

TOWN OF TOPSFIELD, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2014

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2014

TOWN OF TOPSFIELD, MASSACHUSETTS

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	3-8
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	19
Notes to Basic Financial Statements	20-39
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedules of Funding Progress – Pension System	40
Schedule of Contribution Funding – Pension System	40
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	41
Notes to Required Supplementary Information	42
<u>OTHER REPORTS:</u>	
Report on Internal Control Over Financial and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsfield, Massachusetts, (the Town) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund

and the aggregate remaining fund information of the Town as of June 30, 2014 and the respective changes in financial position where applicable and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note B, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2015, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 8, 2015

Management's Discussion and Analysis

As the management of the Town of Topsfield, Massachusetts (the Town) we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$30.0 million (*total net position*). Approximately \$23.0 million represented net position of governmental activities and \$7.0 million represented net position of the business-type activities.
- The government's total net position remained nearly unchanged with only an approximate 0.04% increase year to year. This was due to a slight increase in governmental activities combined with a lesser decrease in business-type activities. The increase in governmental activities was primarily the result of higher than anticipated revenue activities in the General Fund. The decrease in business-type activities was also a result of recognizing the current year portions of future OPEB obligations.
- The Town's Unassigned Fund Balance reported in the General Fund was approximately \$3.3 million (14.5% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$4.9 million (21.1% of General Fund expenditures). Total fund balances in the Gould Trust were \$8.3 million and the Combined Nonmajor Governmental Funds was nearly \$2.5 million.
- The Town's total long-term debt decreased by approximately \$0.6 million; of this decrease, over \$0.5 million related to governmental activities and nearly \$0.1 million related to business-type activities.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (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 of the Town include general government, public safety, highways and streets, sanitation, education, debt service, fringe benefits, health and human services, and culture and recreation. The business-type activity of the Town is solely comprised of the Water Enterprise Fund.

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

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

- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed – amounts constrained by a government using its highest level of decision-making authority
- Assigned – amounts a government intends to use for a particular purpose
- Unassigned – amounts that are not constrained at all will be reported in the general fund.

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

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

Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

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

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

Proprietary Funds – 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. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the Town’s Water Enterprise Fund 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 accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental Activities		Business-Type Activities		Totals	
	June 30, 2014	June 30, 2013 <i>Restated</i>	June 30, 2014	June 30, 2013 <i>Restated</i>	June 30, 2014	June 30, 2013 <i>Restated</i>
<u>Assets</u>						
Current and other assets	\$ 16,583,909	\$ 15,311,346	\$ 1,779,428	\$ 1,654,144	\$ 18,363,337	\$ 16,965,490
Capital assets, net	21,604,520	22,219,102	6,316,959	6,512,139	27,921,479	28,731,241
Total assets	38,188,429	37,530,448	8,096,387	8,166,283	46,284,816	45,696,731
<u>Liabilities</u>						
Long-term liabilities	13,959,633	11,873,323	\$ 941,852	1,557,962	14,901,485	13,431,285
Other liabilities	1,244,477	1,008,535	90,445	6,512,139	1,334,922	7,520,674
Total liabilities	15,204,110	12,881,858	1,032,297	8,070,101	16,236,407	20,951,959
<u>Net Position</u>						
Invested in capital assets	18,089,773	18,129,285	5,430,459	5,541,639	23,520,232	23,670,924
Restricted	10,813,311	10,100,860	-	-	10,813,311	10,100,860
Unrestricted	(5,918,765)	(5,282,608)	1,633,631	1,546,783	(4,285,134)	(3,735,825)
Total Net Position	\$ 22,984,319	\$ 22,947,537	\$ 7,064,090	\$ 7,088,422	\$ 30,048,409	\$ 30,035,959

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by slightly more than \$30.0 million (*total net position*).

By far the largest portion (approximately \$23.5 million) of the Town’s net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town’s net position (approximately \$10.8 million) represents resources that are subject to external restrictions on how they may be used. The remainder of net position reflects a negative balance of nearly \$4.3 million that represents *unrestricted net position*. This balance is negative

due to the recording of the actuarially determined, accumulated, net other postemployment benefit (OPEB) obligation.

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

	Governmental Activities		Business-Type Activities		Totals	
	June 30, 2014	June 30, 2013 <i>Restated</i>	June 30, 2014	June 30, 2013 <i>Restated</i>	June 30, 2014	June 30, 2013 <i>Restated</i>
Revenues						
Program revenues:						
Charges for services	\$ 1,333,028	\$ 1,324,484	\$ 1,006,081	\$ 879,396	\$ 2,339,109	\$ 2,203,880
Operating grants and contributions	2,732,648	2,500,081	-	-	2,732,648	2,500,081
Capital grants and contributions	444,076	706,018	-	-	444,076	706,018
General revenues:						
Property taxes	18,716,790	18,219,295	-	-	18,716,790	18,219,295
Intergovernmental	681,331	652,538	-	-	681,331	652,538
Other	2,095,000	1,793,231	3,061	3,456	2,098,061	1,796,687
Total Revenues	26,002,873	25,195,647	1,009,142	882,852	27,012,015	26,078,499
Expenses						
General government	1,827,998	2,022,680	-	-	1,827,998	2,022,680
Public safety	3,480,423	3,548,732	-	-	3,480,423	3,548,732
Education	16,863,443	17,023,979	-	-	16,863,443	17,023,979
Public works	1,644,488	1,263,453	-	-	1,644,488	1,263,453
Health and human services	801,510	769,343	-	-	801,510	769,343
Culture and recreation	1,337,249	1,389,160	-	-	1,337,249	1,389,160
Debt service	117,209	86,115	-	-	117,209	86,115
Water	-	-	927,245	873,220	927,245	873,220
Total Expenses	26,072,320	26,103,462	927,245	873,220	26,999,565	26,976,682
Excess (deficiency) in net position before transfers	(69,447)	(907,815)	81,897	9,632	12,450	(898,183)
Transfers	106,229	110,116	(106,229)	(110,116)	-	-
Change in net position	36,782	(797,699)	(24,332)	(100,484)	12,450	(898,183)
Net position, beginning of year (restated)	22,947,537	23,745,236	7,088,422	7,188,906	30,035,959	30,934,142
Net position, end of year (restated)	<u>\$ 22,984,319</u>	<u>\$ 22,947,537</u>	<u>\$ 7,064,090</u>	<u>\$ 7,088,422</u>	<u>\$ 30,048,409</u>	<u>\$ 30,035,959</u>

Governmental Activities – The Town relies significantly on property taxes, which during 2014 comprised approximately 72.0% of total governmental activities revenues, down slightly from 72.3% in the prior year. Operating grants accounted for 10.5% of governmental revenues, up slightly from 9.9% in the prior year. Both of these revenue groups were very similar year to year, and no other revenue groupings were greater than 10% of total revenues in 2014 or 2013.

Major expenses were for education which continues to be an area that the Town devotes significant resources. Education represented 64.7% which down slightly from the prior year of 65.2%. Public safety expenditures represented 13.3% which was lower than the prior year's 13.6%. Neither of these amounts reflects a significant change in year to year financial activity, and no other expense types were greater than 10% of total expenses in 2014 or 2013.

Business-type Activities – Major revenue sources consist of revenue from water user charges which represented approximately 100% of total revenues. Water expenses represented 100% of total business-type expenses.

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of almost \$15.7 million. This represents an increase of over \$1.2 million from the previous year. Reductions to the Nonmajor fund balance of about \$0.05 million were offset by favorable operating results in the General Fund of over \$0.5 million and the Gould Trust Fund of nearly \$0.8 million. Of the ending total fund balance, approximately \$3.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance in the General Fund was approximately \$3.3 million, while total fund balance reached approximately \$4.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 14.5% of total general fund expenditures, while total fund balance represents approximately 21.1% of that same amount.

Furthermore, the Town reported a restricted fund balance of approximately \$0.9 million in the Gould Trust Fund along with the nonspendable corpus of the endowment of \$7.4 million. The Nonmajor Governmental Funds includes an additional \$1.8 million in restricted fund balance accounts that are primarily comprised of grant and specific services' financial transaction balances that can only be used for their earmarked purposes and nearly \$0.7 million of nonspendable funds that represent the balance of the donated corpuses from the remaining trust funds.

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water fund was approximately \$7.0 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were insignificant. A budget to actual schedule for the general fund has been provided as required supplementary information as noted within the table of contents.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to approximately \$23.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment and reflects a decrease of approximately \$0.15 million, net of depreciation and debt impacts. For the year, capital asset amounts reflected additions of approximately \$0.02 million which were offset by depreciation of approximately \$1.0 million.

Additional information on the Town capital assets can be found in Note II, Section C. of this report.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of approximately \$4.3 million; approximately \$3.4 million is accounted for as general obligation bonds within the governmental activities and nearly \$0.9 million is outstanding long-term debt recorded within the Water business-type activities.

Regular scheduled maturities of debt were approximately \$0.6 million, reflected as maturing amounts of about \$0.55 million in the governmental activities and \$0.08 million in the Water business-type activity. There were no issuances of debt during the fiscal year.

The Town maintained a bond rating of Aa2 as set by Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$58.2 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found Note II, Sections E and F of this report.

Economic Factors and Next Year's Budgets and Rates

- Consistent with both State and National work force trends, the Town's unemployment rates have continued to stabilize, with little volatility in the last 12 months. While this trend is anticipated to improve in calendar 2015, the extent, timing or certainty of any full economic rebound cannot be reasonably estimated at this time.
- The Town's real estate tax base is made up of approximately 92.4% residential real estate tax. Its commercial, industrial and personal property taxes make up the remainder of the tax base at 7.6%. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.
- The Town's housing market has stabilized and housing prices in this area of the country on average rose from the recent downward trend; however, housing prices are still below their 2005 peaks.
- The Town's budget is subsidized by approximately \$1.4 million in State Aid. A significant portion of this represents Chapter 70, which is the State funded portion of the Town's education budget.
- The Town's property tax rate of \$16.45 per \$1,000 of assessed valuation for fiscal year 2015 was approved by the Department of Revenue in November 2014.
- In May 2014, the Town voted an initial General Fund appropriation budget for fiscal year 2015 that was in balance.

The above items were considered when the Town developed its budget for fiscal year 2015.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Accountant, Town Hall, 8 West Common Street, Topsfield, Massachusetts, 01983.

TOWN OF TOPSFIELD, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,843,787	\$ 1,501,740	\$ 8,345,527
Investments	9,265,383	-	9,265,383
Receivables (net):			
Property taxes	192,158	-	192,158
User fees	-	277,688	277,688
Other	178,082	-	178,082
Intergovernmental	70,560	-	70,560
Tax foreclosures	33,939	-	33,939
Capital assets, not being depreciated	5,268,649	323,038	5,591,687
Capital assets, net of accumulated depreciation	16,335,871	5,993,921	22,329,792
Total Assets	38,188,429	8,096,387	46,284,816
Liabilities			
Warrants and accounts payable	158,498	26,800	185,298
Accrued payroll and withholdings	386,944	7,145	394,089
Other liabilities	20,434	-	20,434
Long-term liabilities:			
Due within one year	678,601	56,500	735,101
Due in more than one year	13,959,633	941,852	14,901,485
Total Liabilities	15,204,110	1,032,297	16,236,407
Net Position			
Invested in capital assets	18,089,773	5,430,459	23,520,232
Restricted:			
Nonexpendable permanent funds	8,076,172	-	8,076,172
Expendable permanent funds	1,370,557	-	1,370,557
Other purposes	1,366,582	-	1,366,582
Unrestricted	(5,918,765)	1,633,631	(4,285,134)
Total Net Position	\$ 22,984,319	\$ 7,064,090	\$ 30,048,409

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 1,827,998	\$ 155,083	\$ 4,548	\$ -	\$ (1,668,367)		\$ (1,668,367)
Public safety	3,480,423	530,996	21,814	90,535	(2,837,078)		(2,837,078)
Education	16,863,443	458,128	2,542,981	-	(13,862,334)		(13,862,334)
Public works	1,644,488	96,136	62,800	326,128	(1,159,424)		(1,159,424)
Health and human services	801,510	21,452	42,091	-	(737,967)		(737,967)
Culture and recreation	1,337,249	71,233	58,414	27,413	(1,180,189)		(1,180,189)
Pension and other fringe benefits	-	-	-	-	-		-
Debt service	117,209	-	-	-	(117,209)		(117,209)
Total governmental activities	26,072,320	1,333,028	2,732,648	444,076	(21,562,568)		(21,562,568)
Business-type activities:							
Water	927,245	1,006,081	-	-		\$ 78,836	78,836
Total business-type activities	927,245	1,006,081	-	-		78,836	78,836
Total Primary Government	\$ 26,999,565	\$ 2,339,109	\$ 2,732,648	\$ 444,076	(21,562,568)	78,836	(21,483,732)
General Revenues:							
Property taxes					18,716,790	-	18,716,790
Motor vehicle and other excise					1,047,147	-	1,047,147
Intergovernmental					681,331	-	681,331
Penalties and interest on taxes					40,261	-	40,261
Investment income					1,007,592	3,061	1,010,653
					-	-	-
Transfers (net)					106,229	(106,229)	-
Total general revenues and transfers					21,599,350	(103,168)	21,496,182
Change in Net Position					36,782	(24,332)	12,450
Net Position:							
Beginning of year (as restated see Note IV)					22,947,537	7,088,422	30,035,959
End of year					\$ 22,984,319	\$ 7,064,090	\$ 30,048,409

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Funds	Gould Trust	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,314,108	\$ 7,192	\$ 1,522,487	\$ 6,843,787
Investments	-	8,314,451	950,932	9,265,383
Receivables:				
Property taxes	296,727	-	-	296,727
Other	70,830	-	2,683	73,513
Intergovernmental	37,274	-	33,286	70,560
Tax foreclosures	33,939	-	-	33,939
Total Assets	<u>5,752,878</u>	<u>8,321,643</u>	<u>2,509,388</u>	<u>16,583,909</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,752,878</u>	<u>\$ 8,321,643</u>	<u>\$ 2,509,388</u>	<u>\$ 16,583,909</u>
Liabilities				
Warrants and accounts payable	\$ 147,925	\$ -	\$ 10,573	\$ 158,498
Accrued payroll and withholdings	379,797	-	7,147	386,944
Deferred revenues	16,052	-	-	16,052
Other liabilities	4,382	-	-	4,382
Total Liabilities	<u>548,156</u>	<u>-</u>	<u>17,720</u>	<u>565,876</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	226,825	-	-	226,825
Unavailable revenue - excise taxes	67,034	-	-	67,034
Unavailable revenue - other	41,827	-	-	41,827
Total Deferred Inflows of Resources	<u>335,686</u>	<u>-</u>	<u>-</u>	<u>335,686</u>
Fund Balances				
Nonspendable	-	7,400,694	675,478	8,076,172
Restricted	-	920,949	1,816,190	2,737,139
Committed	424,567	-	-	424,567
Assigned	1,098,344	-	-	1,098,344
Unassigned	3,346,125	-	-	3,346,125
Total Fund Balances	<u>4,869,036</u>	<u>8,321,643</u>	<u>2,491,668</u>	<u>15,682,347</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,752,878</u>	<u>\$ 8,321,643</u>	<u>\$ 2,509,388</u>	<u>\$ 16,583,909</u>

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Governmental Fund Balances	\$ 15,682,347
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,604,520
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	335,686
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(3,408,500)
Capital lease obligations	(106,247)
Post-closing landfill monitoring costs	(887,618)
Compensated Abscences	(219,560)
Other Postemployment Benefits	<u>(10,016,309)</u>
Net Position of Governmental Activities	<u><u>\$ 22,984,319</u></u>

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

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

JUNE 30, 2014

	General Funds	Gould Trust	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 18,703,184	\$ -	\$ -	\$ 18,703,184
Intergovernmental	2,858,180	-	912,552	3,770,732
Motor vehicle and other excises	1,023,723	-	-	1,023,723
Licenses and permits	367,799	-	-	367,799
Departmental and other revenue	241,381	-	655,768	897,149
Penalties and interest on taxes	40,261	-	-	40,261
Fines and forfeitures	68,080	-	-	68,080
Investment income	15,307	928,783	63,502	1,007,592
Contributions and donations	-	-	97,484	97,484
Total Revenues	<u>23,317,915</u>	<u>928,783</u>	<u>1,729,306</u>	<u>25,976,004</u>
Expenditures				
Current:				
General government	1,326,303	-	31,595	1,357,898
Public safety	2,131,896	-	124,101	2,255,997
Education	12,647,438	-	952,603	13,600,041
Public works	969,026	-	381,990	1,351,016
Health and human services	636,696	-	29,831	666,527
Culture and recreation	752,645	98,989	158,912	1,010,546
Fringe and pension benefits	3,656,242	-	-	3,656,242
State and county tax assessments	300,256	-	-	300,256
Debt service:				
Principal	551,000	-	-	551,000
Interest	117,209	-	-	117,209
Total Expenditures	<u>23,088,711</u>	<u>98,989</u>	<u>1,679,032</u>	<u>24,866,732</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>229,204</u>	<u>829,794</u>	<u>50,274</u>	<u>1,109,272</u>
Other Financing Sources (Uses)				
Transfers in	273,846	-	-	273,846
Transfers out	-	(66,000)	(101,617)	(167,617)
Proceeds from capital leases	-	-	-	-
Total Other Financing Sources (Uses)	<u>273,846</u>	<u>(66,000)</u>	<u>(101,617)</u>	<u>106,229</u>
Net Change in Fund Balances	503,050	763,794	(51,343)	1,215,501
Fund Balances - Beginning (as restated see Note IV)	<u>4,365,986</u>	<u>7,557,849</u>	<u>2,543,011</u>	<u>14,466,846</u>
Fund Balances - Ending	<u>\$ 4,869,036</u>	<u>\$ 8,321,643</u>	<u>\$ 2,491,668</u>	<u>\$ 15,682,347</u>

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 1,215,501**

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. Governmental funds also report proceeds from the sale of fixed assets as revenue, however, in the Statement of Activities a gain or loss from disposal is recorded. The net amounts are reflected here as reconciling items:

Capital Outlays	166,323	
Depreciation Expense	(780,906)	
	(614,583)	(614,583)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas these amounts are deferred and amortized in the Statement of Activities. There were no proceeds from debt in the current year and the net amount of all other debt activity is as follows:

Repayments of debt principal	551,000	
	551,000	551,000

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

26,869

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

Capital lease obligations	24,070	
Compensated absences	15,433	
Post-closing landfill monitoring	40,756	
Other postemployment benefits costs	(1,222,264)	
	(1,142,005)	(1,142,005)

Change in Net position of Governmental Activities **\$ 36,782**

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2014

	Business-Type Activities
	<u>Water</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,501,740
Receivables, net:	
User charges	277,688
Total current assets	<u>1,779,428</u>
Land	323,038
Depreciable fixed assets	<u>5,993,921</u>
Total noncurrent assets	<u>6,316,959</u>
Total Assets	<u>8,096,387</u>
Liabilities	
Current liabilities:	
Warrants and accounts payable	26,800
Accrued payroll and withholdings	7,145
Bond and notes payable	<u>56,500</u>
Total current liabilities	<u>90,445</u>
Noncurrent liabilities:	
Bonds and notes payable	830,000
Other postemployment benefits	<u>111,852</u>
Total noncurrent liabilities	<u>941,852</u>
Total Liabilities	<u>1,032,297</u>
Net Position	
Invested in capital assets	5,430,459
Unrestricted	<u>1,633,631</u>
Total Net Position	<u>\$ 7,064,090</u>

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities
	<u>Water</u>
Operating Revenues	
Charges for services	\$ 1,005,581
Other	500
Total Operating Revenues	<u>1,006,081</u>
Operating Expenses	
Operating costs	685,461
Depreciation	210,213
Total Operating Expenses	<u>895,674</u>
Operating Income (Loss)	<u>110,407</u>
Nonoperating Revenues (Expenses)	
Interest income	3,061
Interest expense	(31,571)
Total Nonoperating Revenues (Expenses)	<u>(28,510)</u>
Income (Loss) Before Transfers	<u>81,897</u>
Transfers out	(106,229)
Net Transfers	<u>(106,229)</u>
Change in Net Position	(24,332)
Total Net Position - Beginning (as restated see Note IV)	<u>7,088,422</u>
Total Net Position - Ending	<u>\$ 7,064,090</u>

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities
	Water
Cash Flows from Operating Activities:	
Receipts from users	\$ 974,715
Payments to employees	(217,947)
Payments to vendors	(429,078)
	<u>327,690</u>
Net Cash Provided by (Used for) Operating Activities	
	<u>327,690</u>
Cash Flows from Noncapital Related Financing Activities:	
Transfers out	(106,229)
	<u>(106,229)</u>
Net Cash (Used for) Provided by Noncapital Financing Activities	
	<u>(106,229)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(33,653)
Principal payments on bonds and notes	(84,000)
Interest expense	(31,571)
	<u>(149,224)</u>
Net Cash Used for Capital and Related Financing Activities	
	<u>(149,224)</u>
Cash Flows from Investing Activities:	
Interest income	3,061
	<u>3,061</u>
Net Cash Provided by Investing Activities	
	<u>3,061</u>
Net Change in Cash and Cash Equivalents	<u>75,298</u>
Cash and Cash Equivalents:	
Beginning of year	1,407,822
	<u>1,407,822</u>
End of year	\$ 1,483,120
	<u>1,483,120</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:	
Operating income (loss)	\$ 110,407
Depreciation expense	210,213
Changes in assets and liabilities:	
Receivables	(31,366)
Accounts payable and accrued expenses	38,436
	<u>38,436</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 327,690</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF TOPSFIELD, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ 319,301	\$ 238,157	\$ 557,458
Total Assets	319,301	238,157	557,458
Liabilities			
Warrants and accounts payable	-	-	-
Planning and performance bonds	-	-	-
Total Liabilities	-	-	-
Net Position			
Held in trust	319,301	238,157	557,458
Total Net Position	\$ 319,301	\$ 238,157	\$ 557,458

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014**

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Total Fiduciary Funds
Additions			
Contributions - employer	\$ -	\$ 705,186	\$ 705,186
Contributions - employee	-	235,720	235,720
Contributions - other	-	-	-
Investment income	37,821	7,960	45,781
Total Additions	<u>37,821</u>	<u>948,866</u>	<u>986,687</u>
Deductions			
Education - scholarships	300		300
Health and human services - public assistance	21,250	-	21,250
Fringe benefits - retiree health and life insurance	-	840,906	840,906
Total Deductions	<u>21,550</u>	<u>840,906</u>	<u>862,456</u>
Change in Net Position	16,271	107,960	124,231
Net Position - Beginning (as restated see Note IV)	<u>303,030</u>	<u>130,197</u>	<u>433,227</u>
Net Position - Ending	<u><u>\$ 319,301</u></u>	<u><u>\$ 238,157</u></u>	<u><u>\$ 557,458</u></u>

See accompanying notes to basic financial statements.

TOWN OF TOPSFIELD, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Topsfield is located in Essex County, 20 miles north of Boston, and was incorporated as a town in 1650. The governing structure utilizes an open town meeting form, with an elected five-member Board of Selectmen. The Town provides governmental services for the territory within its boundaries, including police and fire protection, disposal of rubbish and recycling, public education, water services, street maintenance and parks and recreational services. The water services are funded entirely with user charges and are provided via connections to Town owned facilities.

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

Joint Venture – The Town has entered into a joint venture with the Town of Boxford and the Town of Middleton to pool resources and share the costs, risks and rewards of providing education services through the Masconomet Regional School District (Masco). This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2014, the Town's share of the operating and debt service expenses was \$6,237,691. There is no equity interest reported in these financial statements. Stand-alone financial statements for the year ended June 30, 2014, are available at the Masconomet Regional School District, 20 Endicott Street, Boxford, Massachusetts 01983.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

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

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

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

The government reports the following major governmental funds:

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

Gould Trust Fund – is a library trust fund. It has an expendable portion and a nonexpendable portion.

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

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

Capital Project Funds – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

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

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

The government reports the following major proprietary funds:

Water Enterprise Fund – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

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

The government reports the following fiduciary fund:

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

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

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

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

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

User fees consist of water fees. Water user fees are levied monthly for commercial users and quarterly for residential users a year based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date.

Real estate taxes and water user fees may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for doubtful accounts is not required. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for doubtful accounts which is determined as those outstanding amounts greater than five years old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

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

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

Buildings and improvements	40 years
Machinery and equipment	5-15 years
Vehicles	5-15 years
Infrastructure	40-50years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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

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

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

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

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

Deferred Outflows/Inflows of Resources- In addition to position, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The Town does not have any items that qualify for reporting as a deferred outflow.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise taxes, and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

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

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

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

Other purposes which consists of:

Capital projects represent remaining balances from bond proceeds that are restricted by state law to specific capital purposes and borrowing terms.

Gifts and donations represent assets that are restricted by donors and other outside parties for specific governmental programs and uses.

Fund Equity – The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily to the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact.

The Town’s non-spendable fund balance reported in the Nonmajor governmental funds consists of the corpus of an endowment for the cemetery, library and other purposes.

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

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

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

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

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the funds at June 30, 2014, is \$1,015,387 and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Accountant as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$234,401 of encumbrances from normal purchasing activity in the General Fund as assigned and \$424,527 of encumbrances from Town Meeting votes in the General Fund as committed. There are no encumbrances reported in any other fund.

The following table reflects the Town's fund equity categorizations in accordance with GASB 54:

	General	Gould Trust	Nonmajor Governmental Funds	Total
Non-Spendable:				
Perpetual permanent funds	\$ -	\$ 7,400,694	\$ 675,478	\$ 8,076,172
Committed:				
General government	142,942	-	-	142,942
Education	139,275	-	-	139,275
Health and human services	12,900	-	-	12,900
Culture and recreation	50,000	-	-	50,000
Pension and fringe benefits	79,450	-	-	79,450
Restricted:				
General government	-	-	72,772	72,772
Public safety	-	-	168,787	168,787
Education	-	-	463,859	463,859
Public works	-	-	795,978	795,978
Health and human services	-	-	25,174	25,174
Culture and recreation	-	920,949	289,620	1,210,569
Assigned:				
General government	898,761	-	-	898,761
Public safety	45,906	-	-	45,906
Education	136,705	-	-	136,705
Public works	8,984	-	-	8,984
Health and human services	843	-	-	843
Culture and recreation	5,055	-	-	5,055
Pension and fringe benefits	2,090	-	-	2,090
Unassigned	3,346,125	-	-	3,346,125
Totals	<u>\$ 4,869,036</u>	<u>\$ 8,321,643</u>	<u>\$ 2,491,668</u>	<u>\$ 15,682,347</u>

E. Excess of Expenditures Over Appropriations and Deficits

There were no instances of expenditures exceeding appropriations during the year.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. **Deposits and Investments**

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

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

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$7,049,581 and the bank balance was \$7,051,161. Of the Town's bank balance, \$3,460,274 was covered by either federal depository insurance or by the depositors' insurance fund; \$1,034,949 was covered by a collateralization agreement; and the remainder was unsecured.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or invested earnings. The Town does maintain an investment policy related to custodial credit risk for certain of its invested funds; however, the policy does not encompass all investments.

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

Concentration of Credit Risk - The Town does not place a limit on the amount that may be invested in any one issuer.

Credit Risk - The Town has not adopted a formal policy related to credit risk. The following is a schedule of quality ratings for fixed income investments held by the Town as of June 30, 2014:

Fixed Income Investments	Quality Ratings (S&P)				
	AA+	AA	A	A-	Unrated
Governmental Obligations	\$ 342,316	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	50,957	102,477	964,689	463,802	-
Certificates of Deposit	-	-	-	-	421,866
Totals	<u>\$ 393,273</u>	<u>\$ 102,477</u>	<u>\$ 964,689</u>	<u>\$ 463,802</u>	<u>\$ 421,866</u>

The following are the Town's investments as of June 30, 2014:

Investment Type	Fair Value	Time Until Maturity (Years)	
		Less Than 1	1-5
<u>Investments with Maturities:</u>			
Government obligations	\$ 342,316	\$ -	\$ 342,316
Corporate bonds	1,581,924	708,857	873,067
Certificates of deposit	421,866	421,866	-
Total Investments with Maturities	\$ 2,346,106	\$ 1,130,723	\$ 1,215,383
<u>Other Investments:</u>			
Equity securities	6,345,797		
Mutual funds	1,295,947		
State Treasurer Investment Pool (MMDT)	1,209,938		
Money market mutual funds	342,867		
Total Investments - All	\$ 11,540,655		

B. Receivables

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 192,158	\$ -	\$ 192,158
Tax liens	104,569	-	104,569
Excise taxes	67,034	-	67,034
Departmental and other	6,479	-	6,479
Intergovernmental	70,560	-	70,560
Total	\$ 440,800	\$ -	\$ 440,800

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user fees	\$ 277,688	\$ -	\$ 277,688
Total	\$ 277,688	\$ -	\$ 277,688

C. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 5,196,767	\$ -	\$ -	\$ 5,196,767
Construction in process	71,882	-	-	71,882
Total capital assets not being depreciated	<u>5,268,649</u>	<u>-</u>	<u>-</u>	<u>5,268,649</u>
Capital assets being depreciated:				
Buildings and improvements	17,658,742	56,653	-	17,715,395
Infrastructure	13,487,940	-	-	13,487,940
Machinery and equipment	1,893,397	38,561	(11,150)	1,920,808
Vehicles	2,382,491	71,109	(33,260)	2,420,340
Total capital assets being depreciated	<u>35,422,570</u>	<u>166,323</u>	<u>(44,410)</u>	<u>35,544,483</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,226,271)	(413,686)	-	(7,639,957)
Infrastructure	(8,543,361)	(134,974)	-	(8,678,335)
Machinery and equipment	(1,327,805)	(73,765)	11,150	(1,390,420)
Vehicles	(1,374,679)	(158,481)	33,260	(1,499,900)
Total accumulated depreciation	<u>(18,472,116)</u>	<u>(780,906)</u>	<u>44,410</u>	<u>(19,208,612)</u>
Total capital assets being depreciated, net	<u>16,950,454</u>	<u>(614,583)</u>	<u>-</u>	<u>16,335,871</u>
Governmental activities capital assets, net	<u>\$ 22,219,103</u>	<u>\$ (614,583)</u>	<u>\$ -</u>	<u>\$ 21,604,520</u>
<i>Business Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 323,038	\$ -	\$ -	\$ 323,038
Construction in process	18,620	-	(18,620)	-
Total capital assets not being depreciated	<u>341,658</u>	<u>-</u>	<u>(18,620)</u>	<u>323,038</u>
Capital assets being depreciated:				
Buildings and improvements	164,521	-	-	164,521
Infrastructure	9,857,877	33,653	-	9,891,530
Machinery and equipment	51,342	-	-	51,342
Vehicles	81,865	-	-	81,865
Total capital assets being depreciated	<u>10,155,605</u>	<u>33,653</u>	<u>-</u>	<u>10,189,258</u>
Less accumulated depreciation for:				
Buildings and improvements	(51,164)	(4,613)	-	(55,777)
Infrastructure	(3,855,143)	(194,921)	-	(4,050,064)
Machinery and equipment	(21,703)	(3,668)	-	(25,371)
Vehicles	(57,114)	(7,011)	-	(64,125)
Total accumulated depreciation	<u>(3,985,124)</u>	<u>(210,213)</u>	<u>-</u>	<u>(4,195,337)</u>
Total capital assets being depreciated, net	<u>6,170,481</u>	<u>(176,560)</u>	<u>-</u>	<u>5,993,921</u>
Business activities capital assets, net	<u>\$ 6,512,139</u>	<u>\$ (176,560)</u>	<u>\$ (18,620)</u>	<u>\$ 6,316,959</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 10,795
Public safety	144,979
Education	290,973
Public works	208,185
Health and human services	14,112
Culture and recreation	111,862
Total Governmental Activities	<u>\$ 780,906</u>
 <u>Business-Type Activities:</u>	
Water	\$ 210,213
Total Business-Type Activities	<u>\$ 210,213</u>

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2014, are summarized as follows:

<u>Transfers Out</u>	<u>Transfers In</u>		
	<u>General Fund</u>	<u>Total</u>	
Nonmajor Fund	\$ 101,617	\$ 101,617	(1)
Water Enterprise Fund	106,229	106,229	(1)
Gould Trust	66,000	66,000	(1)
Total	<u>\$ 273,846</u>	<u>\$ 273,846</u>	

(1) Transfers to general fund to provide for indirect costs, benefit costs, and other programs.

E. Temporary Debt

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

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANs) or grant anticipation notes (GANs). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively.

There were no temporary notes outstanding during the year ended June 30, 2014.

F. Long-Term Liability Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for various governmental and business-type activities. Additionally, the Town has utilized lease financing agreements to purchase vehicles and incurs various other long-term obligations relative to associated personnel costs and post-closure landfill monitoring costs.

During the year ended June 30, 2014, the following reflects long-term liability accounts' activities:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
Bond and note indebtedness	\$ 3,959,500	\$ -	\$ (551,000)	\$ 3,408,500	\$ 556,500
Capital lease obligations	130,317	-	(24,070)	106,247	25,028
Post-closure landfill monitoring	928,374	-	(40,756)	887,618	42,183
Compensated Absences	234,992	-	(15,432)	219,560	54,890
Other Postemployment Benefits (as restated)	8,794,045	1,623,748	(401,484)	10,016,309	-
Total Governmental Activities	\$ 14,047,228	\$ 1,623,748	\$ (1,032,742)	\$ 14,638,234	\$ 678,601
Business-type Activities: Water					
Bond and note indebtedness	\$ 970,500	\$ -	\$ (84,000)	\$ 886,500	\$ 83,500
Other Postemployment Benefits (as restated)	94,416	17,436	-	111,852	-
Total Business-type Activities: Water	\$ 1,064,916	\$ 17,436	\$ (84,000)	\$ 998,352	\$ 83,500

Bond and Note Indebtedness – State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

The following is a summary of outstanding long-term debt for the year ended June 30, 2014:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities:</u>						
General Obligation Bonds - January 2011	2021	2.0 -4.0%	\$ 440,000	\$ -	\$ (100,000)	\$ 340,000
Subtotal General Obligation Bond			440,000	-	(100,000)	340,000
General Obligation Refunding Bonds - January 2011	2021	2.0 -4.0%	1,749,500	-	(271,000)	1,478,500
General Obligation Refunding Bonds - February 2012	2022	2.0 -4.0%	1,770,000	-	(180,000)	1,590,000
Subtotal General Obligation Refunding Bond			3,519,500	-	(451,000)	3,068,500
Total Governmental Bond and Note Indebtedness			3,959,500	-	(551,000)	3,408,500
<u>Business-type Activities - Water</u>						
General Obligation Bonds - January 2011	2026	2.0 -4.0%	905,000	-	(75,000)	830,000
Subtotal Water Bonds			905,000	-	(75,000)	830,000
General Obligation Refunding Bonds - January 2011	2020	2.0 -4.0%	65,500	-	(9,000)	56,500
Subtotal Water Refunding Bonds			65,500	-	(9,000)	56,500
Total Business-type Bond and Note Indebtedness			970,500	-	(84,000)	886,500
Total Long-Term Bond and Note Indebtedness - All			\$ 4,930,000	\$ -	\$ (635,000)	\$ 4,295,000

Future Long-Term Debt Payoff – Payments on general long-term debt obligation bonds and notes due in future years consists of the following:

Governmental Activities - Total Bond and Note Indebtedness			
Year Ending	Principal	Interest	Total
June 30			
2015	556,500	95,469	651,969
2016	486,000	75,059	561,059
2017	495,500	63,439	558,939
2018	505,500	50,828	556,328
2019	420,000	37,190	457,190
2020 - 2024	945,000	38,330	983,330
Total	<u>\$ 3,408,500</u>	<u>\$ 360,315</u>	<u>\$ 3,768,815</u>

Business-Type Activities - Total Bond and Note Indebtedness			
Year Ending	Principal	Interest	Total
June 30			
2015	83,500	28,211	111,711
2016	84,000	24,871	108,871
2017	79,500	23,191	102,691
2018	79,500	21,404	100,904
2019	80,000	19,414	99,414
2020 - 2024	350,000	61,065	411,065
2025 - 2029	130,000	7,313	137,313
Total	<u>\$ 886,500</u>	<u>\$ 185,469</u>	<u>\$ 1,071,969</u>

Authorized and Unissued Debt – At June 30, 2014, the Town had authorized and unissued debt comprised of the following:

Project	Amount
<i>Governmental Activities:</i>	
Fire department vehicles	\$ 1,210,000
Public Works department vehicle	145,000
Total Governmental Activities	<u>1,355,000</u>
<i>Business-Type Activities:</i>	
Water	<u>1,900,000</u>
Total Business-Type Activities	<u>1,900,000</u>
Total Authorized and Unissued Debt	<u>\$ 3,255,000</u>

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and the 2014 debt assessment to the Town is approximated below:

	Net Debt		2014 Debt Assessment
	Principal	MSBA Reimbursement	
Masconomet Regional School District	\$ 14,960,000	\$ (11,066,176)	\$ 298,002

Apportioned debt fluctuates based on pupil enrollment; in fiscal year 2014, the apportioned debt was \$298,002.

Capital Lease Obligations – As of June 30, 2014, assets acquired through capital leases are as follows:

Asset	Amount
Public Works Dump Truck	\$ 159,573
Less: Accumulated Depreciation	(63,830)
Total	\$ 95,743

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2014, are as follows:

Fiscal Year Ended June 30,	Amount
2015	\$ 29,256
2016	29,256
2017	29,256
2018	29,256
Total minimum lease payments	117,024
Less: amounts representing interest	(10,777)
Present value of minimum lease payments	\$ 106,247

Compensated Absences – Each year the Town approves through a Town meeting article, amounts for vacation liability. As of June 30, 2014, the Town had accumulated \$71,850 for these purposes.

III. Other Information

A. Retirement System

Plan Description - The Town contributes to the Essex Regional Retirement System (System), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and is administered by Essex Regional Retirement Board (the Board).

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits

imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC) that includes financial statements and required supplementary information. The report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, MA 01923.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 9% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2014, 2013 and 2012 were \$780,404, \$741,727 and \$718,673 respectively, which equaled its required contribution for each year. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers' Retirement System

Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$1,084,575 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Risk Financing

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

The Town is a member of the Massachusetts Interlocal Insurance Association's Health Benefits Trust, which is a health insurance risk-pool consisting of over 115 governmental units. The Trust offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the Trust its required premiums and, in the event the group is terminated, it proportionate share of a deficit, should one exist.

D. Other Postemployment Benefits (OPEB)

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the "Plan") in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town's insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 163 active employees and 46 retired employees for a total of 209.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 33% or 40% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. Retirees also contribute 33% towards life insurance premiums; \$2,500 face value. The Town pays the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost is calculated based on the annual required contribution "ARC" of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town's OPEB obligation:

Annual required contribution (ARC)	\$ 2,034,169
Interest on net OPEB obligation	355,539
Adjustment to ARC	<u>(748,524)</u>
Annual OPEB cost	1,641,184
Contributions made	<u>(401,484)</u>
Increase in net OPEB obligation	1,239,700
Net OPEB obligation at beginning of year	<u>8,888,461</u>
Net OPEB obligation at end of year	<u><u>\$ 10,128,161</u></u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2014	\$ 1,641,184 *	24.5%	\$ 10,128,161
June 30, 2013	\$ 2,699,000	22.1%	\$ 8,888,461
June 30, 2012	\$ 2,619,276	14.8%	\$ 6,785,461

* Reflected in the Statement of Activities as follows:

The AOPEBC at June 30, 2014, was charged to the following functional programs: General Government \$110,395; Public Safety \$327,682; Education \$1,010,808; Public Works \$61,330; Health and Human Services \$25,673; Culture and Recreation \$87,859; and Water \$17,436.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2014 for the most recent actuarial valuation performed as of July 1, 2013, was as follows:

Actuarial value of plan assets	\$ 130,198
Actuarial accrued liability (AAL)	\$ 15,141,371
Unfunded actuarial accrued liability (UAAL)	\$ 15,011,173
Funded ratio (actuarial value of plan assets / AAL)	0.90%
Covered payroll (annual payroll of active, plan employees)	N/A
UAAL as a percentage of covered payroll	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	July 1, 2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amortization over 30 years at the last valuation
Remaining amortization period	24 years as of July 1, 2013
Interest discount rate	4% per annum
General inflation assumption	2.50% per annum
Healthcare trend rates	FY 2014 & 2015 – Medical and Dental, 5.0% and 5.0%

E. Commitments and Contingencies

The Town is party to certain other legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2014, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2014.

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

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

F. Landfill Closure and Post-Closure Monitoring Care Costs

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$887,618 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementation

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of GASB 65 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2014 and did not have a material effect on its financial statements.

Future Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 become effective for the Essex Regional Retirement System as of December 31, 2014 and will impact the Town in fiscal year 2015. The Town believes the adoption of this statement will have a material impact on the financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their

long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town believes the adoption of this statement will have a material impact on the financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In November 2013, The GASB issued Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The objective of GASB 71 is to address an issue regarding application of the transition provision of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Prior Period Restatement

The following adjustments were required to correct changes in liability allocations and presentation of the prior period ending financial statement balances:

	General Fund	Proprietary Fund - Water	Fiduciary Fund - OPEB
As previously reported	\$ 4,466,138	\$ 6,992,240	\$ -
Reclass Other Postemployment Benefits Liability	-	126,227	-
Setup Other Postemployment Benefits Trust	(100,152)	(30,045)	130,197
As restated	<u>\$ 4,365,986</u>	<u>\$ 7,088,422</u>	<u>\$ 130,197</u>

	Governmental Activities	Business-Type Activities
As previously reported	\$ 23,173,916	\$ 6,992,240
Reclass Other Postemployment Benefits Liability	(126,227)	126,227
Setup Other Postemployment Benefits Trust	(100,152)	(30,045)
As restated	<u>\$ 22,947,537</u>	<u>\$ 7,088,422</u>

TOWN OF TOPSFIELD, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

SCHEDULES OF FUNDING PROGRESS

Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2013	\$ 318,500,331	\$ 619,339,080	\$ 304,773,155	51.00%	\$ 119,292,287	255.48%
1/1/2011	\$ 278,332,006	\$ 536,115,536	\$ 257,783,530	51.92%	\$ 119,707,156	215.35%
1/1/2008	\$ 301,420,965	\$ 445,171,554	\$ 143,750,589	67.71%	\$ 111,726,856	128.66%
1/1/2006	\$ 261,327,047	\$ 376,034,621	\$ 114,707,574	69.50%	\$ 98,641,094	116.29%

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2013	\$ 130,198	\$ 15,141,371	\$ 15,011,173	0.9%	N/A	N/A
7/1/2011	\$ -	\$ 22,221,197	\$ 22,221,197	0.0%	\$ 7,818,687	284.2%
7/1/2009	\$ -	\$ 15,246,807	\$ 15,246,807	0.0%	\$ 7,900,000	193.0%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended December 31,	Essex Regional Retirement System (All participants)			Town	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Town's Percentage of System Wide Actual Contributions
2014	\$ 24,592,599	\$ 24,592,599	100.0%	\$ 780,404	3.2%
2013	\$ 22,770,925	\$ 22,770,925	100.0%	\$ 741,727	3.3%
2012	\$ 21,084,190	\$ 21,084,190	100.0%	\$ 718,673	3.4%

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	(A) Actual Contributions	Percentage Contributed
2014	\$ 1,641,184	\$ 401,484	24.5%
2013	2,699,000	596,479	22.1%
2012	2,619,276	387,653	14.8%

TOWN OF TOPSFIELD, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
Revenues						
Real Estate and Personal Property	\$ 18,629,486	\$ 18,629,486	\$ 18,703,184		\$ 18,703,184	\$ 73,698
Intergovernmental	1,739,205	1,739,205	2,858,180		2,858,180	1,118,975
Motor Vehicle and Other Excise	800,125	800,125	1,023,723		1,023,723	223,598
Departmental and Other Revenue	234,637	234,637	241,381		241,381	6,744
Licenses and Permits	190,000	190,000	367,799		367,799	177,799
Penalties and Interest	25,300	25,300	40,261		40,261	14,961
Fines and Forfeitures	48,000	48,000	68,080		68,080	20,080
Investment Income	13,750	13,750	15,307		15,307	1,557
Total Revenues	<u>21,680,503</u>	<u>21,680,503</u>	<u>23,317,915</u>		<u>23,317,915</u>	<u>1,637,412</u>
Expenditures						
General government	1,829,367	1,715,256	1,326,303	\$ 177,760	1,504,063	211,193
Public safety	2,122,939	2,198,015	2,131,896	45,906	2,177,802	20,213
Education	12,887,355	12,980,010	12,647,438	275,980	12,923,418	56,592
Public works	876,503	998,313	969,026	8,984	978,010	20,303
Health and human services	661,213	661,213	636,696	13,743	650,439	10,774
Culture and recreation	818,633	830,798	752,645	55,055	807,700	23,098
Fringe and pension benefits	2,977,528	2,773,266	2,471,667	81,540	2,553,207	220,059
State and county tax assessments	306,842	306,842	300,256	-	300,256	6,586
Debt service	669,209	669,209	668,209	-	668,209	1,000
Total Expenditures	<u>23,149,589</u>	<u>23,132,922</u>	<u>21,904,136</u>	<u>\$ 658,968</u>	<u>22,563,104</u>	<u>569,818</u>
Other Financing Sources (Uses)						
Transfers in	208,721	223,461	273,846		273,846	50,385
Transfers out	(300,000)	(300,000)	(300,000)		(300,000)	-
Total Other Financing Sources (Uses)	<u>(91,279)</u>	<u>(76,539)</u>	<u>(26,154)</u>		<u>(26,154)</u>	<u>50,385</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses Of Prior Year Budgetary Fund Balance	<u>(1,560,365)</u>	<u>(1,528,958)</u>	<u>\$ 1,387,625</u>		<u>\$ 728,657</u>	<u>\$ 2,257,615</u>
Other Budgetary Items						
Prior year encumbrances and articles	490,632	459,225				
Free cash	951,286	951,286				
Other budgetary items	118,447	118,447				
Tax title	-	-				
Total Other Budgetary Items	<u>1,560,365</u>	<u>1,528,958</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.
See notes to the required supplementary information of this schedule.

TOWN OF TOPSFIELD, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

I. Budgetary Basis of Accounting

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

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2014, the Town did not make any material supplemental budgetary appropriations during the year.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. The difference between the budgetary-basis to GAAP-basis accounting results for the General Fund for the year ended June 30, 2014, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 22,231,456
MTRS on-behalf pension payment	\$ 1,084,575	\$ -	1,084,575
Interest earned on stabilization fund	-	1,884	1,884
Revenues on a GAAP basis	<u>\$ 1,084,575</u>	<u>\$ 1,884</u>	<u>\$ 23,317,915</u>
Expenditures on a budgetary basis			\$ 21,904,136
MTRS on-behalf pension payment	\$ 1,084,575	\$ -	1,084,575
Reclass of expenditure item to transfers	100,000	-	100,000
Expenditures on a GAAP basis	<u>\$ 1,184,575</u>	<u>\$ -</u>	<u>\$ 23,088,711</u>
Net transfers on a budgetary basis			\$ (76,539)
Reclass of expenditure item to transfers	\$ 100,000	\$ -	100,000
Transfers to stabilization fund	-	200,000	200,000
Transfers not budgeted	50,385	-	50,385
Net transfers on a GAAP basis	<u>\$ 150,385</u>	<u>\$ 200,000</u>	<u>\$ 273,846</u>



**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**

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsfield, Massachusetts (the Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 8, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 8, 2015