

LYNNFIELD CENTER WATER DISTRICT

Financial Statements

June 30, 2020

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

36 Jackman St., Unit 1

Georgetown, MA 01833

(Tel) 978-352-7470

Lynnfield Center Water District
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INDEPENDENT AUDITORS' REPORT

Board of Water Commissioners
Lynnfield Center Water District
83 Phillips Road
Lynnfield, Massachusetts 01940

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business type activities and the aggregate remaining fund information of the Lynnfield Center Water District and the related notes to the financial statements of the Lynnfield Center Water District as of and for the year ended June 30, 2020.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business activities and the aggregate remaining fund information of the Lynnfield Center Water District, as of June 30, 2020, and the results of the respective changes in financial position and, when applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
May 28, 2021

***Lynnfield Center Water District
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2020***

As management of the Lynnfield Center Water District, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Lynnfield Center Water District for the fiscal year ended June 30, 2020.

Financial Highlights

- The assets and deferred outflows of resources of the Lynnfield Center Water District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,529,164 (*net position*).
- The District's total net position increased by \$919,671 or 19.95%. The primary reasons for the increase was increased revenues from the new water rate structure, and increase in the property tax levy and a \$175,000 capital contribution.
- At the end of the current fiscal year, the balance in the unrestricted retained earnings account was \$196,024 or 8.8% of the District's expenditures.
- During fiscal year 2020, the District contributed \$30,000 to the Other Post Employment Benefits (OPEB) Trust Fund. The balance in the OPEB Trust Fund as of June 30, 2020 was \$192,474. The plan fiduciary net position as a percentage of the total OPEB liability is 51.99%.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Lynnfield Center Water District's basic financial statements.

Proprietary funds. The Lynnfield Center Water District maintains one proprietary fund type. The District uses an enterprise fund to account for its water operations.

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 proprietary fund financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The District maintains a fiduciary fund to account for activities related to its Other Post-Employment Benefits (OPEB) trust fund. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the District's basic financial statements.

Other Information

In addition to the basic financial statements and the accompanying notes, this report also presents *required supplementary information* concerning the Lynnfield Center Water District's progress in funding its obligation to provide pension and other post employment benefits to its employees.

Financial Analysis

Net Position

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

The following table reflects the condensed net position for the past two fiscal years.

	Business - Type Activities <u>2020</u>	Business - Type Activities <u>2019</u>
Current Assets	\$ 1,430,309	\$ 753,976
Non-Current Assets	6,138,140	5,994,178
Total Assets	<u>7,568,449</u>	<u>6,748,154</u>
Deferred Outflows of Resources	<u>356,752</u>	<u>268,006</u>
Current Liabilities	152,437	146,542
Long Term Liabilities	2,089,164	2,076,947
Total Liabilities	<u>2,241,601</u>	<u>2,223,489</u>
Deferred Inflows of Resources	<u>154,436</u>	<u>183,178</u>
Net Position:		
Net Investment in Capital Assets	5,333,140	5,074,178
Unrestricted	196,024	(464,685)
Total Net Position	<u>\$ 5,529,164</u>	<u>\$ 4,609,493</u>

Changes in Net Position

The following condensed financial information was derived from the District's Statement of Revenues, Expenses and Changes in Net Position. It reflects how the District's net position has changed during the past two fiscal years.

	Type Activities <u>2020</u>	Type Activities <u>2019</u>
Revenues:		
Charges for Services	\$ 1,032,820	\$ 489,786
Property Taxes	1,719,287	993,414
In Lieu of Taxes	12,937	12,622
Earnings on Investments	1,069	1,082
System Development Revenue	1,600	2,400
Cell Tower Lease Revenue	187,366	187,257
Penalties and Interest	1,546	13,676
Fines	3,600	10,500
Miscellaneous	10,479	15,839
Total Revenues	<u>2,970,704</u>	<u>1,726,576</u>
Expenses:		
Salaries	842,499	868,454
Other Operating	1,169,440	974,951
Depreciation	194,385	183,652
Interest Expense	19,709	22,009
Total Expenses	<u>2,226,033</u>	<u>2,049,066</u>
Capital Contributions		
Capital Grant	<u>175,000</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 919,671</u>	<u>\$ (322,490)</u>

Financial Analysis of the District's Funds

Proprietary Fund

Water Enterprise Fund – The year-end net position of the District was \$5,529,164. In fiscal year 2020, the total net position increased by \$919,671 or 19.95%. In fiscal year 2019, the District's net position decreased by \$322,490 or 6.54%.

Components of Net Position

The following table reflects the trend in all components of net position for the past ten years.

<u>Fiscal Year</u>	<u>Invested in Capital Assets Net of Related Debt</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2011	\$ 3,591,086	\$ 1,263,259	\$ 4,854,345
2012	4,303,728	888,306	5,192,034
2013	4,598,961	804,001	5,402,962
2014	4,920,891	718,255	5,639,146
2015	5,023,366	(323,850)	4,699,516
2016	4,980,322	(24,476)	4,955,846
2017	4,936,833	5,481	4,942,314
2018	5,089,771	(157,788)	4,931,983
2019	5,074,178	(464,685)	4,609,493
2020	5,333,140	196,024	5,529,164

Free Cash

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

The following schedule details the certified free cash for the previous ten fiscal years.

<u>Fiscal Year</u>	<u>Free Cash</u>
2011	\$ 360,192
2012	416,498
2013	255,560
2014	179,362
2015	272,929
2016	503,842
2017	557,543
2018	550,297
2019	206,413
2020	403,535

Water rates and property taxes are structured to cover all operating costs related to the entity.

Capital Asset and Debt Administration

Capital assets. The Lynnfield Center Water District’s investment in capital assets (net of accumulated depreciation) as of June 30, 2020, amounts to \$6,138,140. This investment in capital assets includes land, infrastructure, equipment and vehicles.

Major capital asset acquisitions during the year included the following:

2019 Utility Truck	\$64,167
Well # 9A Improvements	\$26,748
Main Street Well Redevelopment	\$30,200
Acceptance Parsons Avenue Extension	\$175,000

**Capital Assets at June 30, 2020 and June 30, 2019
(Net of Accumulated Depreciation)**

	Business-Type	
	<u>Activities</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 1,215,184	\$ 1,215,184
Construction in Progress	33,953	34,809
Buildings	616,663	610,624
Improvements	93,450	44,437
Machinery and Equipment	138,763	159,642
Vehicles	57,750	3,981
Infrastructure	3,982,377	3,925,501
	<hr/>	<hr/>
Total	<u>\$ 6,138,140</u>	<u>\$ 5,994,178</u>

Debt

The District's long term debt is noted below:

	<u>2020</u>	<u>2019</u>
Bonds Payable	<u>\$ 805,000</u>	<u>\$ 920,000</u>

Fiscal Year 2021 Budget

On May 28, 2021, the District adopted the fiscal year 2021 budget in the amount of \$2,478,581. The budget will be funded by property taxes, user charges and other estimated revenues (\$2,426,981) and unrestricted net position (\$51,600). The total amount appropriated for the fiscal year 2021 budget represented a \$136,856 (or 5.84%) increase over the prior year's adopted budget.

Request for Information

This financial report is designed to provide a general overview of the Lynnfield Center Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Lynnfield Center Water District
83 Phillips Road
Lynnfield, Massachusetts 01940

Lynnfield Center Water District
Statement of Net Position
Proprietary Fund Type
June 30, 2020

	Proprietary Fund Type <u>Enterprise</u>
Assets	
Current:	
Cash and Cash Investments	\$ 980,265
Accounts Receivable:	
Property Taxes	29,589
Tax Liens	211
Charges for Services	409,227
Other Accounts Receivable	11,017
Noncurrent:	
Capital Assets Not Being Depreciated	1,249,137
Capital Assets Being Depreciated, Net	4,889,003
Total Assets	7,568,449
Deferred Outflows of Resources	
Other Post Employment Benefits	135,078
Pensions	221,674
Total Deferred Outflows of Resources	356,752
Liabilities	
Current:	
Accrued Payrolls Payable	6,818
Refunds Due	2,187
Withholdings Payable	3,196
Accrued Interest Payable	3,113
Compensated Absences Payable	21,299
Unclaimed Checks	824
Bonds Payable	115,000
Noncurrent:	
Net Other Post Employment Benefit Liability	177,723
Net Pension Liability	1,221,441
Bonds Payable	690,000
Total Liabilities	2,241,601
Deferred Inflows of Resources	
Other Post Employment Benefits	22,017
Pensions	132,419
Total Deferred Inflows of Resources	154,436
Net Position	
Net Investment in Capital Assets	5,333,140
Unrestricted	196,024
Total Net Position	\$ 5,529,164

Lynnfield Center Water District
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Fund Type
For the Year Ended June 30, 2020

	Proprietary Fund Type <u>Enterprise</u>
Operating Revenues:	
Charges for Services	\$ 1,032,820
Property Taxes	1,719,287
In Lieu of Taxes	12,937
System Development Fees	1,600
Penalties and Interest	1,546
Fines	3,600
Miscellaneous	10,479
Total Operating Revenues	2,782,269
Operating Expenses:	
Salaries	842,499
Other Operating	1,169,440
Depreciation	194,385
Total Operating Expenses	2,206,324
Operating Income	575,945
Non Operating Revenues (Expenses):	
Earnings on Investments	1,069
Cell Tower Rental Revenue	187,366
Interest Expense	(19,709)
Total Non Operating Revenues (Expenses)	168,726
Change in Net Position Before Capital Contributions	744,671
Capital Contributions from Grant	175,000
Change in Net Position	919,671
Total Net Position July 1, 2019	4,609,493
Total Net Position June 30, 2020	\$ 5,529,164

Lynnfield Center Water District
Statement of Cash Flows
Proprietary Fund Type
For the Year Ended June 30, 2020

	Proprietary Fund Type <u>Enterprise</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 2,398,863
Payments to Employees	(836,194)
Payments to Vendors	(1,159,595)
Net Cash Flow from Operating Activities	<u>403,074</u>
Cash Flows from Non Capital Financing Activities:	
Cell Lease Rent Non-Operating Revenues	<u>187,366</u>
Net Cash Flow from Non Capital Related Financing Activities	<u>187,366</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Fixed Assets	(163,347)
Interest Expense	(20,235)
Principal Payments on Long Term Debt	(115,000)
Net Cash Flow from Capital and Related Financing Activities	<u>(298,582)</u>
Cash Flows from Investing Activities:	
Investment Income	<u>1,069</u>
Net Cash Flows from Investing Activities	<u>1,069</u>
Net Increase (Decrease) in Cash and Cash Equivalents	292,927
Cash and Cash Equivalents, July 1, 2019	<u>687,338</u>
Cash and Cash Equivalents, June 30, 2020	<u>\$ 980,265</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 575,945
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	194,385
(Increase) Decrease in Assets:	
Accounts Receivable - Customer	(383,406)
Increase (Decrease) in Liabilities:	
Vendor Payables	9,845
Wages Payable	6,305
Net Cash Provided by Operating Activities	<u>\$ 403,074</u>
Schedule of Non-cash Investing and Financing Activities:	
Contribution of Assets	<u>\$ 175,000</u>

Lynnfield Center Water District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020

	Other Post Employment Benefits <u>Trust</u>
Assets	
Cash and Deposits	\$ 624
Investments:	
Domestic Equities	61,803
International Equities	31,701
Domestic Bonds	70,377
International Bonds	14,459
Alternatives	13,510
	13,510
 Total Assets	 \$ 192,474
 Liabilities	
	\$ -
 Total Liabilities	 -
 Net Position Restricted for Post	
Employment Benefits Other than Pensions	 \$ 192,474

Lynnfield Center Water District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2020

	Other Post Employment Benefits <u>Trust</u>
Additions:	
Contributions:	
Employer	\$ 36,998
Total Contributions	<u>36,998</u>
Investment Earnings:	
Interest, Dividends and Other	<u>9,487</u>
Net Investment Earnings	<u>9,487</u>
Total Additions	<u>46,485</u>
Deductions:	
Medical, Dental and Life Insurance for Retirees	6,998
Total Deductions	<u>6,998</u>
Net Increase (Decrease) in Fiduciary Net Position	<u>39,487</u>
Net Position:	
Beginning of the Year	<u>152,987</u>
Ending of the Year	<u><u>\$ 192,474</u></u>

Lynnfield Center Water District
Notes to Financial Statements
June 30, 2020

I. **Summary of Significant Accounting Policies**

The accounting policies for financial reporting purposes of the Lynnfield Center Water District conform to accounting principles generally accepted in the United States of America for local governmental units.

The following is a summary of the more significant accounting policies:

A. **Reporting Entity**

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

Based on the aforementioned oversight criteria, the District was the only entity included in the accompanying financial statements.

B. **Measurement Focus and Basis of Accounting**

The District utilizes a proprietary fund to account for its water operations. 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. Water user charges as presented are considered as revenue when they are committed for collection. Recognition has not been considered for unbilled usage. Expenses are recorded during the year on a cash disbursement basis. In addition, as required by Massachusetts General Laws, disbursements made during the fifteen days immediately following the close of each fiscal year and which pertain to the prior year are recorded as expenses as of June 30th. Any other bills related to the current fiscal year are recorded as accounts payable. This method results in a full accrual basis.

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

The District utilizes a fiduciary fund to report the activity related to its Other Postemployment Benefits (OPEB) Trust Fund. The OPEB trust fund is used to accumulate resources for future other postemployment benefits liabilities.

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.

C. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Balances

i. Deposits and Investments

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

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits allowed include demand deposits, term deposits and certificates of deposit. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust (“MMDT”). The District may invest its other post employment benefits trust funds in a wider variety of investment vehicles such as equities and bonds.

ii. Capital Assets

Capital assets including land, vehicles, equipment, and infrastructure assets are reported. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Depreciable assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5-20
Infrastructure	10-50
Buildings and Improvements	15-50
Vehicles	5

iii. Compensated Absences

Vacation Leave

All permanent full time employees are granted vacation leave based on years of employment. Vacation leave may be carried forward at the end of the fiscal year if approved by the Superintendent. The accumulated vacation leave liability as of June 30, 2020 is reflected in the Statement of Net Position.

Sick Leave

All permanent full time employees are granted fifteen sick days per year. Sick leave may be accumulated. Upon termination, sick leave is not “bought back” by the District. As a result, an accumulated sick leave liability does not exist.

iv. Deferred Outflows/Inflows of Resources

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

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

The District’s Statement of Net Position reflects deferred outflows of resources and deferred inflows of resources related to pensions and to other post employment benefits.

v. 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 Essex Regional Retirement System and additions to and 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.

vi. Net Position

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

Net position is reported in the following accounts:

Proprietary Fund

a.) Net Investments in Capital Assets

The balance in this account reflects the difference between capital assets net of accumulated depreciation and any “related debt”. Unspent proceeds of capital related debt are not considered related debt.

b.) Unrestricted

The balance in this account reflects the net position that is not restricted or otherwise separately stated.

Fiduciary Fund

a.) Restricted for Other Post-Employment Benefits

The District established a formal other post-employment benefits (OPEB) trust to accumulate resources for future OPEB expenses. The fund accounts for the contributions to and earnings of the trust.

vii. Use of Estimates

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

II. **Stewardship, Compliance and Accountability**

A. Budgetary Information

General Budget Policies

Budget requests are submitted to the Commissioners for review during January, February and March of each year. The Commissioners have until the annual District meeting is held to make any changes to the budget. After approval of the budget at the annual District meeting, the tax recapitulation (recap) sheet is prepared. During this process, the property tax rate is determined and the recap sheet is sent to the Massachusetts Department of Revenue for approval.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances/articles still open at year end are recorded as a reservation of retained earnings. Encumbrances/Continued Appropriations do not constitute expenditures or liabilities. Reserved for Encumbrances/Continued Appropriations is reported as a component of Unrestricted Net Position.

III. **Detailed Notes**

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2020, none of the District's bank balance of \$1,061,469 was exposed to custodial credit risk.

Investments

a) As of June 30, 2020, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Mutual Funds	\$ 191,602
Money Market Funds	872
State Treasurer's Investment Pool - MMDT	91,562
Total	<u>\$ 284,036</u>

b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District 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.

c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy related to credit risk.

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal policy that limits the amount it may invest in a single issuer.

Fair Value Measurement

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

In addition, the District is a participant in Massachusetts Municipal Depository Trust (MMDT) a pooled investment trust established by the Commonwealth of Massachusetts. MMDT offers a cash portfolio and a short term bond portfolio. The pool meets the criteria of an external investment pool. The investments of the pool are measured at amortized cost.

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

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u> Quoted Prices In Active Markets for Identical Assets	<u>Level 2</u> Significant Other Observable Inputs	<u>Level 3</u> Significant Unobservable Inputs
Investment by Fair Value Level:				
Mutual Funds	\$ 191,602	\$ 191,602	\$ -	\$ -
Money Market Funds	872	872	-	-
Total Investments Subject to the Fair Value Hierarchy	<u>192,474</u>	<u>\$ 192,474</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Not Subject to the Fair Value Hierarchy:				
Massachusetts Municipal Depository Trust	91,562			
Total Investments	<u>\$ 284,036</u>			

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

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Construction Work in Progress	\$ 34,809	\$ -	\$ (856)	\$ 33,953
Land	1,215,184	-	-	1,215,184
Total Capital Assets Not Being Depreciated	<u>1,249,993</u>	<u>-</u>	<u>(856)</u>	<u>1,249,137</u>
Capital Assets Being Depreciated:				
Buildings	1,536,340	36,573	-	1,572,913
Improvements	63,112	56,948	-	120,060
Machinery and Equipment	430,190	6,515	-	436,705
Vehicles	107,720	64,167	-	171,887
Infrastructure	6,729,981	175,000	-	6,904,981
Total Capital Assets Being Depreciated	<u>8,867,343</u>	<u>339,203</u>	<u>-</u>	<u>9,206,546</u>
Total Capital Assets	<u>\$ 10,117,336</u>	<u>\$ 339,203</u>	<u>\$ (856)</u>	<u>\$ 10,455,683</u>
Less Accumulated Depreciation for:				
Buildings	\$ 925,716	\$ 30,534	\$ -	\$ 956,250
Improvements	18,674	7,936	-	26,610
Machinery and Equipment	270,548	27,394	-	297,942
Vehicles	103,739	10,398	-	114,137
Infrastructure	2,804,481	118,123	-	2,922,604
Total Accumulated Depreciation	<u>4,123,158</u>	<u>194,385</u>	<u>-</u>	<u>4,317,543</u>
Total Capital Assets Being Depreciated - Net of Depreciation	<u>4,744,185</u>	<u>144,818</u>	<u>-</u>	<u>4,889,003</u>
Total Capital Assets, Net	<u>\$ 5,994,178</u>	<u>\$ 144,818</u>	<u>\$ (856)</u>	<u>\$ 6,138,140</u>

C. Accounts Receivable

The accounts receivable on the balance sheet are listed below by levy.

Property Tax Receivable:

Real Estate Taxes		
2020	\$ 27,096	
Total Real Estate	<u>27,096</u>	
Personal Property		
2019	14	
2020	<u>1,360</u>	
Total Personal Property	<u>1,374</u>	
Real Estate Taxes in Litigation	<u>1,119</u>	
Total Property Taxes Receivable		<u>\$ 29,589</u>
Tax Liens		<u>\$ 211</u>
Charges for Services:		
Water User Charges	\$ 342,472	
Non-Reading Fee	550	
Annual Service Charges	7,392	
Watering Fine	3,989	
Turn On/Off Fee	50	
Miscellaneous	135	
Late Charge	5,041	
Fixed Charge	49,416	
Water Rates in Litigation	<u>182</u>	
Total Charges for Services		<u>\$ 409,227</u>
Miscellaneous		
Cell Tower Rental		<u>\$ 11,017</u>

D. Debt

i Short Term Debt

The District did not have any bond anticipation notes payable or other short term debt outstanding as of June 30, 2020.

ii Long Term Debt

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 20 years. General obligation bonds outstanding at June 30, 2020 are as follows:

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

<u>General Obligation Bond</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Interest Rates to Maturities</u>	<u>Final Maturity</u>	<u>Balance July 1, 2019</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2020</u>
New Well Field/Water Treatment Plant Upgrade	2013	\$ 1,610,000	2.0% - 2.5%	2027	<u>\$ 920,000</u>	<u>\$ -</u>	<u>\$ 115,000</u>	<u>\$ 805,000</u>

(b) Summary of Debt Service Requirements to Maturity

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 115,000	\$ 17,825
2022	115,000	15,525
2023	115,000	13,225
2024	115,000	10,925
2025	115,000	8,337
2026	115,000	5,750
2027	<u>115,000</u>	<u>2,875</u>
Total	<u>\$ 805,000</u>	<u>\$ 74,462</u>

(c) Bond Authorizations

Long-term debt authorizations voted by the District which have not been issued or rescinded as of June 30, 2020, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
April 5, 2010	New Well Field/Water Treatment Plant Upgrade	<u>\$ 890,000</u>

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

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2020</u>	<u>Current</u>
Bonds Payable	\$ 920,000	\$ -	\$ (115,000)	\$ 805,000	\$ 115,000
Compensated Absences	4,702	21,299	(4,702)	21,299	21,299
Net Other Post Employment Benefits Liability	89,930	127,280	(39,487)	177,723	-
Net Pension Liability	<u>1,182,017</u>	<u>196,201</u>	<u>(156,777)</u>	<u>1,221,441</u>	<u>-</u>
Total	<u>\$ 2,196,649</u>	<u>\$ 344,780</u>	<u>\$ (315,966)</u>	<u>\$ 2,225,463</u>	<u>\$ 136,299</u>

IV. Other Information

A. Pension Plans

Plan Description

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

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

https://www.essexregional.com/sites/g/files/vyhlf3121/f/uploads/essex_regional_retirement_system_financial_statements_12-31-2019_-_final.pdf or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

Benefits Provided

The Essex Regional Retirement System provides retirement, disability and death benefits as detailed below:

Retirement Benefits

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

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

multiplied by a percentage according to the table below based on the age of the member at retirement.

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

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

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

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

Retirement Benefits - Superannuation

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

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

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55.

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

Ordinary Disability Benefits

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

Accidental Disability Benefit

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

Death Benefits

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

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

Contributions

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

The District's contractually required contribution rate for the year ended June 30, 2020 was 15.55% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$104,123 for the year ending June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$1,221,441 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. Accordingly, update procedures were utilized to roll back the liability to the measurement date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2019, the District's proportion was 0.289910%.

For the year ended June 30, 2020, the District recognized pension expense of \$129,634. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 168	\$ (5,805)
Change in assumptions	122,080	-
Net differences between projected and actual earnings on pension plan investments	-	(45,541)
Changes in proportion and differences between contributions and proportionate share of contributions	99,426	(81,073)
Contributions subsequent to the measurement date	-	-
	<u>\$ 221,674</u>	<u>\$ (132,419)</u>

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

<u>Year ended June 30:</u>	<u>Amount</u>
2021	\$ (644)
2022	42,916
2023	40,396
2024	6,587
Total	<u>\$ 89,255</u>

Actuarial Assumptions

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

Valuation Date	January 1, 2020
Actuarial Cost Method	Entry age normal cost method
Salary Increases	Based on years of service, ranging from 7.5% at 1 year of service decreasing to 3.75% after 5 years of service.
Investment Rate of Return/Discount Rate	7.3% net of pension plan investment expense, included inflation (7.5% in previous report)
Inflation Rate	2.75% (2.75% in previous report)
Cost of Living Adjustments	2% of first \$14,000 for fiscal year 2021 and 3% of first \$14,000, thereafter
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates Were Based on the Tables Noted Below:	
Pre-Retirement	RP-2014 Employee Mortality Table projected generationally with Scale MP-2019
Healthy Retiree	RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2019
Disabled	RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally with Scale MP-2019

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

Changes in Actuarial Assumptions and Plan Provisions

Actuarial Assumptions

The following are the changes in actuarial assumptions effective in the January 1, 2020 valuation:

- The net investment return assumption was lowered from 7.50% to 7.30%.
- The mortality assumption for non-disabled participants was changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB to the RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2019.
- The morality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale BB to the RP-2014 Healthy Annuitant Morality Table set forward two years projected generationally using Scale MP-2019.
- The allowance for net 3(8)(c) payments was changed from a term cost added to the service cost to an estimated liability.

Plans Provisions

Effective January 1, 2020 the Board approved a 2.0% COLA increase on the first \$14,000 of a retirement allowance for fiscal 2021.

Investment Policy

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

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

inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2019 (net of investment expenses) was 16.13% (negative 2.43% for December 31, 2018). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.30% (7.50% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for the current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service cost for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.3%)	Discount Rate (7.3%)	1% Increase (8.3%)
District's proportionate share of the Net Pension Liability	\$957,003	\$1,221,441	\$1,536,037

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the Essex Regional Retirement System's financial report. The financial report is available on the internet at:

https://www.essexregional.com/sites/g/files/vyhlf3121/f/uploads/essex_regional_retirement_system_financial_statements_12-31-2019_-_final.pdf

C. Other Post-Employment Benefits (OPEB) Disclosures

Summary of Significant Accounting Policies (OPEB)

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

General Information About the Plan

Plan Description.

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

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

Inactive plan members or beneficiaries currently receiving benefit payments	4
Inactive plan members entitled to but not yet receiving benefit payments	0
Active Plan Members	<u>7</u>
Total	<u>11</u>

Benefits Provided: The District provides retired employees and their spouses and dependents with payments for a portion of their health care. Benefits are provided through a third party insurer. Dental coverage and life insurance coverage are not offered to retirees.

Contributions. The District pays 50% of health insurance premiums for eligible members or their covered spouses. The contribution requirements of plan members and the District are established by the District and may be amended from time to time. For the year ended June 30, 2020, the District's average contribution rate was 4.55% of covered payroll.

Net OPEB Liability

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

Total OPEB Liability	\$370,197
Plan Fiduciary Net Position	(192,474)
Net OPEB Liability	<u>\$177,723</u>
Plan fiduciary net position as a percentage of the total OPEB liability	51.99%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2019 (and was utilized for the disclosures as of June 30, 2020), using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2019
Disclosure Date	June 30, 2020
GASB 75 Reporting Date	June 30, 2020
Long Term Expected Rate of return	5.8% compounded annually, net of fees (previously 6.75%)
Inflation	2.4% (previously 2.6%)
Discount Rate	5.8%, net of investment expenses, including inflation (6.75% in prior report)
Amortization Method	Level dollar amount over 30 years on an open amortization period for partial pre-funding

Health Cost Trend Rates	<u>Year</u>	<u>Current Report</u>	<u>Prior report</u>
	1	7.00%	7.00%
	2	6.55%	6.50%
	3	6.10%	6.00%
	4	5.65%	5.50%
	5	5.20%	5.00%
	Ultimate	4.00%	3.80%

Trend rates after year 5 grade down to the ultimate rate of 4 percent utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate trend rate is reached in 2075.

Payroll Growth 3.5% per year

Mortality Rates were based on the tables noted below:

Healthy:

Pre-Retirement RP-2014 Employees Mortality Table, projected with generational mortality table using scale MP-2019

Post-Retirement RP-2014 Healthy Annuitant Mortality Table, base year 2014, projected with generational mortality improvement using scale MP-2019 .

Changes in assumptions:

The discount rate was changed from 6.75% from 5.8% as of June 30, 2020. In addition, many other assumptions were updated in the valuation including the inflation rate, healthcare trend rates and mortality tables and mortality improvement rates.

Benefit changes:

The Patient Protection and Affordable Care Act (PPACA) applied a 40% excise tax, commonly referred to as the "Cadillac Tax", to the cost of plan benefits in excess of statutory thresholds beginning in 2022. This tax was repealed in December, 2019.

Investments

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class summarized in the target asset allocation as of June 30, 2020, are summarized in the table below:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equities	25%	4.96%
International Equities	10%	7.01%
Domestic Bonds	35%	2.22%
International Bonds	10%	1.53%
Alternatives	20%	2.76%
Total	<u>100%</u>	

Concentrations

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

Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 5.92% (5.63% in the previous year). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate: The discount rate used to measure the total OPEB liability was 5.8% (6.75% in the prior report). The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Plan		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances 6/30/19	\$ 242,917	\$ 152,987	\$ 89,930
Service cost	8,646	-	8,646
Interest	16,744	-	16,744
Changes of benefit terms	(9,381)	-	(9,381)
Difference between expected and actual experience	64,541	-	64,541
Changes in assumptions	53,728	-	53,728
Contributions - employer	-	36,998	(36,998)
Net investment income	-	9,487	(9,487)
Benefit payments	(6,998)	(6,998)	-
Net changes	<u>127,280</u>	<u>39,487</u>	<u>87,793</u>
Balances 6/30/20	<u>\$ 370,197</u>	<u>\$ 192,474</u>	<u>\$ 177,723</u>

Changes in assumptions:

The discount rate was changed from 6.75% to 5.8% as of June 30, 2020. In addition, many other assumptions were updated in the valuation including the inflation rate, healthcare trend rates and mortality tables and mortality improvement rates.

Benefit changes:

The Patient Protection and Affordable Care Act (PPACA) applied a 40% excise tax, commonly referred to as the "Cadillac Tax" to the cost of plan benefits in excess of statutory thresholds beginning in 2022. This tax was repealed in December, 2019.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.8%) or 1-percentage-point higher (6.8%) than the current discount rate:

	1% Decrease <u>4.80%</u>	Discount Rate <u>5.80%</u>	1% Increase <u>6.80%</u>
Net OPEB Liability (asset)	\$243,689	\$177,723	\$125,909

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates:
The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (6% decreasing to 3%) or 1-percentage-point higher (8% decreasing to 5%) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend</u>	<u>1% Increase</u>
	6% Year 1 decreasing to 3%	7% Year 1 decreasing to 4%	8% Year 1 decreasing to 5%
Net OPEB Liability (asset)	\$117,344	\$177,723	\$258,097

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$21,216. On June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 56,774	\$ (22,017)
Change in assumptions	74,651	-
Net differences between projected and actual earnings on OPEB plan investments	3,653	-
	<u>\$ 135,078</u>	<u>\$ (22,017)</u>

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

Year ended June 30:	Amount
2021	\$ 16,028
2022	16,029
2023	15,394
2024	14,954
2025	14,688
Thereafter	35,968
Total	<u>\$ 113,061</u>

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

D. Subsequent Year Authorizations

The financial statements for the Lynnfield Center Water District as of June 30, 2020, do not reflect the fiscal 2021 annual budget adopted on May 28, 2021. The District has authorized a fiscal 2021 annual budget totaling \$2,478,581. The funding of the adopted budget is as follows:

Water User Charges, Property Taxes and Other Revenues	\$2,426,981
Unrestricted Net Position	<u>51,600</u>
Total	<u>\$2,478,581</u>

E. Implementation of New GASB Pronouncements

During fiscal year 2020, the District was not required to implement any new GASB pronouncements.

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

- Statement No. 84, *Fiduciary Activities* which is required to be implemented in reporting periods beginning after December 15, 2019.
- Statement No. 87, *Leases* which is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* which is effective for reporting periods beginning after December 15, 2020.
- Statement No. 90 *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* which is effective for reporting periods beginning after December 15, 2019.
- Statement No. 91, *Conduit Debt Obligations* which is effective for reporting periods beginning after December 15, 2021.
- Statement No. 92 *Omnibus 2020*, paragraphs 6 and 7 - fiscal years beginning after June 15, 2021; paragraphs 8, 9, and 12 - reporting periods beginning after June 15, 2021 and paragraph 10 - government acquisitions occurring in reporting periods beginning after June 15, 2021.
- Statement No. 93 *Replacement of Interbank Offered Rates* the requirements, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after May 28, 2021. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter.
- Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* which is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- Statement No. 96 *Subscription-Based Information Technology Arrangements* which is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

Required Supplementary Information
Schedule of the Lynnfield Center Water District's Proportionate Share of the Net Pension Liability
Essex Regional Retirement System
Last Ten Fiscal Years**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportionate share of net pension liability (asset) (%)	0.289910%	0.279790%	0.269418%	0.239197%	0.338393%	0.318699%
District's proportionate share of net pension liability (asset) (\$)	\$1,221,441	\$1,182,017	\$1,013,969	\$921,596	\$1,229,513	\$1,081,212
District's covered payroll	\$669,540	\$379,260	\$362,590	\$327,435	\$430,641	\$413,901
District's proportionate share of net pension liability (asset) as a percentage of its covered payroll	182.43%	311.66%	279.65%	281.46%	285.51%	261.22%
Plan fiduciary net position as a percentage of the pension liability	55.46%	51.89%	55.40%	51.12%	51.01%	52.27%

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

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

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Lynnfield Center Water Districts' Employers Contributions
Essex Regional Retirement System
Last Ten Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 104,123	\$ 93,500	\$ 83,902	\$ 69,306	\$ 92,967	\$ 81,665
Contributions in relation to the contractually required contribution	<u>(104,123)</u>	<u>(93,500)</u>	<u>(83,902)</u>	<u>(69,306)</u>	<u>(92,967)</u>	<u>(81,665)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	669,540	379,260	362,590	327,435	430,641	413,901
Contributions as a percentage of covered payroll	15.55%	24.65%	23.14%	21.17%	21.59%	19.73%

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

See Notes to the Required Supplementary Information

Lynnfield Center Water District
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB 75 and GASB 74)
June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017
Total OPEB liability				
Service cost	\$ 8,646	\$ 6,800	\$ 4,740	\$ 4,558
Interest	16,744	15,489	16,491	17,007
Changes of benefit terms	(9,381)	-	-	-
Difference between expected and actual experience	64,541	-	(34,161)	-
Changes in assumptions	53,728	24,398	13,611	-
Benefit payments	(6,998)	(6,974)	(25,247)	(31,985)
Net change in total OPEB liability	<u>127,280</u>	<u>39,713</u>	<u>(24,566)</u>	<u>(10,420)</u>
Total OPEB liability - beginning	242,917	203,204	227,770	238,190
Total OPEB liability - ending (a)	<u>\$ 370,197</u>	<u>\$ 242,917</u>	<u>\$ 203,204</u>	<u>\$ 227,770</u>
Plan Fiduciary net position				
Contributions - employer	\$ 36,998	\$ 35,974	\$ 45,247	\$ 54,377
Net investment income	9,487	6,605	3,849	3,988
Benefit payments	(6,998)	(6,974)	(25,247)	(31,985)
Administrative expense	-	-	-	-
Net change in plan fiduciary net position	<u>39,487</u>	<u>35,605</u>	<u>23,849</u>	<u>26,380</u>
Plan fiduciary net position - beginning	152,987	117,382	93,533	67,153
Plan fiduciary net position - ending (b)	<u>\$ 192,474</u>	<u>\$ 152,987</u>	<u>\$ 117,382</u>	<u>\$ 93,533</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 177,723</u>	<u>\$ 89,930</u>	<u>\$ 85,822</u>	<u>\$ 134,237</u>
Plan fiduciary net position as a percentage of the total OPEB liability	51.99%	62.98%	57.77%	41.06%
Covered payroll	\$ 813,725	\$ 665,185	\$ 713,838	\$ 619,743
District's net OPEB liability as a percentage of covered payroll	21.84%	13.52%	12.02%	21.66%

Changes in assumption

The discount rate was changed from 6.75% to 5.8% as of June 30, 2020. In addition, many other assumptions were updated in the valuation including the inflation rate, healthcare trend rates and mortality tables and mortality improvement rates.

Benefit changes

The Patient Protection and Affordable Care Act (PPACA) applied a 40% excise tax, commonly referred to as the "Cadillac Tax", to the cost of plan benefits in excess of statutory thresholds beginning in 2022. This tax was repealed in December, 2019.

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

Lynnfield Center Water District
Required Supplementary Information
Schedule of Contributions (GASB 75 and GASB 74)
June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017
Actuarial determined contribution	\$ 16,293	\$ 14,575	\$ 16,458	\$ 26,138
Contributions in relating to the actuarially determined contribution	36,998	35,974	45,247	54,377
Contribution deficiency (excess)	<u>\$ (20,705)</u>	<u>\$ (21,399)</u>	<u>\$ (28,789)</u>	<u>\$ (28,239)</u>
Covered payroll	\$ 813,725	\$ 665,185	\$ 713,838	\$ 619,743
Contributions as a percentage of covered payroll	4.55%	5.41%	6.34%	8.77%

Notes to Schedule

Valuation date:

Actuarially determined contributions are determined as of July 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Dollar over 30 years on an open amortization
Amortization period	period 30 years
Asset valuation method	Market Value
Inflation	2.4% (previously 2.6%)
Discount Rate	5.8%, net of investment expenses, including inflation (6.75% in prior report)
Healthcare cost trend rates	7.0% for 2019, decreasing by 0.45% per year to 5.2%, then grading down to an ultimate trend rate of 4.0%, utilizing the Society of Actuaries Getzen Medical Trend Model. The ultimate inflation rate is reached in 2075
Mortality	
Healthy:	
Pre-Retirement	RP-2014 Employees Mortality Table, projected with generational mortality table using scale MP-2019
Post-Retirement	RP-2014 Healthy Annuitant Mortality Table, base year 2014, projected with generational mortality improvement using scale MP-2019 .

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

See Notes to the Required Supplementary Information

Lynnfield Center Water District
Required Supplementary Information
Schedule of Investment Returns (GASB 74)
June 30, 2020
Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	5.92%	5.63%	4.12%	5.94%

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

See Notes to the Required Supplementary Information

Lynnfield Center Water District
Notes to the Required Supplementary Information
June 30, 2020

I Pension Plans

(A) Pension Plans

i. Plan Description

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

The District is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Regional Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

ii. Funding Plan

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

iii. Benefits Provided

The Essex Regional Retirement System provides retirement, disability and death benefits.

iv. Changes in Actuarial Assumptions and Plan Provisions

Actuarial Assumptions

The following are the changes in actuarial assumptions effective in the January 1, 2020 valuation:

- The net investment return assumption was lowered from 7.50% to 7.30%.
- The mortality assumption for non-disabled participants was changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB to the RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2019.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale BB to the RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale MP-2019.
- The allowance for net 3(8)(c) payments was changed from a term cost added to the service cost to an estimated liability.

Plans Provisions

Effective January 1, 2020 the Board approved a 2.0% COLA increase on the first \$14,000 of a retirement allowance for fiscal 2021.

v. Schedule of District's Proportionate Share of the Net Pension Liability – Essex Regional Retirement System

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

vi. Schedule of the District's Contributions – Essex Regional Retirement System

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

II Other Post Employment Benefits (OPEB) Disclosures

In addition to providing pension benefits, the District provides for a portion of health insurance benefits for eligible plan members.

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

Benefits Provided: The District provides retired employees and their spouses and dependents with payments for a portion of their health care. Benefits are provided through a third party insurer. Dental coverage and life insurance coverage are not offered to retirees.

Contributions. The District pays 50% of health insurance premiums for eligible members or their covered spouses. The contribution requirements of plan members and the District are established by the District and may be amended from time to time.

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

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

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

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

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

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