginning of year..... | <u>26,238,485</u> | <u>26,736,111</u> |
| Net position, end of year..... | <u>\$ 26,291,324</u> | <u>\$ 26,238,485</u> |

The governmental expenses totaled \$24.9 million of which \$2.3 million (9.1%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$22.7 million, primarily coming from property taxes, motor vehicle excise, and non-restricted state aid.

Charges for services represent about 69.8% of governmental program revenues. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered are set by Town Meeting and Town boards.

Operating and capital grants and contributions account for 15.9% and 14.3% of the governmental program revenues. Most of these resources apply to general government and public works operations. These resources offset costs of those departments over and above the general fund operating budget.

Property taxes are the most significant revenue source for the Town's governmental activities. They comprise 79.6% of all revenues. Other taxes comprise 5.3% of the governmental activity's revenues.

Business-type Activities

For the Town's business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$7.9 million at the close of 2020.

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|----------------------------|
| Assets: | | |
| Current assets..... | \$ 4,049,587 | \$ 3,950,615 |
| Capital assets, nondepreciable..... | 194,192 | 194,192 |
| Capital assets, net of accumulated depreciation... | <u>8,964,385</u> | <u>9,178,778</u> |
| Total assets..... | <u>13,208,164</u> | <u>13,323,585</u> |
| Deferred outflows of resources..... | <u>96,066</u> | <u>96,874</u> |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 30,161 | 72,291 |
| Noncurrent liabilities (excluding debt)..... | 801,151 | 831,359 |
| Current debt..... | 387,298 | 388,765 |
| Noncurrent debt..... | <u>4,148,397</u> | <u>4,535,695</u> |
| Total liabilities..... | <u>5,367,007</u> | <u>5,828,110</u> |
| Deferred inflows of resources..... | <u>37,879</u> | <u>11,819</u> |
| Net position: | | |
| Net investment in capital assets..... | 4,622,882 | 4,448,510 |
| Unrestricted..... | <u>3,276,462</u> | <u>3,132,020</u> |
| Total net position..... | <u>\$ 7,899,344</u> | <u>\$ 7,580,530</u> |
| Program Revenues: | | |
| Charges for services..... | \$ 1,475,985 | \$ 1,511,209 |
| General Revenues: | | |
| Unrestricted investment income..... | <u>11,010</u> | <u>16,391</u> |
| Total revenues..... | <u>1,486,995</u> | <u>1,527,600</u> |
| Expenses: | | |
| Water..... | 1,012,348 | 1,099,128 |
| Solar..... | <u>155,833</u> | <u>111,154</u> |
| Total expenses..... | <u>1,168,181</u> | <u>1,210,282</u> |
| Change in net position..... | <u>318,814</u> | <u>317,318</u> |
| Net position, beginning of year..... | <u>7,580,530</u> | <u>7,263,212</u> |
| Net position, end of year..... | <u>\$ 7,899,344</u> | <u>\$ 7,580,530</u> |

Business-type net position of \$4.6 million (58.5%) represents net investment in capital assets while \$3.3 million (41.5%) is unrestricted. The Town's business-type net position increased by \$319,000 in 2020.

Financial Analysis of the Governmental Funds

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

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

At the end of the current year, the Town's governmental funds reported combined ending fund balances of \$6.3 million, which consists of \$4.3 million in the general fund and \$2.0 million in the nonmajor governmental funds. Cumulatively there was a decrease of \$292,000 in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current year unassigned fund balance of the general fund was \$4.1 million or 95.5% of total fund balance. Included in the amount is \$2.3 million of stabilization funds which have been classified as unassigned general fund balance in accordance with GASB Statement No. 54. The restricted balance of \$148,000 is for debt payments advanced funded by the MSBA. As a measure of the general fund's liquidity it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance equals 17.7% of total general fund expenditures, while total fund balance equals 18.5% of that same amount.

The highway improvement fund is used to account for funds received for the State Highway Department which is used for construction, reconstruction and improvements of roadways. During the year, \$379,000 of reimbursements was received from the State all of which was spent on roadway improvements.

The nonmajor funds increased by \$232,000 during the current year. This increase is due to a transfer in from the general fund and capital lease financing for a new fire truck, which was offset by the timing of the receipt and disbursement of various special revenue funds.

General Fund Budgetary Highlights

The difference between the original budget and the final budget was an increase of \$1.1 million which was primarily due to various transfers out of the general fund voted at Special Town Meeting.

Capital Asset and Debt Administration

Outstanding long-term debt for governmental activities as of June 30, 2020, totaled \$4.8 million of which \$1.3 million is related to a debt refunding, \$81,000 is for the Bartlett Dam repairs, \$24,000 is for the septic loan program and \$3.4 million is for the Prescott Building project. Outstanding long-term debt for the business-type activities as of June 30, 2020, totaled \$4.3 million of which \$3.4 million is related to water and \$960,000 is related to the solar fund.

Major capital events during the current year for governmental additions were \$1.8 million for road improvements, building improvements, vehicles and equipment. The water enterprise fund had additions of \$100,000 for a water main project.

Please refer to notes 4, 6, 7 and 8 for further discussion of the capital asset and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Lancaster's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 695 Main Street, Lancaster, Massachusetts 01523.

Basic Financial Statements

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STATEMENT OF NET POSITION

JUNE 30, 2020

| | <i>Primary Government</i> | | |
|---|-----------------------------|-----------------------------|-----------------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 5,210,532 | \$ 3,597,901 | \$ 8,808,433 |
| Investments..... | 2,558,009 | - | 2,558,009 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 379,996 | - | 379,996 |
| Tax liens..... | 241,993 | - | 241,993 |
| Motor vehicle and other excise taxes..... | 199,068 | - | 199,068 |
| User charges..... | - | 451,686 | 451,686 |
| Departmental and other..... | 136,602 | - | 136,602 |
| Special assessments..... | 19,265 | - | 19,265 |
| Tax foreclosures..... | 474,349 | - | 474,349 |
| Total current assets..... | <u>9,219,814</u> | <u>4,049,587</u> | <u>13,269,401</u> |
| NONCURRENT: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental - other..... | 589,318 | - | 589,318 |
| Capital assets, nondepreciable..... | 2,683,182 | 194,192 | 2,877,374 |
| Capital assets, net of accumulated depreciation..... | 29,924,518 | 8,964,385 | 38,888,903 |
| Total noncurrent assets..... | <u>33,197,018</u> | <u>9,158,577</u> | <u>42,355,595</u> |
| TOTAL ASSETS..... | <u>42,416,832</u> | <u>13,208,164</u> | <u>55,624,996</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows for refunding debt..... | 10,950 | - | 10,950 |
| Deferred outflows related to pensions..... | 991,892 | 89,779 | 1,081,671 |
| Deferred outflows related to other postemployment benefits..... | 302,725 | 6,287 | 309,012 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES..... | <u>1,305,567</u> | <u>96,066</u> | <u>1,401,633</u> |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 290,229 | 13,038 | 303,267 |
| Tax refunds payable..... | 1,323,422 | - | 1,323,422 |
| Accrued interest..... | 38,216 | 17,123 | 55,339 |
| Other liabilities..... | 743 | - | 743 |
| Capital lease obligations..... | 127,972 | - | 127,972 |
| Bonds payable..... | 964,284 | 387,298 | 1,351,582 |
| Total current liabilities..... | <u>2,744,866</u> | <u>417,459</u> | <u>3,162,325</u> |
| NONCURRENT: | | | |
| Capital lease obligations..... | 1,013,741 | - | 1,013,741 |
| Net pension liability..... | 8,815,597 | 797,922 | 9,613,519 |
| Net other postemployment benefits liability..... | 155,480 | 3,229 | 158,709 |
| Bonds payable..... | 3,944,614 | 4,148,397 | 8,093,011 |
| Total noncurrent liabilities..... | <u>13,929,432</u> | <u>4,949,548</u> | <u>18,878,980</u> |
| TOTAL LIABILITIES..... | <u>16,674,298</u> | <u>5,367,007</u> | <u>22,041,305</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions..... | 317,765 | 28,762 | 346,527 |
| Deferred inflows related to other postemployment benefits..... | 439,012 | 9,117 | 448,129 |
| TOTAL DEFERRED INFLOWS OF RESOURCES..... | <u>756,777</u> | <u>37,879</u> | <u>794,656</u> |
| NET POSITION | | | |
| Net investment in capital assets..... | 26,557,089 | 4,622,882 | 31,179,971 |
| Restricted for: | | | |
| Debt service..... | 147,541 | - | 147,541 |
| Permanent funds: | | | |
| Expendable..... | 194,418 | - | 194,418 |
| Nonexpendable..... | 503,351 | - | 503,351 |
| Gifts and grants..... | 720,858 | - | 720,858 |
| Unrestricted..... | (1,831,933) | 3,276,462 | 1,444,529 |
| TOTAL NET POSITION..... | <u>\$ 26,291,324</u> | <u>\$ 7,899,344</u> | <u>\$ 34,190,668</u> |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|-------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 2,564,202 | \$ 205,024 | \$ 256,000 | \$ - | \$ (2,103,178) |
| Public safety..... | 3,440,258 | 1,000,786 | - | - | (2,439,472) |
| Education..... | 15,831,531 | - | - | - | (15,831,531) |
| Public works..... | 2,146,033 | 235,562 | 9,275 | 324,396 | (1,576,800) |
| Health and human services..... | 214,273 | 147,980 | - | - | (66,293) |
| Culture and recreation..... | 568,580 | 5 | 82,169 | - | (486,406) |
| COVID-19..... | 15,393 | - | 15,393 | - | - |
| Interest..... | 146,384 | - | - | - | (146,384) |
| Total Governmental Activities..... | <u>24,926,654</u> | <u>1,589,357</u> | <u>362,837</u> | <u>324,396</u> | (22,650,064) |
| <i>Business-Type Activities:</i> | | | | | |
| Water..... | 1,012,348 | 1,250,000 | - | - | 237,652 |
| Solar Field..... | 155,833 | 225,985 | - | - | 70,152 |
| Total Business-Type Activities..... | <u>1,168,181</u> | <u>1,475,985</u> | <u>-</u> | <u>-</u> | 307,804 |
| Total Primary Government..... | <u>\$ 26,094,835</u> | <u>\$ 3,065,342</u> | <u>\$ 362,837</u> | <u>\$ 324,396</u> | (22,342,260) |

(Continued)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net position: | | | |
| Net (expense) revenue from previous page..... | \$ (22,650,064) | \$ 307,804 | \$ (22,342,260) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 19,872,030 | - | 19,872,030 |
| Tax and other liens..... | 29,578 | - | 29,578 |
| Motor vehicle and other excise taxes..... | 1,223,061 | - | 1,223,061 |
| Penalties and interest on taxes..... | 80,258 | - | 80,258 |
| Payments in lieu of taxes..... | 100,185 | - | 100,185 |
| Grants and contributions not restricted to specific programs..... | 1,247,807 | - | 1,247,807 |
| Unrestricted investment income..... | 107,133 | 11,010 | 118,143 |
| Miscellaneous..... | 42,851 | - | 42,851 |
| Total general revenues and transfers..... | 22,702,903 | 11,010 | 22,713,913 |
| Change in net position..... | 52,839 | 318,814 | 371,653 |
| <i>Net position:</i> | | | |
| Beginning of year..... | 26,238,485 | 7,580,530 | 33,819,015 |
| End of year..... | \$ 26,291,324 | \$ 7,899,344 | \$ 34,190,668 |

(Concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2020

| | General | Highway Improvement Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 4,223,238 | \$ - | \$ 987,294 | \$ 5,210,532 |
| Investments..... | 1,522,924 | - | 1,035,085 | 2,558,009 |
| Receivables, net of uncollectibles: | | | | |
| Real estate and personal property taxes..... | 379,996 | - | - | 379,996 |
| Tax liens..... | 241,993 | - | - | 241,993 |
| Motor vehicle and other excise taxes..... | 199,068 | - | - | 199,068 |
| Departmental and other..... | 136,602 | - | - | 136,602 |
| Intergovernmental..... | - | 573,925 | 15,393 | 589,318 |
| Special assessments..... | - | - | 19,265 | 19,265 |
| Tax foreclosures..... | 474,349 | - | - | 474,349 |
| Due from other funds..... | - | - | 9,501 | 9,501 |
| TOTAL ASSETS..... | \$ 7,178,170 | \$ 573,925 | \$ 2,066,538 | \$ 9,818,633 |
| LIABILITIES | | | | |
| Warrants payable..... | \$ 267,327 | \$ - | \$ 22,902 | \$ 290,229 |
| Tax refunds payable..... | 1,323,422 | - | - | 1,323,422 |
| Due to other funds..... | - | 9,501 | - | 9,501 |
| Other liabilities..... | 743 | - | - | 743 |
| TOTAL LIABILITIES..... | 1,591,492 | 9,501 | 22,902 | 1,623,895 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue..... | 1,297,086 | 564,424 | 19,265 | 1,880,775 |
| FUND BALANCES | | | | |
| Nonspendable..... | - | - | 486,307 | 486,307 |
| Restricted..... | 147,541 | - | 1,538,064 | 1,685,605 |
| Assigned..... | 43,293 | - | - | 43,293 |
| Unassigned..... | 4,098,758 | - | - | 4,098,758 |
| TOTAL FUND BALANCES..... | 4,289,592 | - | 2,024,371 | 6,313,963 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES..... | \$ 7,178,170 | \$ 573,925 | \$ 2,066,538 | \$ 9,818,633 |

See notes to basic financial statements.

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

JUNE 30, 2020

| | | |
|--|--------------------|----------------------|
| Total governmental fund balances..... | | \$ 6,313,963 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 32,607,700 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds..... | | 1,880,775 |
| The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred..... | | 548,790 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (38,216) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | | |
| Bonds payable..... | (4,908,898) | |
| Net pension liability..... | (8,815,597) | |
| Net other postemployment benefits liability..... | (155,480) | |
| Capital lease obligations..... | <u>(1,141,713)</u> | |
| Net effect of reporting long-term liabilities..... | | <u>(15,021,688)</u> |
| Net position of governmental activities..... | | <u>\$ 26,291,324</u> |

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2020

| | General | Highway Improvement Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 19,688,100 | \$ - | \$ - | \$ 19,688,100 |
| Tax liens..... | 41,694 | - | - | 41,694 |
| Motor vehicle and other excise taxes..... | 1,150,826 | - | - | 1,150,826 |
| Penalties and interest on taxes..... | 80,258 | - | - | 80,258 |
| Payments in lieu of taxes..... | 100,185 | - | - | 100,185 |
| Intergovernmental - other..... | 1,247,807 | 378,835 | 253,999 | 1,880,641 |
| Intergovernmental - COVID-19 relief..... | - | - | 15,393 | 15,393 |
| Departmental and other..... | 1,002,202 | - | 357,190 | 1,359,392 |
| Special assessments..... | - | - | 233,348 | 233,348 |
| Investment income..... | 69,437 | - | 37,696 | 107,133 |
| Miscellaneous..... | - | - | 42,851 | 42,851 |
| TOTAL REVENUES..... | 23,380,509 | 378,835 | 940,477 | 24,699,821 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 1,621,191 | - | 123,921 | 1,745,112 |
| Public safety..... | 2,099,539 | - | 1,384,540 | 3,484,079 |
| Education..... | 15,099,905 | - | 27,400 | 15,127,305 |
| Public works..... | 654,589 | 378,835 | 826,581 | 1,860,005 |
| Health and human services..... | 166,070 | - | - | 166,070 |
| Culture and recreation..... | 407,805 | - | 26,728 | 434,533 |
| COVID-19..... | - | - | 15,393 | 15,393 |
| Pension benefits..... | 622,598 | - | - | 622,598 |
| Property and liability insurance..... | 142,026 | - | - | 142,026 |
| Employee benefits..... | 1,060,622 | - | - | 1,060,622 |
| State and county charges..... | 141,622 | - | - | 141,622 |
| Debt service: | | | | |
| Principal..... | 925,800 | - | 8,006 | 933,806 |
| Interest..... | 193,175 | - | - | 193,175 |
| TOTAL EXPENDITURES..... | 23,134,942 | 378,835 | 2,412,569 | 25,926,346 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | 245,567 | - | (1,472,092) | (1,226,525) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Capital lease financing..... | - | - | 935,000 | 935,000 |
| Transfers in..... | - | - | 769,225 | 769,225 |
| Transfers out..... | (769,225) | - | - | (769,225) |
| TOTAL OTHER FINANCING SOURCES (USES)... | (769,225) | - | 1,704,225 | 935,000 |
| NET CHANGE IN FUND BALANCES..... | (523,658) | - | 232,133 | (291,525) |
| FUND BALANCES AT BEGINNING OF YEAR..... | 4,813,250 | - | 1,792,238 | 6,605,488 |
| FUND BALANCES AT END OF YEAR..... | \$ 4,289,592 | \$ - | \$ 2,024,371 | \$ 6,313,963 |

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2020

| | | |
|--|--------------------|------------------|
| Net change in fund balances - total governmental funds..... | | \$ (291,525) |
| <p>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.</p> | | |
| Capital outlay..... | 1,792,421 | |
| Depreciation expense..... | <u>(1,909,059)</u> | |
| Net effect of reporting capital assets..... | | (116,638) |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p> | | |
| | | 279,672 |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction 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 unavailable and amortized in the Statement of Activities.</p> | | |
| Principal payments on capital leases..... | 50,185 | |
| Capital lease financing..... | (935,000) | |
| Net amortization of premium from issuance of bonds..... | 50,361 | |
| Net change in deferred charge on refunding..... | (10,920) | |
| Debt service principal payments..... | <u>933,806</u> | |
| Net effect of reporting long-term debt..... | | 88,432 |
| <p>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.</p> | | |
| Net change in accrued interest on long-term debt..... | 7,350 | |
| Net change in deferred outflow/(inflow) of resources related to pensions..... | (110,790) | |
| Net change in net pension liability..... | (447,375) | |
| Net change in deferred outflow/(inflow) of resources related to other postemployment benefits..... | (355,018) | |
| Net change in net other postemployment benefits liability..... | <u>998,731</u> | |
| Net effect of recording long-term liabilities..... | | <u>92,898</u> |
| Change in net position of governmental activities..... | | <u>\$ 52,839</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2020

| | Business-type Activities - Enterprise Funds | | |
|---|---|--------------|--------------|
| | Water | Solar Field | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 3,085,749 | \$ 512,152 | \$ 3,597,901 |
| Receivables, net of allowance for uncollectibles: | | | |
| User charges..... | 451,686 | - | 451,686 |
| Total current assets..... | 3,537,435 | 512,152 | 4,049,587 |
| NONCURRENT: | | | |
| Capital assets, nondepreciable..... | 194,192 | - | 194,192 |
| Capital assets, net of accumulated depreciation..... | 7,015,292 | 1,949,093 | 8,964,385 |
| Total noncurrent assets..... | 7,209,484 | 1,949,093 | 9,158,577 |
| TOTAL ASSETS..... | 10,746,919 | 2,461,245 | 13,208,164 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions..... | 89,779 | - | 89,779 |
| Deferred outflows related to other postemployment benefits..... | 6,287 | - | 6,287 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES..... | 96,066 | - | 96,066 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 12,973 | 65 | 13,038 |
| Accrued interest..... | 5,956 | 11,167 | 17,123 |
| Bonds payable..... | 312,298 | 75,000 | 387,298 |
| Total current liabilities..... | 331,227 | 86,232 | 417,459 |
| NONCURRENT: | | | |
| Net pension liability..... | 797,922 | - | 797,922 |
| Net other postemployment benefits liability..... | 3,229 | - | 3,229 |
| Bonds payable..... | 3,263,397 | 885,000 | 4,148,397 |
| Total noncurrent liabilities..... | 4,064,548 | 885,000 | 4,949,548 |
| TOTAL LIABILITIES..... | 4,395,775 | 971,232 | 5,367,007 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions..... | 28,762 | - | 28,762 |
| Deferred inflows related to other postemployment benefits..... | 9,117 | - | 9,117 |
| TOTAL DEFERRED INFLOWS OF RESOURCES..... | 37,879 | - | 37,879 |
| NET POSITION | | | |
| Net investment in capital assets..... | 3,633,789 | 989,093 | 4,622,882 |
| Unrestricted..... | 2,775,542 | 500,920 | 3,276,462 |
| TOTAL NET POSITION..... | \$ 6,409,331 | \$ 1,490,013 | \$ 7,899,344 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

| | Business-type Activities - Enterprise Funds | | |
|---|---|---------------------|---------------------|
| | Water | Solar Field | Total |
| OPERATING REVENUES: | | | |
| Charges for services..... | \$ 1,250,000 | \$ 225,985 | \$ 1,475,985 |
| OPERATING EXPENSES: | | | |
| Cost of services and administration..... | 630,649 | 71,833 | 702,482 |
| Depreciation..... | 249,626 | 64,411 | 314,037 |
| TOTAL OPERATING EXPENSES..... | 880,275 | 136,244 | 1,016,519 |
| OPERATING INCOME (LOSS)..... | 369,725 | 89,741 | 459,466 |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Investment income..... | 11,010 | - | 11,010 |
| Interest expense..... | (132,073) | (19,589) | (151,662) |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | (121,063) | (19,589) | (140,652) |
| CHANGE IN NET POSITION..... | 248,662 | 70,152 | 318,814 |
| NET POSITION AT BEGINNING OF YEAR..... | 6,160,669 | 1,419,861 | 7,580,530 |
| NET POSITION AT END OF YEAR..... | \$ 6,409,331 | \$ 1,490,013 | \$ 7,899,344 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

| | <u>Business-type Activities - Enterprise Funds</u> | | |
|--|--|--------------------------|----------------------------|
| | <u>Water</u> | <u>Solar Field</u> | <u>Total</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | | |
| Receipts from customers and users..... | \$ 1,222,913 | \$ 225,985 | \$ 1,448,898 |
| Payments to vendors..... | (417,032) | (71,768) | (488,800) |
| Payments to employees..... | (257,960) | - | (257,960) |
| NET CASH FROM OPERATING ACTIVITIES..... | <u>547,921</u> | <u>154,217</u> | <u>702,138</u> |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u> | | | |
| Acquisition and construction of capital assets..... | (99,644) | - | (99,644) |
| Principal payments on bonds and notes..... | (290,000) | (75,000) | (365,000) |
| Interest expense..... | (156,406) | (20,213) | (176,619) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | <u>(546,050)</u> | <u>(95,213)</u> | <u>(641,263)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | | |
| Investment income..... | 11,010 | - | 11,010 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 12,881 | 59,004 | 71,885 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | <u>3,072,868</u> | <u>453,148</u> | <u>3,526,016</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | <u>\$ 3,085,749</u> | <u>\$ 512,152</u> | <u>\$ 3,597,901</u> |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u> | | | |
| <u>FROM OPERATING ACTIVITIES:</u> | | | |
| Operating income (loss)..... | \$ 369,725 | \$ 89,741 | \$ 459,466 |
| Adjustments to reconcile operating income to net cash from operating activities: | | | |
| Depreciation..... | 249,626 | 64,411 | 314,037 |
| Deferred (outflows)/inflows related to pensions..... | 10,028 | - | 10,028 |
| Deferred (outflows)/inflows related to other postemployment benefits..... | 16,840 | - | 16,840 |
| Changes in assets and liabilities: | | | |
| User charges..... | (27,087) | - | (27,087) |
| Warrants payable..... | (41,003) | 65 | (40,938) |
| Net pension liability..... | 40,493 | - | 40,493 |
| Other postemployment benefits..... | (70,701) | - | (70,701) |
| Total adjustments..... | <u>178,196</u> | <u>64,476</u> | <u>242,672</u> |
| NET CASH FROM OPERATING ACTIVITIES..... | <u>\$ 547,921</u> | <u>\$ 154,217</u> | <u>\$ 702,138</u> |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2020

| | <u>Other Postemployment Benefit Trust Fund</u> | <u>Agency Funds</u> |
|---|--|-------------------------|
| ASSETS | | |
| Investments: | | |
| Investments in Pension Reserve Investment Trust..... \$ | 2,423,598 | \$ - |
| Receivables, net of allowance for uncollectibles: | | |
| Departmental and other..... | <u>-</u> | <u>75,762</u> |
| TOTAL ASSETS..... | <u>2,423,598</u> | <u>75,762</u> |
| LIABILITIES | | |
| Liabilities due depositors..... | <u>-</u> | <u>75,762</u> |
| NET POSITION | | |
| Restricted for other postemployment benefits..... \$ | <u>2,423,598</u> | <u>\$ -</u> |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2020

| | Other Postemployment Benefit Trust Fund |
|---|--|
| <u>ADDITIONS:</u> | |
| Contributions: | |
| Employer contributions..... | \$ 300,000 |
| Employer contributions for other postemployment benefit payments..... | 121,528 |
| Total contributions..... | 421,528 |
| Net investment income: | |
| Investment income..... | 38,908 |
| TOTAL ADDITIONS..... | 460,436 |
| <u>DEDUCTIONS:</u> | |
| Other postemployment benefit payments..... | 121,528 |
| NET INCREASE (DECREASE) IN NET POSITION..... | 338,908 |
| NET POSITION AT BEGINNING OF YEAR..... | 2,084,690 |
| NET POSITION AT END OF YEAR..... | \$ 2,423,598 |

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Lancaster, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen and an appointed Town Administrator.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town has no component units.

B. Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in a joint venture with the Nashoba Regional School District. This joint venture is designed to pool resources and share the costs, risks and rewards of providing educational services. The Town is committed to pay its proportionate share of the principal and interest on the indebtedness incurred by the Nashoba Regional School District for the purpose of renovating, reconstructing, and equipping the Nashoba Regional High School. The Town's 2020 assessment totaled \$13,014,404. Complete financial statements for the Nashoba Regional School District can be obtained by contacting their administrative office as 50 Mechanic Street, Bolton, Massachusetts 01740.

The Town has entered into a joint venture with the Minuteman Regional Vocational Technical School District along with other municipalities to pool resources and share the costs, risk and rewards of providing educational services. The Town has no equity interest in this joint venture. For 2020, the Town's annual assessment totaled \$2,085,501. Complete financial statements for the Minuteman Regional Vocational Technical School District can be obtained by contacting their administrative offices at 758 Marrett Road, Lexington, Massachusetts 02421.

C. Government-Wide and Fund Financial Statements***Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Fiduciary funds are reported by fund type.

D. 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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the related liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, other postemployment benefits obligations and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *highway improvement fund* is used to account for funds received from the State Highway Department which is used for construction, reconstruction, and improvements of roadways.

The nonmajor governmental funds consist of special revenue funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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 following major proprietary funds are reported:

The *water enterprise fund* is used to account for the Town's water activities.

The *solar field enterprise fund* is used to account for the Town's solar activities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, except for agency funds which have no measurement focus. 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 to provide funding for future other postemployment benefits (OPEB) liabilities.

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

E. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

F. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Cash and Investments.

G. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible receivables is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectible receivables is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectible receivables is estimated based on historical trends and specific account analysis.

Water User Fees

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water charges are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectible receivables.

Departmental and Other

Departmental and other receivables consist primarily of ambulance fees and are recorded as receivables in the year accrued. The allowance of uncollectible receivables is estimated based on historical trends and specific account analysis.

Special Assessments

The costs incurred on completed special projects that have been assessed to the benefited taxpayers which have not been paid.

Since these receivables are secured by the lien process, they are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectible receivables.

H. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

I. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

| <u>Capital Asset Type</u> | <u>Estimated Useful Life (in years)</u> |
|-----------------------------|---|
| Land improvements..... | 20 |
| Buildings..... | 20-40 |
| Machinery and equipment.... | 5-10 |
| Vehicles..... | 5 |
| Infrastructure..... | 50 |

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

J. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported deferred charges on refunding and deferred outflows of resources related to pensions and OPEB in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows 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 has reported deferred inflows of resources related to pensions and OPEB in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will not be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

K. Unavailable Revenue

Fund Financial Statements

Unavailable revenue at the governmental fund financial statement level represent billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Interfund Receivables and Payables

During the course of operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statements of net position as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

N. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Debt service” represents the amount accumulated for the future payment of general obligation bond principal and interest.

“Permanent funds – expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

“Permanent funds – nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Grants and gifts” represents assets that have restrictions placed on them from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town meeting is the highest level of decision-making authority for the government that can, by adoption of an article, which constitutes the most binding restraint, prior to the end of the year, commit fund balance. Once adopted, the limitation imposed by the article remains in place until a similar action is taken to remove the limitation.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. The Town’s by-laws authorize the Finance Director to assign fund balance which generally only exists temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

O. 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 Worcester Regional Retirement System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. 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.

P. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

Q. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

The water enterprise fund retains its investment income. Solar field enterprise fund investment income is assigned to the general fund.

R. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred. The related liability as of June 30, 2020 is immaterial and therefore is not recorded.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

S. Use of Estimates*Government-Wide and Fund Financial Statements*

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

T. 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.

NOTE 2 - CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial risk. At year-end, the carrying amount of deposits totaled \$8,633,462 and the bank balance totaled \$8,725,293. Of the bank balance, \$1,975,794 was covered by Federal Depository Insurance, \$4,680,823 was covered by Depositors Insurance Fund and \$2,068,676 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2020, the Town had the following investments:

| <u>Investment Type</u> | <u>Fair value</u> | <u>Maturities</u> | |
|---|-------------------|---------------------|------------------|
| | | <u>Under 1 Year</u> | <u>1-5 Years</u> |
| <u>Debt securities:</u> | | | |
| U.S. treasury bonds..... | \$ 480,901 | \$ 215,332 | \$ 265,569 |
| Government sponsored enterprises..... | 461,786 | - | 461,786 |
| Corporate bonds..... | 1,316,831 | 227,114 | 1,089,717 |
| Total debt securities..... | 2,259,518 | \$ 442,446 | \$ 1,817,072 |
| <u>Other investments:</u> | | | |
| Equity securities..... | 298,491 | | |
| Pension Reserve Investment Trust (PRIT).... | 2,423,598 | | |
| MMDT - Cash portfolio..... | 174,971 | | |
| Total investments..... | \$ 5,156,578 | | |

The Town participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.14 to 16.03 years. The OPEB Trust had \$2,423,598 invested in PRIT at June 30, 2020.

Custodial Credit Risk – Investments

For an investment, this is the risk that in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town’s investments of \$461,786 in government sponsored enterprises, \$480,901 in U.S. treasury bonds, \$1,316,831 in corporate bonds and \$298,491 in equity securities, the Town has a custodial credit risk exposure of \$2,558,009 because the related securities are uninsured, unregistered and held by the counterparty. The Town does not have a formal investment policy for custodial credit risk.

Interest Rate Risk

The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months. The Town’s investment in MMDT is unrated.

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. No more than 5% of the Town’s investments are invested in any one issuer.

Credit Risk

The Town has not adopted a formal policy related to credit risk. None of the Town’s investments were exposed to credit risk.

The Town’s investments are rated as follows by Moody’s Investors Services:

| Quality Rating | Government Sponsored Enterprises | Corporate Bonds |
|-------------------|----------------------------------|---------------------|
| AAA..... | \$ - | \$ - |
| AA+..... | 461,786 | - |
| AA-..... | - | 305,338 |
| A+..... | - | 90,448 |
| A-..... | - | 523,073 |
| BBB+..... | - | 267,715 |
| BBB..... | - | 130,257 |
| Total..... | \$ 461,786 | \$ 1,316,831 |

Fair Market Value of Investments

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 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

| Investment Type | June 30, 2020 | Fair Value Measurements Using | | |
|--|---------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments measured at fair value: | | | | |
| <u>Debt securities:</u> | | | | |
| U.S. treasury bonds..... | \$ 480,901 | \$ 480,901 | \$ - | \$ - |
| Government sponsored enterprises..... | 461,786 | 461,786 | - | - |
| Corporate bonds..... | 1,316,831 | - | 1,316,831 | - |
| Total debt securities..... | 2,259,518 | 942,687 | 1,316,831 | - |
| <u>Other investments:</u> | | | | |
| Equity securities..... | 298,491 | 298,491 | - | - |
| Total investments measured at fair value..... | 2,558,009 | \$ 1,241,178 | \$ 1,316,831 | \$ - |
| Investments measured at amortized cost: | | | | |
| MMDT - Cash portfolio..... | 174,971 | | | |
| Investments measured at net asset value: | | | | |
| Pension Reserve Investment Trust (PRIT).... | 2,423,598 | | | |
| Total investments..... | \$ 5,156,578 | | | |

Government sponsored enterprises, U.S. treasury bonds, equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

PRIT Investments are valued using the net asset value method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Town does not have the ability to control any of the investment decisions relative to its funds in PRIT.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

NOTE 3 – RECEIVABLES

At June 30, 2020, receivables for the individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|---|-------------------------|---|-----------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes... \$ | 382,206 | \$ (2,210) | \$ 379,996 |
| Tax liens..... | 241,993 | - | 241,993 |
| Motor vehicle and other excise taxes..... | 252,481 | (53,413) | 199,068 |
| Departmental and other..... | 320,513 | (183,911) | 136,602 |
| Intergovernmental - other..... | 589,318 | - | 589,318 |
| Special assessments..... | 19,265 | - | 19,265 |
| Total..... | <u>\$ 1,805,776</u> | <u>\$ (239,534)</u> | <u>\$ 1,566,242</u> |

At June 30, 2020, receivables for the water enterprise consist of the following:

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|----------------------------|-------------------------|---|-----------------------|
| <u>Receivables:</u> | | | |
| Water user charges..... \$ | <u>451,686</u> | <u>\$ -</u> | <u>\$ 451,686</u> |

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

| | General Fund | Other Governmental Funds | Total |
|---|------------------|--------------------------------|---------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes... \$ | 245,074 | - | \$ 245,074 |
| Tax liens..... | 241,993 | - | 241,993 |
| Motor vehicle and other excise taxes..... | 199,068 | - | 199,068 |
| Departmental and other..... | 136,602 | - | 136,602 |
| Intergovernmental - other..... | - | 564,424 | 564,424 |
| Special assessments..... | - | 19,265 | 19,265 |
| Tax foreclosures..... | 474,349 | - | 474,349 |
| | | | |
| Total..... \$ | <u>1,297,086</u> | <u>\$ 583,689</u> | <u>\$ 1,880,775</u> |

NOTE 4 – CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------|----------------------|
| Governmental Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 2,294,896 | \$ - | \$ - | \$ 2,294,896 |
| Construction in progress..... | 261,237 | 127,049 | - | 388,286 |
| | | | | |
| Total capital assets not being depreciated... | <u>2,556,133</u> | <u>127,049</u> | <u>-</u> | <u>2,683,182</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 144,269 | - | - | 144,269 |
| Buildings and improvements..... | 43,294,175 | 204,776 | - | 43,498,951 |
| Machinery and equipment..... | 2,240,919 | 935,000 | - | 3,175,919 |
| Vehicles..... | 3,464,877 | 94,464 | - | 3,559,341 |
| Infrastructure..... | 24,977,821 | 431,132 | - | 25,408,953 |
| | | | | |
| Total capital assets being depreciated..... | <u>74,122,061</u> | <u>1,665,372</u> | <u>-</u> | <u>75,787,433</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (123,242) | (3,248) | - | (126,490) |
| Buildings and improvements..... | (19,390,878) | (1,057,736) | - | (20,448,614) |
| Machinery and equipment..... | (1,521,644) | (137,244) | - | (1,658,888) |
| Vehicles..... | (3,111,073) | (114,122) | - | (3,225,195) |
| Infrastructure..... | (19,807,019) | (596,709) | - | (20,403,728) |
| | | | | |
| Total accumulated depreciation..... | <u>(43,953,856)</u> | <u>(1,909,059)</u> | <u>-</u> | <u>(45,862,915)</u> |
| | | | | |
| Total capital assets being depreciated, net..... | <u>30,168,205</u> | <u>(243,687)</u> | <u>-</u> | <u>29,924,518</u> |
| | | | | |
| Total governmental activities capital assets, net.... \$ | <u>32,724,338</u> | <u>\$ (116,638)</u> | <u>\$ -</u> | <u>\$ 32,607,700</u> |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|-----------|-------------------|
| Water: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 194,192 | \$ - | \$ - | \$ 194,192 |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings..... | 3,251 | - | - | 3,251 |
| Machinery and equipment..... | 241,529 | - | - | 241,529 |
| Vehicles..... | 363,374 | - | - | 363,374 |
| Infrastructure..... | 10,301,460 | 99,644 | - | 10,401,104 |
| Total capital assets being depreciated..... | 10,909,614 | 99,644 | - | 11,009,258 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings..... | (3,251) | - | - | (3,251) |
| Machinery and equipment..... | (233,009) | (3,368) | - | (236,377) |
| Vehicles..... | (215,169) | (38,528) | - | (253,697) |
| Infrastructure..... | (3,292,911) | (207,730) | - | (3,500,641) |
| Total accumulated depreciation..... | (3,744,340) | (249,626) | - | (3,993,966) |
| Total capital assets being depreciated, net..... | 7,165,274 | (149,982) | - | 7,015,292 |
| Total water activities capital assets, net..... | \$ 7,359,466 | \$ (149,982) | \$ - | \$ 7,209,484 |
| | | | | |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Solar: | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Machinery and equipment..... | \$ 22,888 | \$ - | \$ - | \$ 22,888 |
| Infrastructure..... | 2,542,651 | - | - | 2,542,651 |
| Total capital assets being depreciated.... | 2,565,539 | - | - | 2,565,539 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Machinery and equipment..... | (1,716) | (1,144) | - | (2,860) |
| Infrastructure..... | (550,319) | (63,267) | - | (613,586) |
| Total accumulated depreciation..... | (552,035) | (64,411) | - | (616,446) |
| Total solar activities capital assets, net..... | \$ 2,013,504 | \$ (64,411) | \$ - | \$ 1,949,093 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|---------------------|
| Governmental Activities: | |
| General government..... | \$ 212,601 |
| Public safety..... | 258,799 |
| Education..... | 704,226 |
| Public works..... | 634,891 |
| Culture and recreation..... | <u>98,542</u> |
| Total depreciation expense - governmental activities.... | \$ <u>1,909,059</u> |
| Business-Type Activities: | |
| Water..... | \$ 249,626 |
| Solar..... | <u>64,411</u> |
| Total depreciation expense - business-type activities... | \$ <u>314,037</u> |

NOTE 5 – INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES

For the year ended June 30, 2020, \$769,225 was transferred out of the general fund to the nonmajor capital project fund to fund capital expenditures.

At June 30, 2020, the Town had an interfund receivable/payable of \$9,501 between the revolving nonmajor fund and the highway improvement fund to meet temporary cash flow needs.

NOTE 6 – CAPITAL LEASES

The Town has entered into a lease agreement for financing the acquisition of a fire pumper truck and a fire ladder truck. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

| | |
|-------------------------------------|------------------------------------|
| | <u>Governmental Activities</u> |
| <u>Asset:</u> | |
| Machinery and equipment..... | \$ 1,415,776 |
| Less: accumulated depreciation..... | <u>(146,750)</u> |
| Total..... | \$ <u>1,269,026</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 were as follows:

| Years ending June 30: | Governmental Activities |
|---|----------------------------|
| 2021..... | \$ 172,359 |
| 2022..... | 172,359 |
| 2023..... | 172,358 |
| 2024..... | 172,359 |
| 2025..... | 172,360 |
| 2026..... | 124,282 |
| 2027..... | 124,282 |
| 2028..... | 124,282 |
| 2029..... | 124,282 |
| Total minimum lease payments..... | 1,358,923 |
| Less: amounts representing interest..... | (217,210) |
| Present value of minimum lease payments... \$ | 1,141,713 |

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General and Enterprise Funds, respectively.

The Town did not have any short-term debt activity for the year ended June 30, 2020.

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 ½% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2020, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Activities

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2020 |
|--|--------------------|----------------------|-------------------|------------------------------|
| General Obligation Bonds Payable: | | | | |
| Municipal Purpose Bonds of 2012 - Refunding..... | 2022 | \$ 6,005,000 | 2.0 - 3.0 | \$ 1,255,000 |
| Municipal Purpose Bonds of 2015..... | 2034 | 116,000 | - | 81,200 |
| Municipal Purpose Bonds of 2016..... | 2035 | 3,175,000 | 2.0 - 3.5 | 2,375,000 |
| Municipal Purpose Bonds of 2018..... | 2028 | 1,293,000 | 5.00 | <u>1,030,000</u> |
| Subtotal General Obligation Bonds Payable..... | | | | 4,741,200 |
| Direct Borrowings Payable: | | | | |
| MCWT Bonds of 2005..... | 2023 | \$ 153,002 | 4.90 | \$ <u>24,392</u> |
| Long Term Bonds Payable..... | | | | 4,765,592 |
| Add: Unamortized premium on bonds..... | | | | <u>143,306</u> |
| Total Bonds Payable, net..... | | | | <u>\$ 4,908,898</u> |

Debt service requirements for principal and interest for Governmental bonds payable in future years are as follows:

| Year | General Obligation Bonds Payable | | | Direct Borrowings | | | Grand Total |
|------------|----------------------------------|-------------------|---------------------|-------------------|-----------------|------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total | |
| 2021..... | \$ 915,800 | \$ 164,274 | \$ 1,080,074 | \$ 8,006 | \$ 1,020 | \$ 9,026 | \$ 1,089,100 |
| 2022..... | 930,800 | 134,376 | 1,065,176 | 8,193 | 615 | 8,808 | 1,073,984 |
| 2023..... | 295,800 | 104,024 | 399,824 | 8,193 | 205 | 8,398 | 408,222 |
| 2024..... | 295,800 | 92,726 | 388,526 | - | - | - | 388,526 |
| 2025..... | 295,800 | 81,424 | 377,224 | - | - | - | 377,224 |
| 2026..... | 295,800 | 70,126 | 365,926 | - | - | - | 365,926 |
| 2027..... | 290,800 | 58,824 | 349,624 | - | - | - | 349,624 |
| 2028..... | 290,800 | 47,776 | 338,576 | - | - | - | 338,576 |
| 2029..... | 165,800 | 36,724 | 202,524 | - | - | - | 202,524 |
| 2030..... | 165,800 | 31,926 | 197,726 | - | - | - | 197,726 |
| 2031..... | 160,800 | 27,124 | 187,924 | - | - | - | 187,924 |
| 2032..... | 160,800 | 21,700 | 182,500 | - | - | - | 182,500 |
| 2033..... | 160,800 | 16,276 | 177,076 | - | - | - | 177,076 |
| 2034..... | 160,800 | 10,850 | 171,650 | - | - | - | 171,650 |
| 2035..... | 155,000 | 5,424 | 160,424 | - | - | - | 160,424 |
| Total..... | <u>\$ 4,741,200</u> | <u>\$ 903,574</u> | <u>\$ 5,644,774</u> | <u>\$ 24,392</u> | <u>\$ 1,840</u> | <u>\$ 26,232</u> | <u>\$ 5,671,006</u> |

Bonds Payable Schedule – Enterprise Funds

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2020 |
|--|-----------------------|----------------------------|-------------------------|------------------------------------|
| Water - Municipal Purpose Bonds of 2007..... | 2022 | \$ 1,748,000 | 4.20 | \$ 230,000 |
| Water - Municipal Purpose Bonds of 2018..... | 2038 | 3,500,000 | 3.5 - 5.0 | 3,150,000 |
| Solar - Municipal Purpose Bonds of 2013..... | 2033 | 1,484,000 | .75 - 4.25 | 960,000 |
| Total Bonds Payable..... | | | | 4,340,000 |
| Add: Unamortized premium on bonds..... | | | | 195,695 |
| Total Bonds Payable, net..... | | | | <u>\$ 4,535,695</u> |

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future years are as follows:

WATER FUND

| Year | Principal | Interest | Total |
|------------|---------------------|---------------------|---------------------|
| 2021..... | \$ 290,000 | \$ 142,948 | \$ 432,948 |
| 2022..... | 290,000 | 129,254 | 419,254 |
| 2023..... | 175,000 | 115,500 | 290,500 |
| 2024..... | 175,000 | 106,750 | 281,750 |
| 2025..... | 175,000 | 98,000 | 273,000 |
| 2026..... | 175,000 | 89,250 | 264,250 |
| 2027..... | 175,000 | 80,500 | 255,500 |
| 2028..... | 175,000 | 71,750 | 246,750 |
| 2029..... | 175,000 | 63,000 | 238,000 |
| 2030..... | 175,000 | 56,875 | 231,875 |
| 2031..... | 175,000 | 50,750 | 225,750 |
| 2032..... | 175,000 | 44,625 | 219,625 |
| 2033..... | 175,000 | 38,500 | 213,500 |
| 2034..... | 175,000 | 32,375 | 207,375 |
| 2035..... | 175,000 | 25,375 | 200,375 |
| 2036..... | 175,000 | 18,375 | 193,375 |
| 2037..... | 175,000 | 12,250 | 187,250 |
| 2038..... | 175,000 | 6,125 | 181,125 |
| Total..... | <u>\$ 3,380,000</u> | <u>\$ 1,182,202</u> | <u>\$ 4,562,202</u> |

SOLAR FIELD FUND

| Year | Principal | Interest | Total |
|------------|-------------------|-------------------|---------------------|
| 2021..... | \$ 75,000 | \$ 37,088 | \$ 112,088 |
| 2022..... | 75,000 | 34,575 | 109,575 |
| 2023..... | 75,000 | 31,856 | 106,856 |
| 2024..... | 75,000 | 29,044 | 104,044 |
| 2025..... | 75,000 | 26,100 | 101,100 |
| 2026..... | 75,000 | 23,025 | 98,025 |
| 2027..... | 75,000 | 19,941 | 94,941 |
| 2028..... | 75,000 | 16,847 | 91,847 |
| 2029..... | 75,000 | 13,706 | 88,706 |
| 2030..... | 75,000 | 10,518 | 85,518 |
| 2031..... | 70,000 | 7,437 | 77,437 |
| 2032..... | 70,000 | 4,462 | 74,462 |
| 2033..... | 70,000 | 1,487 | 71,487 |
| Total..... | <u>\$ 960,000</u> | <u>\$ 256,086</u> | <u>\$ 1,216,086</u> |

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for interest in the amount of \$1,840. Thus, net MCWT loan repayments are scheduled to be \$24,392. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The subsidy for 2020 totaled \$1,420.

In prior years, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2020, \$2,725,000 of governmental fund bonds outstanding from the advance refunding transaction are considered defeased.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2020, the Town had the following authorized and unissued debt:

| Purpose | Amount |
|------------------------------------|-------------------|
| Water mains maintenance..... | \$ 500,000 |
| Prescott Building renovations..... | 317 |
| Total..... | <u>\$ 500,317</u> |

Changes in Long-term Liabilities

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

| | Beginning Balance | Bonds and Notes Issued | Bonds and Notes Redeemed | Other Increases | Other Decreases | Ending Balance | Due Within One Year |
|---------------------------------------|----------------------|------------------------------|--------------------------------|--------------------|--------------------|-------------------|------------------------|
| Governmental Activities: | | | | | | | |
| Long-term bonds payable..... | \$ 5,699,398 | \$ - | \$ (933,806) | \$ - | \$ - | \$ 4,765,592 | \$ 923,806 |
| Add: Unamortized premium on bonds.... | 193,667 | - | (50,361) | - | - | 143,306 | 40,478 |
| Total bonds payable..... | 5,893,065 | - | (984,167) | - | - | 4,908,898 | 964,284 |
| Capital lease obligations..... | 256,898 | - | - | 935,000 | (50,185) | 1,141,713 | 127,972 |
| Net pension liability..... | 8,368,222 | - | - | 1,050,392 | (603,017) | 8,815,597 | - |
| Other postemployment benefits..... | 1,154,211 | - | - | 414,784 | (1,413,515) | 155,480 | - |
| Total governmental activity | | | | | | | |
| long-term liabilities..... | \$ 15,672,396 | \$ - | \$ (984,167) | \$ 2,400,176 | \$ (2,066,717) | \$ 15,021,688 | \$ 1,092,256 |
| Business-Type Activities: | | | | | | | |
| Long-term bonds payable..... | \$ 4,705,000 | \$ - | \$ (365,000) | \$ - | \$ - | \$ 4,340,000 | \$ 365,000 |
| Add: Unamortized premium on bonds.... | 219,460 | - | (23,765) | - | - | 195,695 | 22,298 |
| Total bonds payable..... | 4,924,460 | - | (388,765) | - | - | 4,535,695 | 387,298 |
| Net pension liability..... | 757,429 | - | - | 95,074 | (54,581) | 797,922 | - |
| Other postemployment benefits..... | 73,930 | - | - | 6,744 | (77,445) | 3,229 | - |
| Total business-type activity | | | | | | | |
| long-term liabilities..... | \$ 5,755,819 | \$ - | \$ (388,765) | \$ 101,818 | \$ (132,026) | \$ 5,336,846 | \$ 387,298 |

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The intent of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town’s financial statements. The reporting standard establishes a hierarchy for fund balance classification and the constraints imposed on the uses of those resources.

GASB Statement No. 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government for its highest level of decision-making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|---|
| Fund Balances: | | | |
| Nonspendable: | | | |
| Permanent fund principal..... | \$ - | \$ 486,307 | \$ 486,307 |
| Restricted for: | | | |
| Debt service..... | 147,541 | - | 147,541 |
| Town revolving funds..... | - | 182,482 | 182,482 |
| Sewer district..... | - | 8,095 | 8,095 |
| Capital project fund..... | - | 358,795 | 358,795 |
| Town grant funds..... | - | 153,946 | 153,946 |
| Receipts reserved for appropriations.... | - | 282,798 | 282,798 |
| Other special revenue..... | - | 340,486 | 340,486 |
| Permanent expendable fund..... | - | 194,418 | 194,418 |
| Permanent expendable fund..... | - | 17,044 | 17,044 |
| Assigned to: | | | |
| Encumbrances: | | | |
| General government..... | 41,093 | - | 41,093 |
| Property and liability insurance..... | 2,200 | - | 2,200 |
| Unassigned..... | <u>4,098,758</u> | <u>-</u> | <u>4,098,758</u> |
| Total Fund Balances..... | <u>\$ 4,289,592</u> | <u>\$ 2,024,371</u> | <u>\$ 6,313,963</u> |

NOTE 10 – STABILIZATION FUND

Massachusetts General Law 40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year-end, the balance of the general stabilization fund totaled \$2.1 million and the is reported as unassigned fund balance within the General fund. The Town also has an additional capital stabilization fund which totaled \$158,000 and is also reported as unassigned fund balance within the General fund.

NOTE 11 – RISK FINANCING

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

NOTE 12 - PENSION PLAN

Plan Descriptions

The Town is a member of the Worcester Regional Retirement System, a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 97 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no changes in benefit terms that affected the measurement of the total pension liability at December 31, 2019.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the WRRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2019, which was \$657,598 and 22.49% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

At June 30, 2020, the Town reported a liability of \$9,613,519 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2019, the Town's proportion was 1.080%, which increased from its proportion measured at December 31, 2018 of 1.006%.

Pension Expense

For the year ended June 30, 2020, the Town recognized pension expense of \$1,266,287. At June 30, 2020, the Town reported net deferred outflows of resources and inflows of resources related to pensions of \$1,081,671 and \$346,527, respectively.

The balances of deferred outflows and inflows at June 30, 2020 consist of the following:

| Deferred Category | Deferred Outflows of Resources | Deferred Inflows of Resources | Total |
|--|--------------------------------------|-------------------------------------|-------------------|
| Differences between expected and actual experience..... | \$ 28,230 | \$ (57,598) | \$ (29,368) |
| Difference between projected and actual earnings, net..... | - | (264,051) | (264,051) |
| Changes in assumptions..... | 537,320 | - | 537,320 |
| Changes in proportion and proportionate share of contributions.... | 516,121 | (24,878) | 491,243 |
| | | | |
| Total deferred outflows/(inflows) of resources..... | <u>\$ 1,081,671</u> | <u>\$ (346,527)</u> | <u>\$ 735,144</u> |

The Town’s deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|-----------|-----------------------|
| 2020..... | \$ 264,994 |
| 2021..... | 200,345 |
| 2022..... | 155,146 |
| 2023..... | 248 |
| 2024..... | <u>114,411</u> |
| | <u>\$ 735,144</u> |

Actuarial Assumptions

The total pension liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2019:

- Valuation date..... January 1, 2018
- Actuarial cost method..... Entry age normal
- Amortization method..... UAAL - Increasing dollar amount at 4% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2035. The annual increase in appropriation is further limited to 9.95%.
2002, 2003 & 2010 ERI - Increasing dollar amount at 4% to reduce the 2002 and 2003 ERI actuarial accrued liability to zero on or before June 30, 2028 and the 2010 ERI actuarial accrued liability to zero on or before June 30, 2022.

| | |
|--------------------------------|---|
| Asset valuation method..... | The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of 80% of gains and losses of the prior year, 60% of gains and losses of the second prior year, 40% of gains and losses of the third prior year and 20% of gains and losses of the fourth prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 80% or more than 120% of market value. |
| Inflation..... | 2.4% per year. |
| Salary increases..... | Group 1: 6% - 4.25%, based on service. Group 4: 7% - 4.75%, based on service. |
| Payroll growth..... | 3.5% per year. |
| Investment rate of return..... | 7.65%, net of pension plan investment expense, including inflation. |
| Mortality rates..... | Based on the RP-2000 mortality table (base year 2009) with full generational mortality improvement using scale BB. For disabled lives, the mortality rates were based on the RP-2000 mortality table (base year 2012) with full generational mortality improvement using scale BB. |

Investment policy

The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2018, are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------------|--|---|
| Global equity..... | 39.00% | 4.68% |
| Core fixed income..... | 15.00% | 0.59% |
| Value-added fixed income..... | 8.00% | 4.40% |
| Private equity..... | 13.00% | 8.50% |
| Real estate..... | 10.00% | 3.70% |
| Timberland..... | 4.00% | 4.30% |
| Portfolio completion (PCS)..... | 11.00% | 3.40% |
| Total..... | <u>100.00%</u> | |

Rate of return

For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.65%. 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 contributions will be made at rates equal to the actuarially determined contribution rate. 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 net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of (7.65%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage-point higher (8.65%) than the current rate:

| | 1% Decrease (6.65%) | Current Discount (7.65%) | 1% Increase (8.65%) |
|---|------------------------|--------------------------------|------------------------|
| The Town's proportionate share of the net pension liability..... | \$ 11,730,997 | \$ 9,613,519 | \$ 7,825,370 |

Changes in Assumptions – The discount rate was reduced from 7.75% to 7.65%.

Changes in Plan Provisions – None

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Lancaster administers a single-employer defined benefit healthcare plan (Plan). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the Plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 50 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 50 percent of their premium costs. For 2020, the Town contributed approximately \$421,528 to the plan. The Town’s average contribution rate was 14.65% of covered payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust fund and to enable the Town to begin pre-funding its other postemployment benefit (OPEB) liabilities. As of June 30, 2020, the balance of the OPEB fund totaled \$2,423,598.

Measurement Date – The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019.

Employees Covered by Benefit Terms – The following table represents the Plan’s membership at June 30, 2020:

| | |
|---|-----------|
| Active members..... | 44 |
| Inactive members currently receiving benefits.... | <u>31</u> |
| Total..... | <u>75</u> |

Components of OPEB Liability – The following table represents the components of the Plan’s OPEB liability as of June 30, 2020:

| | |
|--|--------------------|
| Total OPEB liability..... | \$ 2,582,307 |
| Less: OPEB plan's fiduciary net position..... | <u>(2,423,598)</u> |
| Net OPEB liability..... | <u>\$ 158,709</u> |
| The OPEB plan's fiduciary net position | |
| as a percentage of the total OPEB liability... | 93.85% |

Significant Actuarial Methods and Assumptions – The total OPEB liability in the July 1, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, that was updated to June 30, 2020 as follows:

| | |
|--------------------------------|---|
| Valuation date..... | July 1, 2019 |
| Actuarial cost method..... | Individual Entry Age Normal. |
| Asset valuation method..... | Market Value of Assets as of the Measurement Date, June 30, 2020. |
| Discount rate..... | 7.00%, net of OPEB plan investment expenses, including inflation. |
| Investment rate of return..... | 7.01%, net of OPEB plan investment expense, including inflation. |
| Municipal bond rate..... | 2.66% as of June 30, 2020 (source: S&P Municipal Bond 20-Year High Grade Index-SAPIHG). |
| Inflation rate..... | 2.50% as of June 30, 2020 and for future periods. |
| Salary increases..... | 3.00% annually as of June 30, 2020 and for future periods. |

Mortality rates:

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

Rate of Return – For the year ended June 30, 2020, the annual money-weighted rate of return on OPEB plan investments was 1.72%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce a 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 and subtracting expected investment expenses and a risk margin. The Plan’s expected future real rate of return of 5.01% is added to the expected inflation of 2.50% to produce the long-term expected nominal rate of return of 7.51%. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized below.

| <u>Asset Class</u> | <u>Long-Term Expected Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---|--|---|
| Domestic equity - large cap..... | 14.50% | 4.80% |
| Domestic equity - small/mid cap..... | 3.50% | 5.29% |
| International developed markets equity..... | 16.00% | 5.45% |
| International emerging markets equity..... | 6.00% | 6.42% |
| Domestic fixed income..... | 20.00% | 2.05% |
| International fixed income..... | 3.00% | 3.00% |
| Alternatives..... | 23.00% | 6.50% |
| Real estate..... | 14.00% | 6.25% |
| Total..... | <u>100.00%</u> | |

Discount Rate – The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2020 and June 30, 2019. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Town’s funding policy. Based on these assumptions, the OPEB plan’s fiduciary net position is projected to be sufficient to make all projected benefit payments to current plan members. Therefore, the long-term expected rate of return on the OPEB plan assets was applied to all projected future benefits payments.

Sensitivity of the net OPEB liability to changes in the discount rate – The following table presents the Plan’s net OPEB liability, calculated using the discount rate of 7.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate.

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|----------------------------|------------------------|-------------------------------------|------------------------|
| Net OPEB liability..... \$ | 484,994 | 158,709 | (167,576) |

Sensitivity of the net OPEB liability to changes in the healthcare trend – The following table presents the net other postemployment benefit liability, calculated using the healthcare trend rate if it was 1-percentage-point lower or 1-percentage-point higher than the current rate.

| | 1% Decrease | Current Trend | 1% Increase |
|----------------------------|-------------|---------------|-------------|
| Net OPEB liability..... \$ | (148,187) | 158,709 | 534,063 |

Summary of Significant Accounting Policies – 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 Plan and additions to/deductions from the 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 (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|--|--------------------------------|----------------------------------|------------------------------------|
| | Plan | | |
| | Total OPEB Liability (a) | Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| Balances at June 30, 2019..... | \$ 3,312,831 | \$ 2,084,690 | \$ 1,228,141 |
| Changes for the year: | | | |
| Service cost..... | 63,513 | - | 63,513 |
| Interest..... | 232,163 | - | 232,163 |
| Changes of benefit terms..... | (424,831) | - | (424,831) |
| Change in assumptions..... | 71,306 | - | 71,306 |
| Differences between expected and actual experience.... | (551,147) | - | (551,147) |
| Employer Contributions to Trust..... | - | 421,528 | (421,528) |
| Net Investment Income..... | - | 38,908 | (38,908) |
| Benefit payments..... | (121,528) | (121,528) | - |
| Net change..... | (730,524) | 338,908 | (1,069,432) |
| Balances at June 30, 2020..... | \$ <u>2,582,307</u> | \$ <u>2,423,598</u> | \$ <u>158,709</u> |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2020, the Town recognized OPEB expense of \$276,046 and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| Deferred Category | Deferred Outflows of Resources | Deferred Inflows of Resources | Total |
|--|--------------------------------------|-------------------------------------|---------------------|
| Differences between expected and actual experience..... | \$ 32,768 | \$ (448,129) | \$ (415,361) |
| Difference between projected and actual earnings, net..... | 88,415 | - | 88,415 |
| Changes in assumptions..... | 187,829 | - | 187,829 |
| Total deferred outflows/(inflows) of resources..... | \$ <u>309,012</u> | \$ <u>(448,129)</u> | \$ <u>(139,117)</u> |

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

Measurement date year ended June 30:

| | |
|------------|---------------------|
| 2021..... | \$ 9,583 |
| 2022..... | 9,585 |
| 2023..... | (60,718) |
| 2024..... | (66,176) |
| 2025..... | (31,391) |
| Total..... | \$ <u>(139,117)</u> |

Changes of Assumptions –

- The mortality table has been updated from the RP-2000 Mortality Table projected generationally with scale BB and a base year 2009 for males and females to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females.
- The expected long-term medical trend has been updated to 4.50%.
- Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care has been updated.

Changes in Plan Provisions –

- The Town changed its Medicare Supplement Plan offerings. This decreased liabilities by \$420 thousand, which was recognized in full immediately.

NOTE 14 - COMMITMENTS

The Town is committed to pay its proportionate share of the principal and interest on the indebtedness incurred by the Nashoba Regional School District for the purpose of renovating, reconstructing, and equipping the Nashoba Regional High School. The Town's 2020 assessment for its proportionate share of debt service totaled \$125,756.

NOTE 15 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2020 cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2020.

NOTE 16 – COVID-19

On March 10, 2020, the Massachusetts Governor declared a state of emergency in response to the coronavirus outbreak. The World Health Organization officially declared the novel Coronavirus (COVID-19) a pandemic the following day. In an attempt to slow the spread of COVID-19, governments issued various stay at home orders that caused global economic shutdowns and substantial financial market impact. Starting in March 2020, the Governor continued to issue orders allowing governments to operate and carry out essential functions safely. These included modifying the state's Open Meeting Law, issuing a stay-at-home order, and introducing a phased approach to reopening State businesses. The Town is considered an essential business and although it was closed to the public for a period of time, departments remained operational and most employees continued to perform their daily duties.

A number of businesses have been forced to stop or significantly reduce operations decreasing, the Town's portion of certain revenue. The Town has also incurred unanticipated costs specifically related to the pandemic.

On March 27, 2020, the United States Federal Government established the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the economic downfall caused by the COVID-19 pandemic. This Act requires that the payment from these funds be used only to cover expenses that; are necessary expenditures incurred due to the public health emergency with respect COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021. The Commonwealth and communities throughout the Commonwealth were awarded a portion of this federal funding. In addition to funding from the CARES Act, there are several other federal and state grants available.

The full extent of the financial impact cannot be determined as of the date of the financial statements.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2021, which is the date the financial statements were available to be issued.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2020, the following GASB pronouncement was implemented:

- GASB Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This pronouncement postponed the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to be effective for periods beginning after June 15, 2018 or later.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2021.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2022.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2022.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2021.
- The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in 2023.
- The GASB issued Statement #92, *Omnibus 2020*, which is required to be implemented in 2022.
- The GASB issued Statement #93, *Replacement of Interbank Offered Rates*, which is required to be implemented in 2022.
- The GASB issued Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is required to be implemented in 2023.

- The GASB issued Statement #96, *Subscription-Based Information Technology Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, in which certain paragraphs are required to be implemented in 2021 and 2022.

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

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2020

| | Budgeted Amounts | | | |
|---|---|-----------------------------------|---------------------|---------------------|
| | Amounts Carried Forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 20,111,266 | \$ 20,111,266 | \$ 20,111,266 |
| Tax liens..... | - | - | - | - |
| Motor vehicle and other excise taxes..... | - | 1,136,100 | 1,136,100 | 1,136,100 |
| Penalties and interest on taxes..... | - | 97,000 | 97,000 | 97,000 |
| Payments in lieu of taxes..... | - | 12,000 | 12,000 | 12,000 |
| Intergovernmental - other..... | - | 1,206,303 | 1,206,303 | 1,206,303 |
| Departmental and other..... | - | 716,175 | 716,175 | 716,175 |
| Investment income..... | - | 50,000 | 50,000 | 50,000 |
| TOTAL REVENUES..... | - | 23,328,844 | 23,328,844 | 23,328,844 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 12,128 | 1,814,213 | 1,826,341 | 1,826,344 |
| Public safety..... | 2,950 | 2,117,038 | 2,119,988 | 2,119,987 |
| Education..... | - | 15,099,905 | 15,099,905 | 15,099,905 |
| Public works..... | - | 682,426 | 682,426 | 682,427 |
| Health and human services..... | 22,619 | 163,600 | 186,219 | 186,219 |
| Culture and recreation..... | - | 412,230 | 412,230 | 412,229 |
| Pension benefits..... | - | 657,598 | 657,598 | 657,598 |
| Property and liability insurance..... | - | 105,656 | 105,656 | 105,656 |
| Employee benefits..... | - | 891,387 | 891,387 | 891,387 |
| State and county charges..... | - | 142,916 | 142,916 | 142,916 |
| Debt service: | | | | |
| Principal..... | - | 926,000 | 926,000 | 926,000 |
| Interest..... | - | 195,875 | 195,875 | 195,875 |
| TOTAL EXPENDITURES..... | 37,697 | 23,208,844 | 23,246,541 | 23,246,543 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (37,697) | 120,000 | 82,303 | 82,301 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out..... | - | (100,000) | (100,000) | (1,166,000) |
| NET CHANGE IN FUND BALANCE..... | (37,697) | 20,000 | (17,697) | (1,083,699) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 3,561,356 | 3,561,356 | 3,561,356 |
| BUDGETARY FUND BALANCE, End of year..... | \$ (37,697) | \$ 3,581,356 | \$ 3,543,659 | \$ 2,477,657 |

See notes to required supplementary information.

| Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance to Final Budget |
|--------------------------------|--|--------------------------------|
| \$ 20,022,372 | \$ - | \$ (88,894) |
| 41,694 | - | 41,694 |
| 1,150,826 | - | 14,726 |
| 80,258 | - | (16,742) |
| 100,185 | - | 88,185 |
| 1,247,807 | - | 41,504 |
| 1,002,202 | - | 286,027 |
| 44,235 | - | (5,765) |
| <u>23,689,579</u> | <u>-</u> | <u>360,735</u> |
| 1,636,191 | 41,093 | 149,060 |
| 2,099,539 | - | 20,448 |
| 15,099,905 | - | - |
| 654,589 | - | 27,838 |
| 166,070 | - | 20,149 |
| 407,805 | - | 4,424 |
| 622,598 | - | 35,000 |
| 103,456 | 2,200 | - |
| 799,192 | - | 92,195 |
| 141,622 | - | 1,294 |
| 925,800 | - | 200 |
| 193,175 | - | 2,700 |
| <u>22,849,942</u> | <u>43,293</u> | <u>353,308</u> |
| 839,637 | (43,293) | 714,043 |
| <u>(1,166,000)</u> | <u>-</u> | <u>-</u> |
| (326,363) | (43,293) | 714,043 |
| <u>3,561,356</u> | <u>-</u> | <u>-</u> |
| <u>\$ 3,234,993</u> | <u>\$ (43,293)</u> | <u>\$ 714,043</u> |

Pension Plan Schedules

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of Town's Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
WORCESTER CONTRIBUTORY RETIREMENT SYSTEM**

| <u>Year</u> | <u>Proportion of the net pension liability (asset)</u> | <u>Proportionate share of the net pension liability (asset)</u> | <u>Covered-payroll</u> | <u>Net pension liability as a percentage of Covered-payroll</u> | <u>Plan fiduciary net position as a percentage of the total pension liability</u> |
|------------------------|--|---|------------------------|---|---|
| December 31, 2019..... | 1.080% | \$ 9,613,519 | \$ 2,894,469 | 332.13% | 47.40% |
| December 31, 2018..... | 1.006% | 9,125,651 | 2,813,173 | 324.39% | 43.05% |
| December 31, 2017..... | 1.005% | 8,200,606 | 2,689,773 | 304.88% | 46.40% |
| December 31, 2016..... | 1.006% | 8,414,126 | 2,656,155 | 316.78% | 42.00% |
| December 31, 2015..... | 1.000% | 7,099,294 | 2,608,454 | 272.16% | 44.52% |
| December 31, 2014..... | 1.026% | 6,106,249 | 2,508,129 | 243.46% | 47.94% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF THE TOWN'S CONTRIBUTIONS
WORCESTER CONTRIBUTORY RETIREMENT SYSTEM

| <u>Year</u> | <u>Actuarially determined contribution</u> | <u>Contributions in relation to the actuarially determined contribution</u> | <u>Contribution deficiency (excess)</u> | <u>Covered-payroll</u> | <u>Contributions as a percentage of Covered-payroll</u> |
|--------------------|--|---|---|------------------------|---|
| June 30, 2020..... | \$ 657,598 | \$ (657,598) | \$ - | \$ 2,923,414 | 22.49% |
| June 30, 2019..... | 560,308 | (560,308) | - | 2,841,305 | 19.72% |
| June 30, 2018..... | 508,868 | (508,868) | - | 2,716,671 | 18.73% |
| June 30, 2017..... | 487,963 | (487,963) | - | 2,682,717 | 18.19% |
| June 30, 2016..... | 449,938 | (449,938) | - | 2,634,539 | 17.08% |
| June 30, 2015..... | 405,522 | (405,522) | - | 2,533,210 | 16.01% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability presents multi-year trend information on the Town's net other postemployment benefit liability and related ratios.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on other postemployment assets, net of investment expense.

**SCHEDULE OF CHANGES IN THE
TOWN'S NET OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

| | June 30, 2017 | June 30, 2018 | June 30, 2019 | June 30, 2020 |
|---|---------------------|---------------------|---------------------|---------------------|
| Total OPEB Liability | | | | |
| Service Cost..... | \$ 66,988 | \$ 75,082 | \$ 81,862 | \$ 63,513 |
| Interest..... | 170,603 | 180,403 | 220,923 | 232,163 |
| Changes of benefit terms..... | - | - | - | (424,831) |
| Differences between expected and actual experience..... | - | 91,425 | - | (551,147) |
| Changes of assumptions..... | - | 343,577 | - | 71,306 |
| Benefit payments..... | <u>(100,568)</u> | <u>(110,959)</u> | <u>(126,128)</u> | <u>(121,528)</u> |
| Net change in total OPEB liability..... | 137,023 | 579,528 | 176,657 | (730,524) |
| Total OPEB liability - beginning..... | <u>2,419,623</u> | <u>2,556,646</u> | <u>3,136,174</u> | <u>3,312,831</u> |
| Total OPEB liability - ending (a)..... | <u>\$ 2,556,646</u> | <u>\$ 3,136,174</u> | <u>\$ 3,312,831</u> | <u>\$ 2,582,307</u> |
| Plan fiduciary net position | | | | |
| Employer contributions..... | \$ 151,000 | \$ 491,838 | \$ - | \$ 300,000 |
| Employer contributions for OPEB payments..... | 100,568 | 110,959 | 126,128 | 121,528 |
| Net investment income..... | 134,350 | 143,565 | 111,606 | 38,908 |
| Benefit payments..... | <u>(100,568)</u> | <u>(110,959)</u> | <u>(126,128)</u> | <u>(121,528)</u> |
| Net change in plan fiduciary net position..... | 285,350 | 635,403 | 111,606 | 338,908 |
| Plan fiduciary net position - beginning of year..... | <u>1,052,331</u> | <u>1,337,681</u> | <u>1,973,084</u> | <u>2,084,690</u> |
| Plan fiduciary net position - end of year (b)..... | <u>\$ 1,337,681</u> | <u>\$ 1,973,084</u> | <u>\$ 2,084,690</u> | <u>\$ 2,423,598</u> |
| Net OPEB liability - ending (a)-(b)..... | <u>\$ 1,218,965</u> | <u>\$ 1,163,090</u> | <u>\$ 1,228,141</u> | <u>\$ 158,709</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability..... | 52.32% | 62.91% | 62.93% | 93.85% |
| Covered-employee payroll..... | \$ 3,081,362 | \$ 3,173,803 | \$ 3,269,017 | \$ 2,877,858 |
| Net OPEB liability as a percentage of covered-employee payroll..... | 39.56% | 36.65% | 37.57% | 5.51% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

| <u>Year</u> | <u>Actuarially determined contribution</u> | <u>Contributions in relation to the actuarially determined contribution</u> | <u>Contribution deficiency (excess)</u> | <u>Covered- employee payroll</u> | <u>Contributions as a percentage of covered- employee payroll</u> |
|--------------------|--|---|---|--------------------------------------|---|
| June 30, 2020..... | \$ 72,223 | \$ (421,528) | \$ (349,305) | \$ 2,877,858 | 14.65% |
| June 30, 2019..... | 174,359 | (126,128) | 48,231 | 3,269,017 | 3.86% |
| June 30, 2018..... | 166,888 | (602,797) | (435,909) | 3,173,803 | 18.99% |
| June 30, 2017..... | 169,965 | (251,568) | (81,603) | 3,081,362 | 8.16% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
OTHER POSTEMPLOYMENT BENEFIT PLAN

| <u>Year</u> | <u>Annual money-weighted rate of return, net of investment expense</u> |
|--------------------|--|
| June 30, 2020..... | 1.72% |
| June 30, 2019..... | 5.66% |
| June 30, 2018..... | 9.10% |
| June 30, 2017..... | 12.77% |

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

NOTE A – BUDGETARY BASIS OF ACCOUNTING

Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the Open Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Increases or decreases subsequent to the approval of the annual budget require vote at a Special Town Meeting.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of a supplemental Town Meeting.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original 2020 approved budget authorized approximately \$23.3 million in appropriations and other amounts to be raised. The difference between the original budget and the final budget was an increase of \$1.1 million that was primarily due to various transfers out of the general fund voted at Special Town Meeting.

The Finance Director has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the Town’s accounting system.

Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2020, is presented below:

| | |
|---|---------------------|
| Net change in fund balance - budgetary basis..... | \$ (326,363) |
| <u>Perspective differences:</u> | |
| Activity of the stabilization fund recorded in the general fund for GAAP | 136,977 |
| <u>Basis of accounting differences:</u> | |
| Net change in recording tax refunds payable..... | (315,986) |
| Net change in recording 60 day receipts..... | <u>(18,286)</u> |
| Net change in fund balance - GAAP basis..... | <u>\$ (523,658)</u> |

NOTE B – PENSION PLANSchedule of the Town's Proportionate Share of the Net Pension Liability

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

Changes in Assumptions – The discount rate was reduced from 7.75% to 7.65%.

Changes in Plan Provisions - None

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (Plan). The plan provides lifetime healthcare for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members, including teachers.

The Other Postemployment Benefit PlanThe Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

Schedule of the Town's Contributions

The Schedule of the Town's Contributions includes the Town's annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

| | |
|--------------------------------|--|
| Valuation date..... | July 1, 2019 |
| Actuarial cost method..... | Individual Entry Age Normal. |
| Asset valuation method..... | Market Value of Assets as of the Measurement Date, June 30, 2020. |
| Discount rate..... | 7.00%, net of OPEB plan investment expenses, including inflation. |
| Investment rate of return..... | 7.01%, net of OPEB plan investment expense, including inflation. |
| Municipal bond rate..... | 2.66% as of June 30, 2020 (source: S&P Municipal Bond 20-Year High Grade Index-SAPIHG). |
| Inflation rate..... | 2.50% as of June 30, 2020 and for future periods. |
| Salary increases..... | 3.00% annually as of June 30, 2020 and for future periods. |
| Mortality rates: | |
| Pre-Retirement Mortality..... | General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for male and females, set forward 1 year for females. Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for male and females. |
| Post-Retirement Mortality... | General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for male and females, set forward 1 year for females. Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for male and females. |
| Disabled Mortality..... | General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for male and females, set forward 1 year. Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for male and females. |

Schedule of Investment Returns

The Schedule of Investment Returns includes the money-weighted investment return on the Plan’s other postemployment assets, net of investment expense.

Changes in Assumptions –

- The mortality table has been updated from the RP-2000 Mortality Table projected generationally with scale BB and a base year 2009 for males and females to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females.
- The expected long-term medical trend has been updated to 4.50%.
- Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care has been updated.

Changes in Plan Provisions –

- The Town changed its Medicare Supplement Plan offerings. This decreased liabilities by \$420 thousand, which was recognized in full immediately.

***REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS***

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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*

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Lancaster, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lancaster, Massachusetts, (the "Town") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 22, 2021.

Internal Control Over Financial Reporting

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

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

Purpose of this Report

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

Powers + Sullivan, LLC

March 22, 2021