



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

TOWN OF LANCASTER, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

YEAR ENDED JUNE 30, 2023

TOWN OF LANCASTER, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

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Independent Auditor's Report

To the Honorable Select Board
Town of Lancaster, Massachusetts

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lancaster, Massachusetts, as of and for the year ended June 30, 2023, 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.

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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Lancaster, Massachusetts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 14, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Lancaster, Massachusetts' 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.

A handwritten signature in black ink that reads "Powers & Sullivan, LLC". The signature is written in a cursive style and is positioned above a light gray rectangular background.

March 14, 2024

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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, 2023. 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 \$36.1 million (net position).
- At the close of the current year, the Town's general fund reported an ending fund balance of \$5.7 million, an increase of \$728,000 in comparison with the prior year. Total fund balance represents 22.9% of general fund expenditures.
- The Town has recorded a \$10.6 million net pension liability and a \$604,000 net 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, 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 funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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. The Town uses fiduciary funds to account for the other postemployment benefit trust fund which is used to account for resources held in the trust for funding future OPEB liabilities.

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.

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 \$36.1 million at the close of 2023, an increase of \$339,000 from the prior year.

The largest portion of the Town's net position, \$31.1 million, 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 \$1.7 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$3.3 million.

Governmental Activities

The Town of Lancaster's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources for governmental activities by \$26.8 million at the close of 2023. Details are presented below.

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets.....	\$ 12,459,929	\$ 10,402,513
Capital assets, nondepreciable.....	2,900,833	2,818,101
Capital assets, net of accumulated depreciation....	<u>26,547,621</u>	<u>27,789,131</u>
Total assets.....	<u>41,908,383</u>	<u>41,009,745</u>
Deferred outflows of resources.....	<u>1,930,686</u>	<u>1,615,239</u>
Liabilities:		
Current liabilities (excluding debt).....	2,480,988	1,605,613
Noncurrent liabilities (excluding debt).....	10,382,464	8,508,437
Current debt.....	456,240	462,675
Noncurrent debt.....	<u>2,939,797</u>	<u>3,396,037</u>
Total liabilities.....	<u>16,259,489</u>	<u>13,972,762</u>
Deferred inflows of resources.....	<u>740,853</u>	<u>1,919,916</u>
Net position:		
Net investment in capital assets.....	26,052,417	26,748,520
Restricted.....	1,658,357	1,308,498
Unrestricted.....	<u>(872,047)</u>	<u>(1,324,712)</u>
Total net position.....	<u>\$ 26,838,727</u>	<u>\$ 26,732,306</u>

	<u>2023</u>	<u>2022</u>
Program Revenues:		
Charges for services.....	\$ 1,620,555	\$ 1,774,664
Operating grants and contributions.....	1,044,274	566,395
Capital grants and contributions.....	785,564	331,672
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	21,895,760	21,575,887
Tax and other liens.....	119,379	46,074
Motor vehicle and other excise taxes.....	1,270,725	1,222,279
Community preservation tax.....	166,687	155,258
Penalties and interest on taxes.....	108,221	104,987
Payments in lieu of taxes.....	35,537	75,825
Grants and contributions not restricted to specific programs.....	1,380,565	1,311,334
Unrestricted investment income.....	131,513	73,341
Miscellaneous.....	-	8,143
Total revenues.....	<u>28,558,780</u>	<u>27,245,859</u>
Expenses:		
General government.....	3,360,351	3,504,995
Public safety.....	4,099,390	3,925,233
Education.....	17,741,505	16,863,610
Public works.....	1,873,917	1,915,769
Health and human services.....	349,132	248,716
Culture and recreation.....	912,832	817,857
Community preservation.....	875	-
Interest.....	114,357	136,745
Total expenses.....	<u>28,452,359</u>	<u>27,412,925</u>
Change in net position.....	106,421	(167,066)
Net position, beginning of year.....	<u>26,732,306</u>	<u>26,899,372</u>
Net position, end of year.....	\$ <u>26,838,727</u>	\$ <u>26,732,306</u>

The governmental expenses totaled \$28.5 million of which \$3.5 million was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$25.1 million, primarily coming from property taxes, motor vehicle excise, and non-restricted state aid.

Charges for services represent 47.0% 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 30.3% and 22.8% 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 76.7% of all revenues. Other tax related revenues comprise 5.2% 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 \$9.3 million at the close of 2023.

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets.....	\$ 4,996,049	\$ 5,023,885
Capital assets, nondepreciable.....	457,802	194,192
Capital assets, net of accumulated depreciation.....	<u>8,069,225</u>	<u>8,361,034</u>
Total assets.....	<u>13,523,076</u>	<u>13,579,111</u>
Deferred outflows of resources.....	<u>138,012</u>	<u>116,830</u>
Liabilities:		
Current liabilities (excluding debt).....	42,774	27,144
Noncurrent liabilities (excluding debt).....	819,490	729,174
Current debt.....	267,897	269,364
Noncurrent debt.....	<u>3,225,305</u>	<u>3,493,202</u>
Total liabilities.....	<u>4,355,466</u>	<u>4,518,884</u>
Deferred inflows of resources.....	<u>55,014</u>	<u>159,140</u>
Net position:		
Net investment in capital assets.....	5,033,825	4,792,660
Unrestricted.....	<u>4,216,783</u>	<u>4,225,257</u>
Total net position.....	<u>\$ 9,250,608</u>	<u>\$ 9,017,917</u>

The Water enterprise fund experienced an increase in net position of \$241,000, while the Solar Field enterprise fund experienced a decrease in net position of \$8,300. Overall, charges for services decreased by 16.0%, while expenses increased by 3.2%, when compared to the prior year.

	<u>2023</u>	<u>2022</u>
Program Revenues:		
Charges for services.....	\$ 1,281,711	\$ 1,526,153
General Revenues:		
Unrestricted investment income.....	<u>48,705</u>	<u>9,816</u>
Total revenues.....	<u>1,330,416</u>	<u>1,535,969</u>
Expenses:		
Water.....	998,424	959,797
Solar.....	<u>99,301</u>	<u>104,081</u>
Total expenses.....	<u>1,097,725</u>	<u>1,063,878</u>
Change in net position.....	<u>232,691</u>	<u>472,091</u>
Net position, beginning of year.....	<u>9,017,917</u>	<u>8,545,826</u>
Net position, end of year.....	<u>\$ 9,250,608</u>	<u>\$ 9,017,917</u>

Business-type net position of \$5.0 million represents net investment in capital assets, while \$4.2 million is unrestricted. The Town's business-type net position increased by \$233,000 in 2023.

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 \$8.3 million, which consists of \$5.7 million in the general fund and \$2.6 million in the nonmajor governmental funds. Cumulatively there was an increase of \$1.1 million 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 \$5.6 million or 99.7% of total fund balance. Included in the amount is \$2.2 million of stabilization funds which have been classified as unassigned general fund balance in accordance with GASB Statement No. 54. Assigned fund balance of \$16,000 relates to encumbrances carried over to the next fiscal year. 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 22.8% of total general fund expenditures, while total fund balance equals 22.9% of that same amount.

The highway improvement fund is used to account for funds received for the State Highway Department which are used for construction, reconstruction and improvements of roadways. During the year, \$504,000 of reimbursements were received from the State all of which were spent on roadway improvements.

The ARPA grant fund is used to account for funds received through the American Rescue Plan Act (ARPA) which are used for expenditures incurred due to the public health emergency with respect to COVID-19. During the year, \$440,000 of funds received through the Act were spent on COVID related expenditures. Additionally, the fund reported an unearned revenue of \$1.9 million due to the receipt of grant funds that were received but not expended as of year-end.

The nonmajor funds increased by \$377,000 during the current year. This increase is due to the timing of the receipts and disbursements in various special revenue funds.

General Fund Budgetary Highlights

The original budget authorized approximately \$25.8 million in appropriations and other amounts to be raised. There was no change between the original budget and the final budget.

Capital Asset and Debt Administration

Outstanding long-term governmental general obligation debt of the Town, as of June 30, 2023, totaled \$2.5 million for the Prescott Building project. Governmental direct borrowings totaled \$810,000 of which \$67,000 is for the Bartlett Dam repairs and \$743,000 is for capital financing of public safety vehicles. Collectively, the Town has outstanding long-term governmental debt totaling \$3.4 million at June 30, 2023, including capitalized debt premiums.

Outstanding long-term debt for the business-type activities as of June 30, 2023, totaled \$3.5 million of which \$2.6 million is related to water, \$735,000 is related to the solar fund, and a \$133,000 capitalized debt premium.

Major governmental capital additions during the current year were \$515,000 for road improvements and \$351,000 for vehicles. For business-type funds, there were \$264,000 of capital additions for an ongoing water improvement project.

Please refer to notes 4, 6, and 7 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, 2023

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 7,419,559	\$ 4,444,110	\$ 11,863,669
Investments.....	3,009,779	-	3,009,779
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	186,244	-	186,244
Tax liens.....	298,606	-	298,606
Community preservation fund surtax.....	1,248	-	1,248
Motor vehicle excise taxes.....	150,795	-	150,795
User charges.....	-	551,939	551,939
Departmental and other.....	248,748	-	248,748
Intergovernmental.....	629,433	-	629,433
Special assessments.....	40,862	-	40,862
Tax foreclosures.....	474,655	-	474,655
Total current assets.....	<u>12,459,929</u>	<u>4,996,049</u>	<u>17,455,978</u>
NONCURRENT:			
Capital assets, nondepreciable.....	2,900,833	457,802	3,358,635
Capital assets, net of accumulated depreciation.....	<u>26,547,621</u>	<u>8,069,225</u>	<u>34,616,846</u>
Total noncurrent assets.....	<u>29,448,454</u>	<u>8,527,027</u>	<u>37,975,481</u>
TOTAL ASSETS.....	<u>41,908,383</u>	<u>13,523,076</u>	<u>55,431,459</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	1,384,836	111,825	1,496,661
Deferred outflows related to other postemployment benefits.....	<u>545,850</u>	<u>26,187</u>	<u>572,037</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>1,930,686</u>	<u>138,012</u>	<u>2,068,698</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	447,826	22,487	470,313
Accrued payroll.....	75,644	6,958	82,602
Accrued interest.....	19,728	13,329	33,057
Other liabilities.....	743	-	743
Unearned revenue.....	1,937,047	-	1,937,047
Bonds payable.....	<u>456,240</u>	<u>267,897</u>	<u>724,137</u>
Total current liabilities.....	<u>2,937,228</u>	<u>310,671</u>	<u>3,247,899</u>
NONCURRENT:			
Net pension liability.....	9,806,192	791,844	10,598,036
Net other postemployment benefits liability.....	576,272	27,646	603,918
Bonds payable.....	<u>2,939,797</u>	<u>3,225,305</u>	<u>6,165,102</u>
Total noncurrent liabilities.....	<u>13,322,261</u>	<u>4,044,795</u>	<u>17,367,056</u>
TOTAL LIABILITIES.....	<u>16,259,489</u>	<u>4,355,466</u>	<u>20,614,955</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	594,112	47,974	642,086
Deferred inflows related to other postemployment benefits.....	<u>146,741</u>	<u>7,040</u>	<u>153,781</u>
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>740,853</u>	<u>55,014</u>	<u>795,867</u>
NET POSITION			
Net investment in capital assets.....	26,052,417	5,033,825	31,086,242
Restricted for:			
Permanent funds:			
Expendable.....	142,201	-	142,201
Nonexpendable.....	841,629	-	841,629
Gifts and grants.....	674,527	-	674,527
Unrestricted.....	<u>(872,047)</u>	<u>4,216,783</u>	<u>3,344,736</u>
TOTAL NET POSITION.....	<u>\$ 26,838,727</u>	<u>\$ 9,250,608</u>	<u>\$ 36,089,335</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

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.....	\$ 3,360,351	\$ 150,697	\$ 303,004	\$ -	\$ (2,906,650)
Public safety.....	4,099,390	1,041,882	373,845	-	(2,683,663)
Education.....	17,741,505	-	-	-	(17,741,505)
Public works.....	1,873,917	328,292	276,219	725,331	(544,075)
Health and human services.....	349,132	53,312	30,752	-	(265,068)
Culture and recreation.....	912,832	46,372	60,454	-	(806,006)
Community preservation.....	875	-	-	60,233	59,358
Interest.....	114,357	-	-	-	(114,357)
Total Governmental Activities.....	<u>28,452,359</u>	<u>1,620,555</u>	<u>1,044,274</u>	<u>785,564</u>	(25,001,966)
<i>Business-Type Activities:</i>					
Water.....	998,424	1,190,750	-	-	192,326
Solar Field.....	99,301	90,961	-	-	(8,340)
Total Business-Type Activities.....	<u>1,097,725</u>	<u>1,281,711</u>	<u>-</u>	<u>-</u>	183,986
Total Primary Government.....	<u>\$ 29,550,084</u>	<u>\$ 2,902,266</u>	<u>\$ 1,044,274</u>	<u>\$ 785,564</u>	(24,817,980)

(Continued)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (25,001,966)	\$ 183,986	\$ (24,817,980)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	21,895,760	-	21,895,760
Tax and other liens.....	119,379	-	119,379
Motor vehicle and other excise taxes.....	1,270,725	-	1,270,725
Community preservation tax.....	166,687	-	166,687
Penalties and interest on taxes.....	108,221	-	108,221
Payments in lieu of taxes.....	35,537	-	35,537
Grants and contributions not restricted to specific programs.....	1,380,565	-	1,380,565
Unrestricted investment income.....	131,513	48,705	180,218
Total general revenues.....	25,108,387	48,705	25,157,092
 Change in net position.....	 106,421	 232,691	 339,112
<i>Net position:</i>			
Beginning of year.....	26,732,306	9,017,917	35,750,223
End of year.....	\$ 26,838,727	\$ 9,250,608	\$ 36,089,335

(Concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2023

	General	Highway Improvement Fund	ARPA Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 4,141,782	\$ -	\$ 1,937,047	\$ 1,340,730	\$ 7,419,559
Investments.....	1,573,254	-	-	1,436,525	3,009,779
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	186,244	-	-	-	186,244
Tax liens.....	298,606	-	-	-	298,606
Community preservation fund surtax.....	-	-	-	1,248	1,248
Motor vehicle excise taxes.....	150,795	-	-	-	150,795
Departmental and other.....	116,264	-	-	132,484	248,748
Intergovernmental.....	-	629,433	-	-	629,433
Special assessments.....	-	-	-	40,862	40,862
Tax foreclosures.....	474,655	-	-	-	474,655
Due from other funds.....	-	-	-	2,104	2,104
TOTAL ASSETS.....	\$ 6,941,600	\$ 629,433	\$ 1,937,047	\$ 2,953,953	\$ 12,462,033
LIABILITIES					
Warrants payable.....	\$ 54,665	\$ 228,872	\$ -	\$ 164,289	\$ 447,826
Accrued payroll.....	72,668	-	-	2,976	75,644
Due to other funds.....	-	2,104	-	-	2,104
Other liabilities.....	743	-	-	-	743
Unearned revenue.....	-	-	1,937,047	-	1,937,047
TOTAL LIABILITIES.....	128,076	230,976	1,937,047	167,265	2,463,364
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue.....	1,153,886	398,457	-	157,802	1,710,145
FUND BALANCES					
Nonspendable.....	-	-	-	841,629	841,629
Restricted.....	-	-	-	1,812,555	1,812,555
Assigned.....	15,900	-	-	-	15,900
Unassigned.....	5,643,738	-	-	(25,298)	5,618,440
TOTAL FUND BALANCES.....	5,659,638	-	-	2,628,886	8,288,524
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 6,941,600	\$ 629,433	\$ 1,937,047	\$ 2,953,953	\$ 12,462,033

See notes to basic financial statements.

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

JUNE 30, 2023

Total governmental fund balances.....	\$	8,288,524
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		29,448,454
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		1,710,145
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 reported.....		1,189,833
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(19,728)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Long-term debt payable.....	(3,396,037)	
Net pension liability.....	(9,806,192)	
Net other postemployment benefits liability.....	<u>(576,272)</u>	
Net effect of reporting long-term liabilities.....		<u>(13,778,501)</u>
Net position of governmental activities.....	\$	<u><u>26,838,727</u></u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2023

	General	Highway Improvement Fund	ARPA Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 21,969,823	\$ -	\$ -	\$ -	\$ 21,969,823
Tax liens.....	64,055	-	-	-	64,055
Motor vehicle and other excise taxes.....	1,302,491	-	-	-	1,302,491
Penalties and interest on taxes.....	106,397	-	-	1,824	108,221
Payments in lieu of taxes.....	35,537	-	-	-	35,537
Intergovernmental - other.....	1,380,565	504,449	439,953	476,144	2,801,111
Departmental and other.....	714,551	-	-	996,459	1,711,010
Community preservation taxes.....	-	-	-	166,423	166,423
Community preservation state match.....	-	-	-	60,233	60,233
Special assessments.....	-	-	-	134,932	134,932
Investment income.....	95,957	-	-	35,556	131,513
TOTAL REVENUES.....	25,669,376	504,449	439,953	1,871,571	28,485,349
EXPENDITURES:					
Current:					
General government.....	2,044,095	-	20,670	212,974	2,277,739
Public safety.....	2,130,618	-	399,203	730,306	3,260,127
Education.....	16,856,630	-	-	-	16,856,630
Public works.....	771,363	504,449	19,420	307,021	1,602,253
Health and human services.....	197,145	-	660	81,169	278,974
Culture and recreation.....	459,445	-	-	155,328	614,773
Community preservation.....	-	-	-	875	875
Pension benefits.....	838,022	-	-	-	838,022
Property and liability insurance.....	187,277	-	-	-	187,277
Employee benefits.....	734,015	-	-	-	734,015
State and county charges.....	149,022	-	-	-	149,022
Debt service:					
Principal.....	295,800	-	-	146,112	441,912
Interest.....	104,025	-	-	34,644	138,669
TOTAL EXPENDITURES.....	24,767,457	504,449	439,953	1,668,429	27,380,288
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	901,919	-	-	203,142	1,105,061
OTHER FINANCING SOURCES (USES):					
Transfers in.....	-	-	-	174,282	174,282
Transfers out.....	(174,282)	-	-	-	(174,282)
TOTAL OTHER FINANCING SOURCES (USES).....	(174,282)	-	-	174,282	-
NET CHANGE IN FUND BALANCES.....	727,637	-	-	377,424	1,105,061
FUND BALANCES AT BEGINNING OF YEAR.....	4,932,001	-	-	2,251,462	7,183,463
FUND BALANCES AT END OF YEAR.....	\$ 5,659,638	\$ -	\$ -	\$ 2,628,886	\$ 8,288,524

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, 2023

Net change in fund balances - total governmental funds.....		\$ 1,105,061
<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.....	1,082,604	
Depreciation expense.....	<u>(2,241,382)</u>	
Net effect of reporting capital assets.....		(1,158,778)
<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>		
		73,431
<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>		
Net amortization of premium from issuance of bonds.....	20,763	
Debt service principal payments.....	<u>441,912</u>	
Net effect of reporting long-term debt.....		462,675
Net change in accrued interest on long-term debt.....	3,549	
Net change in deferred outflow/(inflow) of resources related to pensions.....	1,482,322	
Net change in net pension liability.....	<u>(1,852,737)</u>	
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits.....	12,188	
Net change in net other postemployment benefits liability(asset).....	<u>(21,290)</u>	
Net effect of recording long-term liabilities.....		<u>(375,968)</u>
Change in net position of governmental activities.....		<u>\$ 106,421</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2023

	Business-type Activities - Enterprise Funds		
	Water	Solar Field	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 3,808,722	\$ 635,388	\$ 4,444,110
Receivables, net of allowance for uncollectibles:			
User charges.....	551,939	-	551,939
Total current assets.....	4,360,661	635,388	4,996,049
NONCURRENT:			
Capital assets, nondepreciable.....	457,802	-	457,802
Capital assets, net of accumulated depreciation.....	6,313,365	1,755,860	8,069,225
Total noncurrent assets.....	6,771,167	1,755,860	8,527,027
TOTAL ASSETS.....	11,131,828	2,391,248	13,523,076
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	111,825	-	111,825
Deferred outflows related to other postemployment benefits...	26,187	-	26,187
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	138,012	-	138,012
LIABILITIES			
CURRENT:			
Warrants payable.....	21,682	805	22,487
Accrued payroll.....	6,958	-	6,958
Accrued interest.....	4,448	8,881	13,329
Bonds payable.....	192,897	75,000	267,897
Total current liabilities.....	225,985	84,686	310,671
NONCURRENT:			
Net pension liability.....	791,844	-	791,844
Net other postemployment benefits liability.....	27,646	-	27,646
Bonds payable.....	2,565,305	660,000	3,225,305
Total noncurrent liabilities.....	3,384,795	660,000	4,044,795
TOTAL LIABILITIES.....	3,610,780	744,686	4,355,466
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	47,974	-	47,974
Deferred inflows related to other postemployment benefits.....	7,040	-	7,040
TOTAL DEFERRED INFLOWS OF RESOURCES.....	55,014	-	55,014
NET POSITION			
Net investment in capital assets.....	4,012,965	1,020,860	5,033,825
Unrestricted.....	3,591,081	625,702	4,216,783
TOTAL NET POSITION.....	\$ 7,604,046	\$ 1,646,562	\$ 9,250,608

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2023

	Business-type Activities - Enterprise Funds		
	Water	Solar Field	Total
OPERATING REVENUES:			
Charges for services.....	\$ 1,190,750	\$ 90,961	\$ 1,281,711
OPERATING EXPENSES:			
Cost of services and administration.....	675,255	3,854	679,109
Depreciation.....	227,398	64,411	291,809
TOTAL OPERATING EXPENSES.....	902,653	68,265	970,918
OPERATING INCOME (LOSS).....	288,097	22,696	310,793
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	48,705	-	48,705
Interest expense.....	(95,771)	(31,036)	(126,807)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(47,066)	(31,036)	(78,102)
CHANGE IN NET POSITION.....	241,031	(8,340)	232,691
NET POSITION AT BEGINNING OF YEAR.....	7,363,015	1,654,902	9,017,917
NET POSITION AT END OF YEAR.....	\$ 7,604,046	\$ 1,646,562	\$ 9,250,608

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

	<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.....	\$ 1,267,651	\$ 90,961	\$ 1,358,612
Payments to vendors.....	(389,843)	(4,799)	(394,642)
Payments to employees.....	(302,644)	-	(302,644)
NET CASH FROM OPERATING ACTIVITIES.....	<u>575,164</u>	<u>86,162</u>	<u>661,326</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Acquisition and construction of capital assets.....	(263,610)	-	(263,610)
Principal payments on bonds and notes.....	(175,000)	(75,000)	(250,000)
Interest expense.....	(115,500)	(31,856)	(147,356)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(554,110)</u>	<u>(106,856)</u>	<u>(660,966)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Investment income.....	48,705	-	48,705
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	69,759	(20,694)	49,065
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>3,738,963</u>	<u>656,082</u>	<u>4,395,045</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 3,808,722</u>	<u>\$ 635,388</u>	<u>\$ 4,444,110</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 288,097	\$ 22,696	\$ 310,793
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation.....	227,398	64,411	291,809
Deferred (outflows)/inflows related to pensions.....	(124,918)	-	(124,918)
Deferred (outflows)/inflows related to other postemployment benefits.....	(390)	-	(390)
Changes in assets and liabilities:			
User charges.....	76,901	-	76,901
Warrants payable.....	15,196	(945)	14,251
Accrued payroll.....	2,564	-	2,564
Net pension liability.....	89,575	-	89,575
Net other postemployment benefits asset/(liability).....	741	-	741
Total adjustments.....	<u>287,067</u>	<u>63,466</u>	<u>350,533</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 575,164</u>	<u>\$ 86,162</u>	<u>\$ 661,326</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2023

		Other Postemployment Benefit Trust Fund
ASSETS		
Investments in Pension Reserve Investment Trust.....	\$	3,190,883
NET POSITION		
Restricted for other postemployment benefits.....	\$	3,190,883

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2023

	Other Postemployment Benefit Trust Fund
<u>ADDITIONS:</u>	
Contributions:	
Employer contributions for other postemployment benefit payments.....	\$ 157,313
Net investment income:	
Investment income.....	187,947
Less: investment expense.....	(15,355)
Net investment income (loss).....	172,592
TOTAL ADDITIONS.....	329,905
<u>DEDUCTIONS:</u>	
Other postemployment benefit payments.....	157,313
NET INCREASE (DECREASE) IN NET POSITION.....	172,592
NET POSITION AT BEGINNING OF YEAR.....	3,018,291
NET POSITION AT END OF YEAR.....	\$ 3,190,883

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 Select Board 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 2023 assessment totaled \$14,591,571. 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 2023, the Town's annual assessment totaled \$2,185,510. 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 activities) 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 are used for construction, reconstruction, and improvements of roadways.

The *ARPA grant fund* is used to account for funds received through the American Rescue Plan Act (ARPA), these funds are to be used in accordance with the guidelines within the final rule related to the COVID-19 public health emergency.

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

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. 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 type is reported:

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

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.

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 and improvements.....	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 asset that applies to future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported 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 assets that applies to future periods 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. Unearned and Unavailable Revenue

Unearned revenue at the government-wide and fund financial statement level represents resources that have been received, but not yet earned.

Fund Financial Statements

Unavailable revenue at the governmental fund financial statement level represents 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:

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

“Gifts and grants” represent 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. The Solar Field Enterprise Fund assigns its investment income 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, 2023, 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. Individual Fund Deficits

At June 30, 2023, there are various fund deficits within the special revenue fund. This deficit will be funded with available funds and future grant proceeds.

U. 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, 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 \$11,635,181 and the bank balance totaled \$11,862,355. Of the bank balance, \$1,576,330 was covered by Federal Depository Insurance, \$8,967,074 was covered by Depositors Insurance Fund and \$1,318,951 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2023, 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 notes.....	\$ 1,022,842	\$ 531,506	\$ 491,336
Government sponsored enterprises.....	208,873	-	208,873
Corporate bonds.....	1,379,996	583,754	796,242
Total debt securities.....	2,611,711	<u>\$ 1,115,260</u>	<u>\$ 1,496,451</u>
<u>Other investments:</u>			
Equity securities.....	373,215		
Fixed income mutual funds.....	24,853		
Money market mutual funds.....	45,491		
Pension Reserve Investment Trust (PRIT)....	3,190,883		
MMDT - cash portfolio.....	182,997		
Total investments.....	<u>\$ 6,429,150</u>		

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.

The Town participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 1.98 to 14.64 years. The OPEB Trust had \$3,190,883 invested in PRIT at June 30, 2023.

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 \$1,022,842 in U.S. treasury notes, \$208,873 in government sponsored enterprises, \$1,379,996 in corporate bonds, and \$373,215 in equity securities, the Town has custodial credit risk exposure of \$2,984,926 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.

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. The Town’s investments in PRIT, equity securities, mutual funds and MMDT are unrated.

The Town’s debt securities subject to credit risk disclosures are rated as follows:

<u>Quality Rating</u>	<u>Government Sponsored Enterprises</u>	<u>Corporate Bonds</u>
AAA.....	\$ -	\$ 135,503
AA+.....	208,873	-
A+.....	-	454,124
A-.....	-	235,777
BBB+.....	-	282,389
BBB.....	-	272,203
 Total.....	 \$ <u>208,873</u>	 \$ <u>1,379,996</u>

Fair 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, 2023:

Investment Type	June 30, 2023	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 notes.....	\$ 1,022,842	\$ 1,022,842	\$ -	\$ -
Government sponsored enterprises.....	208,873	208,873	-	-
Corporate bonds.....	<u>1,379,996</u>	<u>-</u>	<u>1,379,996</u>	<u>-</u>
Total debt securities.....	2,611,711	1,231,715	1,379,996	-
<u>Other investments:</u>				
Equity securities.....	373,215	373,215	-	-
Fixed income mutual funds.....	24,853	24,853	-	-
Money market mutual funds.....	<u>45,491</u>	<u>45,491</u>	<u>-</u>	<u>-</u>
Total other investments.....	<u>443,559</u>	<u>443,559</u>	<u>-</u>	<u>-</u>
Total investments measured at fair value.....	3,055,270	\$ <u>1,675,274</u>	\$ <u>1,379,996</u>	\$ <u>-</u>
Investments measured at amortized cost:				
MMDT - cash portfolio.....	182,997			
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT)..	<u>3,190,883</u>			
Total investments.....	\$ <u>6,429,150</u>			

U.S. treasury notes, government sponsored enterprises, fixed income mutual funds, money market mutual funds, and 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. Investments classified in Level 3 are valued using significant unobservable inputs. The Town does not have any investments in this category.

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.

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.

NOTE 3 – RECEIVABLES

At June 30, 2023, receivables for the individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 187,728	\$ (1,484)	\$ 186,244
Tax liens.....	298,606	-	298,606
Community preservation fund surtax.....	1,248	-	1,248
Motor vehicle and other excise taxes.....	215,305	(64,510)	150,795
Departmental and other.....	568,782	(320,034)	248,748
Intergovernmental.....	629,433	-	629,433
Special assessments.....	40,862	-	40,862
 Total.....	 \$ <u>1,941,964</u>	 \$ <u>(386,028)</u>	 \$ <u>1,555,936</u>

At June 30, 2023, receivables for the water enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user charges.....	\$ <u>551,939</u>	\$ <u>-</u>	\$ <u>551,939</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 and other asset types:</u>			
Real estate and personal property taxes.....	\$ 113,566	\$ -	\$ 113,566
Tax liens.....	298,606	-	298,606
Community preservation fund surtax.....	-	1,248	1,248
Motor vehicle and other excise taxes.....	150,795	-	150,795
Departmental and other.....	116,264	115,691	231,955
Intergovernmental.....	-	398,458	398,458
Special assessments.....	-	40,862	40,862
Tax foreclosures.....	474,655	-	474,655
 Total.....	 \$ <u>1,153,886</u>	 \$ <u>556,259</u>	 \$ <u>1,710,145</u>

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,394,347	\$ -	\$ -	\$ 2,394,347
Construction in progress.....	<u>423,754</u>	<u>324,572</u>	<u>(241,840)</u>	<u>506,486</u>
Total capital assets not being depreciated....	<u>2,818,101</u>	<u>324,572</u>	<u>(241,840)</u>	<u>2,900,833</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	436,286	-	-	436,286
Buildings and improvements.....	43,546,710	65,889	-	43,612,599
Machinery and equipment.....	3,395,470	67,296	-	3,462,766
Vehicles.....	3,749,955	351,070	-	4,101,025
Infrastructure.....	<u>26,406,407</u>	<u>515,617</u>	<u>-</u>	<u>26,922,024</u>
Total capital assets being depreciated.....	<u>77,534,828</u>	<u>999,872</u>	<u>-</u>	<u>78,534,700</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(142,180)	(17,200)	-	(159,380)
Buildings and improvements.....	(22,311,587)	(1,216,390)	-	(23,527,977)
Machinery and equipment.....	(2,024,204)	(189,236)	-	(2,213,440)
Vehicles.....	(3,539,136)	(140,591)	-	(3,679,727)
Infrastructure.....	<u>(21,728,590)</u>	<u>(677,965)</u>	<u>-</u>	<u>(22,406,555)</u>
Total accumulated depreciation.....	<u>(49,745,697)</u>	<u>(2,241,382)</u>	<u>-</u>	<u>(51,987,079)</u>
Total capital assets being depreciated, net.....	<u>27,789,131</u>	<u>(1,241,510)</u>	<u>-</u>	<u>26,547,621</u>
Total governmental activities capital assets, net.....	<u>\$ 30,607,232</u>	<u>\$ (916,938)</u>	<u>\$ (241,840)</u>	<u>\$ 29,448,454</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Solar Field:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 22,888	\$ -	\$ -	\$ 22,888
Infrastructure.....	<u>2,542,651</u>	<u>-</u>	<u>-</u>	<u>2,542,651</u>
Total capital assets being depreciated.....	<u>2,565,539</u>	<u>-</u>	<u>-</u>	<u>2,565,539</u>
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(5,150)	(1,144)	-	(6,294)
Infrastructure.....	<u>(740,118)</u>	<u>(63,267)</u>	<u>-</u>	<u>(803,385)</u>
Total accumulated depreciation.....	<u>(745,268)</u>	<u>(64,411)</u>	<u>-</u>	<u>(809,679)</u>
Total solar field activities capital assets, net.....	<u>\$ 1,820,271</u>	<u>\$ (64,411)</u>	<u>\$ -</u>	<u>\$ 1,755,860</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 194,192	\$ -	\$ -	\$ 194,192
Construction in progress.....	-	263,610	-	263,610
Total capital assets not being depreciated.....	<u>194,192</u>	<u>263,610</u>	<u>-</u>	<u>457,802</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	3,251	-	-	3,251
Machinery and equipment.....	241,562	-	-	241,562
Vehicles.....	336,243	-	-	336,243
Infrastructure.....	<u>10,376,841</u>	<u>-</u>	<u>-</u>	<u>10,376,841</u>
Total capital assets being depreciated.....	<u>10,957,897</u>	<u>-</u>	<u>-</u>	<u>10,957,897</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(3,251)	-	-	(3,251)
Machinery and equipment.....	(227,595)	(1,643)	-	(229,238)
Vehicles.....	(295,900)	(26,895)	-	(322,795)
Infrastructure.....	<u>(3,890,388)</u>	<u>(198,860)</u>	<u>-</u>	<u>(4,089,248)</u>
Total accumulated depreciation.....	<u>(4,417,134)</u>	<u>(227,398)</u>	<u>-</u>	<u>(4,644,532)</u>
Total capital assets being depreciated, net.....	<u>6,540,763</u>	<u>(227,398)</u>	<u>-</u>	<u>6,313,365</u>
Total water activities capital assets, net.....	<u>\$ 6,734,955</u>	<u>\$ 36,212</u>	<u>\$ -</u>	<u>\$ 6,771,167</u>

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

Governmental Activities:	
General government.....	\$ 178,281
Public safety.....	337,913
Education.....	909,875
Public works.....	696,666
Culture and recreation.....	<u>118,647</u>
Total depreciation expense - governmental activities.....	<u>\$ 2,241,382</u>
Business-Type Activities:	
Water.....	\$ 227,398
Solar field.....	<u>64,411</u>
Total depreciation expense - business-type activities.....	<u>\$ 291,809</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of June 30, 2023, the Town has interfund receivables/payables of \$2,104 between the general fund and the highway improvement fund. The purpose of these balances is to cover short-term cash needs that will be funded by future grant proceeds.

For the year ended June 30, 2023, \$174,282 was transferred from the general fund to the Town capital project fund for the fire pumper finance payment.

NOTE 6 – 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, 2023.

NOTE 7 – 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, 2023, 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, 2023
General Obligation Bonds Payable:				
Municipal Purpose Bonds of 2016.....	2035	\$ 3,175,000	2.00 - 3.50	\$ 1,895,000
Municipal Purpose Bonds of 2018.....	2028	1,293,000	5.00	<u>640,000</u>
Subtotal General Obligation Bonds Payable.....				<u>2,535,000</u>
Direct Borrowings Payable:				
MCWT Bonds of 2015.....	2034	116,000	0	66,700
Public Safety Vehicles Capital Financing.....	2029	1,415,776	3.81 - 3.98	<u>742,969</u>
Subtotal Direct Borrowings Payable.....				<u>809,669</u>
Long Term Bonds Payable.....				<u>3,344,669</u>
Add: Unamortized premium on bonds.....				<u>51,368</u>
Total Bonds Payable, net.....				<u>\$ 3,396,037</u>

Debt service requirements for principal and interest for governmental general obligation bonds and direct borrowings payable in future years are on the following page.

Year	General Obligation Bonds Payable		
	Principal	Interest	Total
2024.....	\$ 290,000	\$ 92,726	\$ 382,726
2025.....	290,000	81,424	371,424
2026.....	290,000	70,126	360,126
2027.....	285,000	58,824	343,824
2028.....	285,000	47,776	332,776
2029.....	160,000	36,724	196,724
2030.....	160,000	31,926	191,926
2031.....	155,000	27,124	182,124
2032.....	155,000	21,700	176,700
2033.....	155,000	16,276	171,276
2034.....	155,000	10,850	165,850
2035.....	155,000	5,424	160,424
Total.....	\$ 2,535,000	\$ 500,900	\$ 3,035,900

Year	Direct Borrowings Payable		
	Principal	Interest	Total
2024.....	\$ 148,982	\$ 29,177	\$ 178,159
2025.....	154,446	23,714	178,160
2026.....	112,041	18,041	130,082
2027.....	116,289	13,793	130,082
2028.....	120,708	9,374	130,082
2029.....	125,303	4,779	130,082
2030.....	5,800	-	5,800
2031.....	5,800	-	5,800
2032.....	5,800	-	5,800
2033.....	5,800	-	5,800
2034.....	5,800	-	5,800
2035.....	2,900	-	2,900
Total.....	\$ 809,669	\$ 98,878	\$ 908,547

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2023
General Obligation Bonds Payable:				
Water - Municipal Purpose Bonds of 2018.....	2038	\$ 3,500,000	3.50 - 5.00	\$ 2,625,000
Solar - Municipal Purpose Bonds of 2013.....	2033	1,480,000	0.75 - 4.25	735,000
Total General Obligation Bonds Payable.....				3,360,000
Add: Unamortized premium on bonds.....				133,202
Total Bonds Payable, net.....				<u>\$ 3,493,202</u>

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

Water Fund

General Obligation Bonds Payable

Year	Principal	Interest	Total
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>2,625,000</u>	\$ <u>794,500</u>	\$ <u>3,419,500</u>

Solar Field Fund

General Obligation Bonds Payable

Year	Principal	Interest	Total
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>735,000</u>	\$ <u>152,567</u>	\$ <u>887,567</u>

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, 2023, the Town had \$4,000,000 of authorized and unissued debt related to water mains maintenance.

Changes in Long-term Liabilities

During the year ended June 30, 2023, 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 general obligation bonds payable...	\$ 2,825,000	\$ -	\$ (290,000)	\$ -	\$ -	\$ 2,535,000	\$ 290,000
Long-term direct borrowings payable.....	961,581	-	(151,912)	-	-	809,669	148,982
Add: Unamortized premium on bonds.....	72,131	-	-	-	(20,763)	51,368	17,258
Total long-term debt.....	3,858,712	-	(441,912)	-	(20,763)	3,396,037	456,240
Net pension liability.....	7,953,455	-	-	2,628,145	(775,408)	9,806,192	-
Net other postemployment benefits.....	554,982	-	-	178,288	(156,998)	576,272	-
Total governmental activity long-term liabilities.....	\$ 12,367,149	\$ -	\$ (441,912)	\$ 2,806,433	\$ (953,169)	\$ 13,778,501	\$ 456,240
Business-Type Activities:							
Long-term general obligation bonds payable...	\$ 3,610,000	\$ -	\$ (250,000)	\$ -	\$ -	\$ 3,360,000	\$ 250,000
Add: Unamortized premium on bonds.....	152,566	-	-	-	(19,364)	133,202	17,897
Total long-term debt.....	3,762,566	-	(250,000)	-	(19,364)	3,493,202	267,897
Net pension liability.....	702,269	-	-	152,189	(62,614)	791,844	-
Net other postemployment benefits.....	26,905	-	-	1,056	(315)	27,646	-
Total business-type activity long-term liabilities.....	\$ 4,491,740	\$ -	\$ (250,000)	\$ 153,245	\$ (82,293)	\$ 4,312,692	\$ 267,897

NOTE 8 – 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.

	General	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 841,629	\$ 841,629
Restricted for:			
Town revolving funds.....	-	173,467	173,467
Town grant funds.....	-	276,070	276,070
Receipts reserved for appropriations.....	-	167,276	167,276
Other special revenue.....	-	678,077	678,077
Capital project fund.....	-	375,464	375,464
Permanent expendable fund.....	-	142,201	142,201
Assigned to:			
General government.....	1,986	-	1,986
Public safety.....	702	-	702
Education.....	5,422	-	5,422
Property and liability insurance.....	7,790	-	7,790
Unassigned.....	<u>5,643,738</u>	<u>(25,298)</u>	<u>5,618,440</u>
Total Fund Balances.....	<u>\$ 5,659,638</u>	<u>\$ 2,628,886</u>	<u>\$ 8,288,524</u>

NOTE 9 – 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 \$1.9 million and is reported as unassigned fund balance within the general fund. The Town also has a capital stabilization fund which totaled \$279,000 and is also reported as unassigned fund balance in the general fund. The stabilization funds may be used for general and/or capital purposes upon Town Meeting approval.

NOTE 10 – 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 11 – PENSION PLAN

Plan Descriptions

The Town is a member of the Worcester Regional Retirement System (WRRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 99 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, 2022.

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, 2022, which was \$838,022 and 26.46% 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, 2023, the Town reported a liability of \$10,598,036 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. 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, 2022, the Town's proportion was 1.031%, which increased from its proportion measured at December 31, 2021, of 1.028%.

Pension Expense

For the year ended June 30, 2023, the Town recognized pension expense of \$1,173,095. At June 30, 2023, the Town reported net deferred outflows of resources and inflows of resources related to pensions of \$1,496,661 and \$642,086, respectively.

The balances of deferred outflows and inflows at June 30, 2023, consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ -	\$ (324,327)	\$ (324,327)
Difference between projected and actual earnings, net.....	715,212	-	715,212
Changes of assumptions.....	561,617	-	561,617
Changes in proportion and proportionate share of contributions.....	<u>219,832</u>	<u>(317,759)</u>	<u>(97,927)</u>
Total deferred outflows/(inflows) of resources.....	<u>\$ 1,496,661</u>	<u>\$ (642,086)</u>	<u>\$ 854,575</u>

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

<u>Year ended June 30:</u>	
2024.....	\$ 108,541
2025.....	216,695
2026.....	170,863
2027.....	379,431
2028.....	<u>(20,955)</u>
Total.....	<u>\$ 854,575</u>

Actuarial Assumptions

The total pension liability in the January 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2022:

- Valuation date..... January 1, 2022
- 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, 2036. The annual increase in appropriation is further limited to 9.95%.
2002, 2003 ERI - Increasing dollar amount at 4.5% to reduce the 2002 and 2003 ERI actuarial accrued liability to zero on or before June 30, 2028.
- Asset valuation method..... The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of:
 - a) 80% of gains and losses of the prior year,
 - b) 60% of gains and losses of the second prior year,
 - c) 40% of gains and losses of the third prior year, and
 - d) 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 for 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.....	3.25% per year.
Investment rate of return.....	7.25%, net of pension plan investment expense, including inflation.
Mortality rates.....	Based on the RP-2014 Blue Collar Mortality Table with full generational mortality improvement using Scale MP-2020. For disabled lives, the mortality rates were based on the RP-2014 Blue Collar Mortality Table set forward one year with full generational mortality improvement using Scale MP-2020.

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, 2022, 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.....	37.00%	4.74%
Core fixed income.....	15.00%	2.10%
Value-added fixed income.....	8.00%	5.20%
Private equity.....	16.00%	7.60%
Real estate.....	10.00%	3.10%
Timberland.....	4.00%	4.40%
Portfolio completion (PCS).....	10.00%	3.90%
Total.....	<u>100.00%</u>	

Rate of Return

For the year ended December 31, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -11.68%. 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 7.25%. 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 (7.25%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
The Town's proportionate share of the net pension liability.....	\$ 12,932,459	\$ 10,598,036	\$ 8,624,430

Changes in Assumptions

The administrative expense assumption was increased from \$1,200,000 to \$1,400,000.

Net 3(8)(c) transfer assumption was modified from \$3,500,000 to \$3,200,000.

Pay growth assumption decreased from 3.5% to 3.25%.

Changes in Plan Provisions

None.

NOTE 12 – 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 2023, the Town contributed \$157,313 to the plan. The Town’s average contribution rate was 3.62% 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, 2023, the balance of the OPEB fund totaled \$3,190,883.

Measurement Date

The net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2021.

Employees Covered by Benefit Terms

The following table represents the Plan’s membership at June 30, 2023:

Active members.....	39
Inactive members currently receiving benefits....	<u>35</u>
Total.....	<u>74</u>

Components of OPEB Liability

The following table represents the components of the Plan’s OPEB liability as of June 30, 2023:

Total OPEB liability.....	\$ 3,794,801
Less: OPEB plan’s fiduciary net position.....	<u>(3,190,883)</u>
Net OPEB liability.....	<u>\$ 603,918</u>
The OPEB plan’s fiduciary net position as a percentage of the total OPEB liability.....	84.09%

Significant Actuarial Methods and Assumptions

The total OPEB liability in the July 1, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, that was updated to June 30, 2023, as follows:

Valuation date.....	July 1, 2021
Actuarial cost method.....	Individual entry age normal.
Asset valuation method.....	Fair value of assets as of the measurement date, June 30, 2023.
Discount rate.....	6.30%, net of OPEB plan investment expense, including inflation.
Municipal bond rate.....	4.13% as of June 30, 2023 (source: S&P Municipal Bond 20-Year High Grade Index-SAPIHG).
Inflation rate.....	2.50% as of June 30, 2023, and for future periods.
Salary increases.....	3.00% annually as of June 30, 2023, 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.
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.
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.

Rate of Return

For the year ended June 30, 2023, the annual money-weighted rate of return on OPEB plan investments was 5.72%. 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 3.80%, net of investment expense, is added to the expected inflation of 2.50% to produce the long-term expected nominal rate of return of 6.80%.

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 in the following table:

<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%	4.10%
Domestic equity - small/mid cap.....	3.50%	4.55%
International equity - developed market.....	16.00%	4.64%
International equity - emerging market.....	6.00%	5.45%
Domestic fixed income.....	20.00%	1.05%
International fixed income.....	3.00%	0.96%
Alternatives.....	23.00%	5.95%
Real estate.....	14.00%	6.25%
Total.....	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.30% as of June 30, 2023, decreasing from 6.41% as of June 30, 2022. The discount rate is a blend of the long-term expected rate of return on OPEB Trust Fund assets for funded periods and a yield or index rate using S&P Municipal Bond 20-year High Grade Index for unfunded periods. The blending is based on the sufficiency of projected assets to make projected benefit 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 6.30%, as well as what the net OPEB liability/(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.30%) or 1-percentage-point higher (7.30%) than the current rate.

	<u>1% Decrease (5.30%)</u>	<u>Current Discount Rate (6.30%)</u>	<u>1% Increase (7.30%)</u>
Net OPEB liability.....	\$ <u>1,154,968</u>	\$ <u>603,918</u>	\$ <u>158,528</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend

The following table presents the net other postemployment benefit asset, calculated using the healthcare trend rate if it was 1-percentage-point lower or 1- percentage-point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Trend</u>	<u>1% Increase</u>
Net OPEB liability.....	\$ <u>108,574</u>	\$ <u>603,918</u>	\$ <u>1,226,665</u>

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/(Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
Balances at June 30, 2022.....	\$ 3,600,178	\$ 3,018,291	\$ 581,887
Changes for the year:			
Service cost.....	75,200	-	75,200
Interest.....	230,628	-	230,628
Change in assumptions.....	46,108	-	46,108
Employer contributions to trust.....	-	157,313	(157,313)
Net investment income.....	-	172,592	(172,592)
Benefit payments.....	<u>(157,313)</u>	<u>(157,313)</u>	<u>-</u>
Net change.....	<u>194,623</u>	<u>172,592</u>	<u>22,031</u>
Balances at June 30, 2023.....	<u>\$ 3,794,801</u>	<u>\$ 3,190,883</u>	<u>\$ 603,918</u>

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

For the year ended June 30, 2023, the Town recognized OPEB expense of \$166,766 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.....	\$ -	\$ (153,781)	\$ (153,781)
Difference between projected and actual earnings, net.....	19,062	-	19,062
Changes in assumptions.....	<u>552,975</u>	<u>-</u>	<u>552,975</u>
Total deferred outflows/(inflows) of resources.....	<u>\$ 572,037</u>	<u>\$ (153,781)</u>	<u>\$ 418,256</u>

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

<u>Year ended June 30:</u>	
2024.....	\$ 48,993
2025.....	83,777
2026.....	214,534
2027.....	67,379
2028.....	<u>3,573</u>
Total.....	<u>\$ 418,256</u>

Changes of Assumptions

The discount rate decreased from 6.41% to 6.30%.

Changes in Plan Provisions

None.

NOTE 13 – 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 2023 assessment for its proportionate share of debt service totaled \$167,560.

The general fund has various commitments for goods and services related to encumbrances totaling \$15,900.

NOTE 14 – 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, 2023 cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2023.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 14, 2024, which is the date the financial statements were available to be issued.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2023, the following GASB pronouncements were implemented:

- GASB Statement #91, *Conduit Debt Obligations*. This pronouncement did not impact the basic financial statements.
- GASB Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #96, *Subscription-Based Information Technology Arrangements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #99, *Omnibus 2022*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #100, *Accounting Changes and Error Corrections*, which is required to be implemented in 2024.
- The GASB issued Statement #101, *Compensated Absences*, which is required to be implemented in 2025.

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, 2023

	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.....	\$ -	\$ 21,924,117	\$ 21,924,117	\$ 21,924,117
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	1,236,800	1,236,800	1,236,800
Penalties and interest on taxes.....	-	100,000	100,000	100,000
Payments in lieu of taxes.....	-	12,000	12,000	12,000
Intergovernmental.....	-	1,261,633	1,261,633	1,261,633
Departmental and other.....	-	584,000	584,000	584,000
Investment income.....	-	20,000	20,000	20,000
TOTAL REVENUES.....	-	25,138,550	25,138,550	25,138,550
EXPENDITURES:				
Current:				
General government.....	558	2,308,321	2,308,879	2,262,716
Public safety.....	-	2,371,644	2,371,644	2,371,644
Education.....	-	16,932,081	16,932,081	16,932,081
Public works.....	-	770,672	770,672	785,672
Health and human services.....	-	240,119	240,119	236,229
Culture and recreation.....	-	427,244	427,244	462,297
Pension benefits.....	-	838,022	838,022	838,022
Property and liability insurance.....	-	210,000	210,000	210,000
Employee benefits.....	-	1,020,925	1,020,925	1,020,925
State and county charges.....	-	149,062	149,062	149,062
Debt service:				
Principal.....	-	296,000	296,000	296,000
Interest.....	-	104,025	104,025	104,025
TOTAL EXPENDITURES.....	558	25,668,115	25,668,673	25,668,673
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(558)	(529,565)	(530,123)	(530,123)
OTHER FINANCING SOURCES (USES):				
Transfers out.....	-	(174,282)	(174,282)	(174,282)
NET CHANGE IN FUND BALANCE.....	(558)	(703,847)	(704,405)	(704,405)
BUDGETARY FUND BALANCE, Beginning of year.....	-	2,699,947	2,699,947	2,699,947
BUDGETARY FUND BALANCE, End of year.....	\$ (558)	\$ 1,996,100	\$ 1,995,542	\$ 1,995,542

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	21,989,884	\$ -	\$ 65,767
	64,055	-	64,055
	1,302,491	-	65,691
	106,397	-	6,397
	35,537	-	23,537
	1,380,565	-	118,932
	714,551	-	130,551
	63,370	-	43,370
	<u>25,656,850</u>	<u>-</u>	<u>518,300</u>
	2,044,095	1,986	216,635
	2,130,618	702	240,324
	16,856,630	5,422	70,029
	771,363	-	14,309
	197,145	-	39,084
	459,445	-	2,852
	838,022	-	-
	187,277	7,790	14,933
	734,015	-	286,910
	149,022	-	40
	295,800	-	200
	104,025	-	-
	<u>24,767,457</u>	<u>15,900</u>	<u>885,316</u>
	<u>889,393</u>	<u>(15,900)</u>	<u>1,403,616</u>
	<u>(174,282)</u>	<u>-</u>	<u>-</u>
	715,111	(15,900)	1,403,616
	<u>2,699,947</u>	<u>-</u>	<u>-</u>
\$	<u><u>3,415,058</u></u>	<u><u>(15,900)</u></u>	<u><u>1,403,616</u></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 the 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 REGIONAL 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, 2022.....	1.031%	\$ 10,598,036	\$ 3,135,422	338.01%	48.20%
December 31, 2021.....	1.028%	8,655,724	2,653,243	326.23%	56.20%
December 31, 2020.....	1.082%	9,614,710	3,034,175	316.88%	50.30%
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 REGIONAL 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, 2023.....	\$ 838,022	\$ (838,022)	\$ -	\$ 3,166,776	26.46%
June 30, 2022.....	760,156	(760,156)	-	2,679,775	28.37%
June 30, 2021.....	728,019	(728,019)	-	3,064,517	23.76%
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/(Asset) and related ratios presents multi-year trend information on the Town's net other postemployment benefit liability/(asset) 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 Returns presents multi-year trend information on the money-weighted investment return on other postemployment liability/(assets), net of investment expense.

**SCHEDULE OF CHANGES IN THE
TOWN'S NET OPEB LIABILITY/(ASSET) 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 (loss).....	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/(asset) - 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/(asset) 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.

	June 30, 2021	June 30, 2022	June 30, 2023
\$	65,411	\$ 71,259	\$ 75,200
	180,626	187,548	230,628
	-	-	-
	-	(23,306)	-
	85,132	728,978	46,108
	<u>(137,008)</u>	<u>(140,769)</u>	<u>(157,313)</u>
	194,161	823,710	194,623
	<u>2,582,307</u>	<u>2,776,468</u>	<u>3,600,178</u>
\$	<u><u>2,776,468</u></u>	<u><u>3,600,178</u></u>	<u><u>3,794,801</u></u>
\$	-	\$ -	\$ -
	137,008	140,769	157,313
	712,584	(117,891)	172,592
	<u>(137,008)</u>	<u>(140,769)</u>	<u>(157,313)</u>
	712,584	(117,891)	172,592
	<u>2,423,598</u>	<u>3,136,182</u>	<u>3,018,291</u>
\$	<u><u>3,136,182</u></u>	<u><u>3,018,291</u></u>	<u><u>3,190,883</u></u>
\$	<u><u>(359,714)</u></u>	<u><u>581,887</u></u>	<u><u>603,918</u></u>
	112.96%	83.84%	84.09%
\$	2,964,194	\$ 4,223,650	\$ 4,350,360
	-12.14%	13.78%	13.88%

**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, 2023.....	\$ 105,847	\$ (157,313)	\$ (51,466)	\$ 4,350,360	3.62%
June 30, 2022.....	101,161	(140,769)	(39,608)	4,223,650	3.33%
June 30, 2021.....	46,206	(137,008)	(90,802)	2,964,194	4.62%
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, 2023.....	5.72%
June 30, 2022.....	-3.76%
June 30, 2021.....	29.40%
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 ACCOUNTINGBudgetary 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 2023 approved budget authorized approximately \$25.9 million in appropriations and other amounts to be raised. There was no change between the original budget and the final budget.

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, 2023, is presented below:

Net change in fund balance - budgetary basis.....	\$	715,111
<u>Perspective differences:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		32,587
<u>Basis of accounting differences:</u>		
Net change in recording 60 day receipts.....		<u>(20,061)</u>
Net change in fund balance - GAAP basis.....	\$	<u>727,637</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 the 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 administrative expense assumption was increased from \$1,200,000 to \$1,400,000.

Net 3(8)(c) transfer assumption was modified from \$3,500,000 to \$3,200,000.

Pay growth assumption decreased from 3.5% to 3.25%.

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 insurance for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members.

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability/(Asset) and Related Ratios

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability/(Asset) 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/(asset). 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.

Actuarial Assumptions

Valuation date.....	July 1, 2021
Actuarial cost method.....	Individual entry age normal.
Asset valuation method.....	Fair value of assets as of the measurement date, June 30, 2023.
Discount rate.....	6.30%, net of OPEB plan investment expense, including inflation.
Municipal bond rate.....	4.13% as of June 30, 2023 (source: S&P Municipal Bond 20-Year High Grade Index-SAPIHG).
Inflation rate.....	2.50% as of June 30, 2023, and for future periods.
Salary increases.....	3.00% annually as of June 30, 2023, 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.
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.
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.

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 discount rate was reduced from 6.41% to 6.30%.

Changes in Plan Provisions

None.

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
*GOVERNMENTAL AUDITING STANDARDS***

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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

Independent Auditor's Report

To the Honorable Select Board
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, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town of Lancaster, Massachusetts' basic financial statements, and have issued our report thereon dated March 14, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town of Lancaster, Massachusetts' 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Lancaster, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Town of Lancaster, Massachusetts' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Lancaster, Massachusetts' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Powers & Sullivan, LLC". The signature is written in a cursive style and is positioned above a light gray rectangular background.

March 14, 2024