

TOWN OF TOPSFIELD, MASSACHUSETTS

Financial Statements

June 30, 2015

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Topsfield, Massachusetts
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 For the Year Ended June 30, 2015
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INDEPENDENT AUDITORS' REPORT

Board of Selectmen
Town of Topsfield
Eight West Common
Topsfield, MA 01983

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 as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsfield, Massachusetts as of June 30, 2015 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated March 28, 2016, on our consideration of the Town of Topsfield'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 Town of Topsfield's internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

March 28, 2016

**Town of Topsfield, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2015**

As management of the Town of Topsfield, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Topsfield, Massachusetts for the fiscal year ended June 30, 2015.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Topsfield, Massachusetts's June 30, 2015 basic financial statements. The Town of Topsfield, Massachusetts'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.

Financial Highlights

A prior period adjustment related to the implementation of GASB Statement #68, *Accounting and Financial Reporting for Pensions an amendment of GASB #27*, was made that reduced the beginning balance net position by \$11,466,107.

The liabilities and deferred outflows of the Town of Topsfield, Massachusetts exceeded its assets and deferred inflows at the close of the most recent fiscal year by \$17,890,225 (net position). Included in that amount is a \$17,142,358 deficit in unrestricted net position. The unrestricted net position of the Town's governmental activities is a deficit of \$18,102,489. The deficit in the governmental activities is, primarily, due to reporting the Town's other post employment benefits liability and the net pension liability. The unrestricted net position of business-type activities is \$960,131 and may be used to meet the ongoing obligations of the Town's Business-type activities.

The total revenue for fiscal year 2015 was \$26,215,140 from governmental activities, and \$1,064,320 from Business-type activities.

The total cost of all Town services for fiscal year 2015 was \$27,971,537, of which \$27,098,711 was for governmental services, and \$872,826 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,183,028 or 13% of total general fund expenditures.

The Town of Topsfield, Massachusetts's total long term debt decreased by (\$640,000) or 15% during the year.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of Topsfield, Massachusetts' basic financial statements. The Town of Topsfield, Massachusetts' basic

financial statements consist of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net position* presents information on all of the Town of Topsfield, Massachusetts' assets/deferred outflows and liabilities/deferred inflows, with the differences 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 of Topsfield, Massachusetts is improving or deteriorating.

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

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

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

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

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

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

statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

Notes to the Financial Statements

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

Other Information

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

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

Financial Analysis of the Government-wide Financial Statements

Net Position

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

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 17,442,676	\$ 16,583,909	\$ 2,348,712	\$ 1,779,428	\$ 19,791,388	\$ 18,363,337
Capital Assets	21,583,381	21,604,520	7,336,598	6,316,959	28,919,979	27,921,479
Total Assets	<u>39,026,057</u>	<u>38,188,429</u>	<u>9,685,310</u>	<u>8,096,387</u>	<u>48,711,367</u>	<u>46,284,816</u>
Deferred Outflows of Resources	15,127	-	-	-	15,127	-
Other Liabilities	1,869,448	1,244,477	1,687,468	90,445	3,556,916	1,334,922
Long Term Liabilities	25,818,028	24,879,254	1,396,067	1,488,338	27,214,095	26,367,592
Total Liabilities	<u>27,687,476</u>	<u>26,123,731</u>	<u>3,083,535</u>	<u>1,578,783</u>	<u>30,771,011</u>	<u>27,702,514</u>
Deferred Inflows of Resources	62,879	-	2,379	-	65,258	-
Net Position:						
Net Investment in Capital Assets	18,739,484	18,089,773	5,639,265	5,430,459	24,378,749	23,520,232
Restricted	10,653,834	10,813,311	-	-	10,653,834	10,813,311
Unrestricted	(18,102,489)	(16,838,386)	960,131	1,087,145	(17,142,358)	(15,751,241)
Total Net Position	<u>\$ 11,290,829</u>	<u>\$ 12,064,698</u>	<u>\$ 6,599,396</u>	<u>\$ 6,517,604</u>	<u>\$ 17,890,225</u>	<u>\$ 18,582,302</u>

The net position of the Town decreased by \$692,077 (not including the prior period adjustment). The net position of the governmental activities decreased by \$773,869 or about 3% and the net position of the business-type activities increased by \$81,792 or around 1%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position have changed during the fiscal year. The differences in functional expenditures from 2014 to 2015 relate to the employee benefits' expenditures being reported as a functional expenditure in fiscal year 2015. In fiscal year 2014, those expenditures were allocated to other functions.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,132,389	\$ 1,333,028	\$ 1,061,172	\$ 1,006,081	\$ 2,193,561	\$ 2,339,109
Operating Grants and Contributions	3,306,394	2,732,648	3,148	3,061	3,309,542	2,735,709
Capital Grants and Contributions	-	444,076	-	-	-	444,076
General Revenues:						
Property Taxes	19,889,004	18,716,790	-	-	19,889,004	18,716,790
Motor Vehicle and Other Excises	1,078,843	1,023,722	-	-	1,078,843	1,023,722
Intergovernmental Not Restricted to a Specific Program	671,486	681,331	-	-	671,486	681,331
Other	137,024	1,071,278	-	-	137,024	1,071,278
Total Revenues	<u>26,215,140</u>	<u>26,002,873</u>	<u>1,064,320</u>	<u>1,009,142</u>	<u>27,279,460</u>	<u>27,012,015</u>
Expenses						
General Government	1,644,130	1,827,998	-	-	1,644,130	1,827,998
Public Safety	2,433,334	3,480,423	-	-	2,433,334	3,480,423
Education	14,231,681	16,863,443	-	-	14,231,681	16,863,443
Highways and Public Works	1,508,135	1,644,488	-	-	1,508,135	1,644,488
Human Services	673,310	801,510	-	-	673,310	801,510
Culture and Recreation	1,926,581	1,337,249	-	-	1,926,581	1,337,249
Debt Service	108,451	117,209	-	-	108,451	117,209
Employee Benefits	4,573,089	-	-	-	4,573,089	-
Water	-	-	872,826	927,245	872,826	927,245
Total Expenses	<u>27,098,711</u>	<u>26,072,320</u>	<u>872,826</u>	<u>927,245</u>	<u>27,971,537</u>	<u>26,999,565</u>
Increase (Decrease) in Net Position						
Before Transfers	(883,571)	(69,447)	191,494	81,897	(692,077)	12,450
Transfers	109,702	106,229	(109,702)	(106,229)	-	-
Increase (Decrease) in Net Position	<u>\$ (773,869)</u>	<u>\$ 36,782</u>	<u>\$ 81,792</u>	<u>\$ (24,332)</u>	<u>\$ (692,077)</u>	<u>\$ 12,450</u>

Governmental Activities

In fiscal year 2015, property taxes accounted for approximately 76% of the revenues. In fiscal year 2014, property taxes accounted for 72% of the revenues

Business-type Activities

Water rates are structured to cover all costs related to each activity.

Financial Analysis of the Town's Funds

Governmental Funds

The focus of the Town of Topsfield, Massachusetts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Topsfield, Massachusetts' financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Town of Topsfield, Massachusetts itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Town of Topsfield, Massachusetts' Selectmen.

General Fund – The year end fund balances of the general fund were \$298,297 more than the prior year's fund balances.

The following table reflects the trend in all the components of fund balance (general fund) and the Town's "free cash" for the last ten fiscal years.

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Petty Cash</u>	<u>Reserved for Subsequent Year's Expenditure</u>	<u>Designated for Appropriation Deficit (Snow & Ice)</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2006	\$ 292,735	\$ 449	\$ 882,545	\$ (159,832)	\$ 1,583,467	\$ 2,599,364
2007	354,029	1,014	795,099	-	1,602,849	2,752,991
2008	410,029	616	836,901	-	1,568,835	2,816,381
2009	318,052	836	712,539	(136,021)	1,362,185	2,257,591
2010	244,632	971	512,621	-	1,567,101	2,325,325

GASB 54 was implemented in fiscal year 2011. As a result, the account titles of the components of fund balance changed as follows. In addition, in accordance with GASB 54 requirements, the balance in the Stabilization Fund is reported as a component of the general fund unassigned fund balance.

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
2011	\$ -	\$ 200,139	\$ 749,173	\$ 2,342,955	\$ 3,292,267
2012	-	386,633	970,818	2,954,345	4,311,796
2013	-	284,905	1,375,612	2,805,621	4,466,138
2014	-	424,567	1,098,344	3,346,125	4,869,036
2015	-	1,315,823	668,482	3,183,028	5,167,333

<u>Fiscal Year</u>	<u>Free Cash</u>
2006	1,289,247
2007	1,324,987
2008	1,379,523
2009	1,188,197
2010	1,217,661
2011	1,220,632
2012	1,701,286
2013	1,582,536
2014	1,897,634
2015	1,640,052

Proprietary Funds. The Town of Topsfield, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net position of the proprietary funds at the end of the year amounted to \$6,599,396.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget is consist of Special Town Meeting votes and reserve fund transfers.

Conservative budget estimates allowed the Town to experience favorable operating results in substantially all revenues and expenditure categories.

Capital Asset and Debt Administration

Capital assets – The Town of Topsfield, Massachusetts’ investments in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$28,919,979 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 5,196,767	\$ 5,196,767	\$ 323,038	\$ 323,038	\$ 5,519,805	\$ 5,519,805
Construction in Progress	398,779	71,882	963,173	-	1,361,952	71,882
Buildings	9,615,308	10,075,438	96,189	108,744	9,711,497	10,184,182
Improvements Other Than Buildings	85,749	-	8,500	-	94,249	-
Infrastructure	4,638,490	4,809,605	5,910,231	5,841,466	10,548,721	10,651,071
Equipment	654,454	530,388	22,419	25,971	676,873	556,359
Vehicles	993,834	920,440	13,048	17,740	1,006,882	938,180
Total	<u>\$ 21,583,381</u>	<u>\$ 21,604,520</u>	<u>\$ 7,336,598</u>	<u>\$ 6,316,959</u>	<u>\$ 28,919,979</u>	<u>\$ 27,921,479</u>

Debt

The Town had \$3,655,000 in bonds outstanding on June 30, 2015. This represents a (\$640,000) decrease.

<u>Governmental Activities</u>	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
General Obligation Bonds Payable	\$ 2,852,000	\$ 3,408,500	\$ (556,500)
Business-type Activities			
Water	803,000	886,500	(83,500)
Total Debt	<u>\$ 3,655,000</u>	<u>\$ 4,295,000</u>	<u>\$ (640,000)</u>

Fiscal Year 2016 Budget

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

The Town utilized \$1,147,634 of general fund reserves to fund the fiscal year 2016 budget.

Request for Information

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

Town of Topsfield
Finance Department
Eight West Common
Topsfield, Massachusetts 01983

Town of Topsfield, Massachusetts
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Government - Wide Total</u>
Assets			
Current:			
Cash/Investments	\$ 16,623,904	\$ 2,054,545	\$ 18,678,449
Receivables:			
Property Taxes	187,614	-	187,614
Tax Liens	118,198	-	118,198
Excises	54,957	-	54,957
User Charges	-	294,099	294,099
Other	26,816	-	26,816
Intergovernmental Liens	431,187 -	- 68	431,187 68
Noncurrent:			
Capital Assets:			
Assets Not Being Depreciated	5,595,546	1,286,211	6,881,757
Assets Being Depreciated, Net	15,987,835	6,050,387	22,038,222
Total Assets	39,026,057	9,685,310	48,711,367
Deferred Outflows of Resources			
Debt Refunding	15,127	-	15,127
Total Deferred Outflows of Resources	15,127	-	15,127
Liabilities			
Current:			
Warrants Payable	166,608	28,813	195,421
Accrued Salaries Payable	257,425	8,256	265,681
Employees' Withholding Payable	116,858	-	116,858
Intergovernmental	1,838	-	1,838
Unclaimed Checks	4,382	-	4,382
Landfill Closure Costs Payable	38,700	-	38,700
Bond Anticipation Notes Payable	681,897	1,555,000	2,236,897
Capital Leasing	26,024	-	26,024
Accrued Interest	26,609	11,399	38,008
Bonds Payable	486,000	84,000	570,000
Compensated Absences	63,107	-	63,107
Noncurrent:			
Bonds Payable	2,366,000	719,000	3,085,000
Compensated Absences	252,426	-	252,426
Capital Leasing	55,196	-	55,196
Landfill Closure Costs Payable	814,946	-	814,946
Net Pension Liability	10,930,453	547,028	11,477,481
Other Post Employment Benefit Obligations	11,399,007	130,039	11,529,046
Total Liabilities	27,687,476	3,083,535	30,771,011
Deferred Inflows of Resources			
Pension	47,538	2,379	49,917
Unavailable Revenues	15,341	-	15,341
Total Deferred Inflows of Resources	62,879	2,379	65,258
Net Position			
Net Investment in Capital Assets	18,739,484	5,639,265	24,378,749
Restricted for:			
Gifts, Grants and Other Statutory Restrictions	1,252,626	-	1,252,626
Perpetual Funds:			
Expendable	8,153,511	-	8,153,511
Nonexpendable	1,247,697	-	1,247,697
Unrestricted	(18,102,489)	960,131	(17,142,358)
Total Net Position	\$ 11,290,829	\$ 6,599,396	\$ 17,890,225

Town of Topsfield, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2015

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
<i>Governmental Activities:</i>							
General Government	\$ 1,644,130	\$ 146,632	\$ 66,768	\$ -	\$ (1,430,730)	\$ -	\$ (1,430,730)
Public Safety	2,433,334	377,336	23,643	-	(2,032,355)	-	(2,032,355)
Education	14,231,681	443,842	2,300,206	-	(11,487,633)	-	(11,487,633)
Highways and Public Works	1,508,135	31,101	696,224	-	(780,810)	-	(780,810)
Human Services	673,310	107,735	49,353	-	(516,222)	-	(516,222)
Culture and Recreation	1,926,581	25,743	170,200	-	(1,730,638)	-	(1,730,638)
Debt Service	108,451	-	-	-	(108,451)	-	(108,451)
Employee Benefits	4,573,089	-	-	-	(4,573,089)	-	(4,573,089)
Total Governmental Activities	<u>27,098,711</u>	<u>1,132,389</u>	<u>3,306,394</u>	<u>-</u>	<u>(22,659,928)</u>	<u>-</u>	<u>(22,659,928)</u>
<i>Business-Type Activities:</i>							
Water	872,826	1,061,172	3,148	-	-	191,494	191,494
Total Business-Type Activities	<u>872,826</u>	<u>1,061,172</u>	<u>3,148</u>	<u>-</u>	<u>-</u>	<u>191,494</u>	<u>191,494</u>
Total	<u>\$ 27,971,537</u>	<u>\$ 2,193,561</u>	<u>\$ 3,309,542</u>	<u>\$ -</u>	<u>(22,659,928)</u>	<u>191,494</u>	<u>(22,468,434)</u>
<i>General Revenues:</i>							
Property Taxes					19,889,004	-	19,889,004
Motor Vehicle and Other Excise Taxes					1,078,843	-	1,078,843
Penalties and Interest on taxes					37,826	-	37,826
Other Taxes and Assessments					57,481	-	57,481
Intergovernmental					671,486	-	671,486
Interest and Investment Income					17,704	-	17,704
Other Revenue					12,288	-	12,288
Contributions to Permanent Funds					11,725	-	11,725
Transfers In (Out)					109,702	(109,702)	-
Total General Revenues					<u>21,886,059</u>	<u>(109,702)</u>	<u>21,776,357</u>
Change in Net Position					(773,869)	81,792	(692,077)
<i>Net Position:</i>							
Beginning of the Year					22,984,319	7,064,090	30,048,409
Prior Period Adjustment					(10,919,621)	(546,486)	(11,466,107)
Beginning of the Year, as Restated					<u>12,064,698</u>	<u>6,517,604</u>	<u>18,582,302</u>
End of the Year					<u>\$ 11,290,829</u>	<u>\$ 6,599,396</u>	<u>\$ 17,890,225</u>

Town of Topsfield, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2015

	<u>General</u>	<u>Gould Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash/Investments	\$ 5,641,694	\$ 8,071,595	\$ 2,910,615	\$ 16,623,904
Receivables:				
Property Taxes	187,614	-	-	187,614
Tax Liens	118,198	-	-	118,198
Excises	54,957	-	-	54,957
Other	7,888	-	18,928	26,816
Intergovernmental	14,558	-	416,629	431,187
Tax Foreclosures	33,939	-	-	33,939
Total Assets	<u>\$ 6,058,848</u>	<u>\$ 8,071,595</u>	<u>\$ 3,346,172</u>	<u>\$ 17,476,615</u>
Liabilities:				
Warrants Payable	\$ 151,213	\$ -	\$ 15,395	\$ 166,608
Accrued Salaries Payable	253,922	-	3,503	257,425
Employees' Withholding Payable	116,858	-	-	116,858
Intergovernmental	1,838	-	-	1,838
Unclaimed Checks	4,382	-	-	4,382
Bonds Anticipation Notes Payable	-	-	681,897	681,897
Total Liabilities	<u>528,213</u>	<u>-</u>	<u>700,795</u>	<u>1,229,008</u>
Deferred Inflows of Resources:				
Unavailable Revenues	363,302	-	389,743	753,045
Total Deferred Inflows of Resources	<u>363,302</u>	<u>-</u>	<u>389,743</u>	<u>753,045</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	7,511,102	687,204	8,198,306
Restricted	-	560,493	1,780,527	2,341,020
Committed	1,315,823	-	259,800	1,575,623
Assigned	668,482	-	-	668,482
Unassigned	3,183,028	-	(471,897)	2,711,131
Total Fund Balances	<u>5,167,333</u>	<u>8,071,595</u>	<u>2,255,634</u>	<u>15,494,562</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,058,848</u>	<u>\$ 8,071,595</u>	<u>\$ 3,346,172</u>	<u>\$ 17,476,615</u>

Town of Topsfield, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2015

	<u>General</u>	<u>Gould Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 19,860,443	\$ -	\$ -	\$ 19,860,443
Tax Liens	38,149	-	-	38,149
Excises	1,090,920	-	-	1,090,920
Penalties and Interest	37,826	-	-	37,826
Licenses and Permits	226,750	-	-	226,750
Intergovernmental	2,560,727	-	821,712	3,382,439
Charges for Services	269,481	-	500,544	770,025
Fines and Forfeits	57,472	-	-	57,472
Earnings on Investments	17,704	118,103	29,955	165,762
In Lieu of Taxes	57,481	-	-	57,481
Contributions	-	-	46,618	46,618
Miscellaneous	27,878	-	75,148	103,026
Total Revenues	<u>24,244,831</u>	<u>118,103</u>	<u>1,473,977</u>	<u>25,836,911</u>
<u>Expenditures:</u>				
General Government	1,198,187	-	94,155	1,292,342
Public Safety	2,356,222	-	342,867	2,699,089
Education	13,265,561	-	766,072	14,031,633
Highways and Public Works	1,000,691	-	484,350	1,485,041
Human Services	617,094	-	42,104	659,198
Culture and Recreation	1,667,769	105,082	73,434	1,846,285
Debt Service	653,469	-	-	653,469
Intergovernmental	301,348	-	-	301,348
Employee Benefits	3,165,993	-	-	3,165,993
Total Expenditures	<u>24,226,334</u>	<u>105,082</u>	<u>1,802,982</u>	<u>26,134,398</u>
Excess of Revenues Over (Under) Expenditures	<u>18,497</u>	<u>13,021</u>	<u>(329,005)</u>	<u>(297,487)</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	283,720	-	197,069	480,789
Operating Transfers (Out)	(3,920)	(263,069)	(104,098)	(371,087)
Total Other Financing Sources (Uses)	<u>279,800</u>	<u>(263,069)</u>	<u>92,971</u>	<u>109,702</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>298,297</u>	<u>(250,048)</u>	<u>(236,034)</u>	<u>(187,785)</u>
Fund Balance, Beginning	<u>4,869,036</u>	<u>8,321,643</u>	<u>2,491,668</u>	<u>15,682,347</u>
Fund Balance, Ending	<u>\$ 5,167,333</u>	<u>\$ 8,071,595</u>	<u>\$ 2,255,634</u>	<u>\$ 15,494,562</u>

Town of Topsfield, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 Fiscal Year Ended June 30, 2015

Total governmental fund balances	\$ 15,494,562
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,583,381
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	703,765
Deferred Outflows of Resources related to Debt Refundings are not financial resources and, therefore, are not reported in the funds.	15,127
Net deferred Inflows of Resources of Pension are not financial resources and, therefore, are not reported in the funds.	(47,538)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds Payable	(2,852,000)
Accrued Interest on Bonds	(26,609)
Other Post Employment Benefit Obligations	(11,399,007)
Net Pension Liability	(10,930,453)
Landfill Liability	(853,646)
Capital Leasing	(81,220)
Compensated Absences	(315,533)
Net position of governmental activities	\$ 11,290,829

Town of Topsfield, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ (187,785)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(6,262)
In the statement of activities, the gain on the trade in of capital assets is reported, whereas in the governmental funds, the gain is not reported.	10,150
Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.	368,079
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	571,627
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount is represents the differcnce in the current and prior year accrued long-term debt interest.	(26,609)
Some expenses reported in the Statement of Activities, such as compensated absences, pension and other post employment benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the change in these items.	<u>(1,503,069)</u>
Change in net position of governmental activities	<u><u>\$ (773,869)</u></u>

Town of Topsfield, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2015

	<u>Water Enterprise</u>
Assets	
Current:	
Cash and Cash Investments	\$ 2,054,545
Receivables, Net of Allowance for Uncollectibles:	
User Charges	294,099
Liens	68
Noncurrent:	
Assets Not Being Depreciated	1,286,211
Assets Being Depreciated, Net	<u>6,050,387</u>
Total Assets	<u><u>9,685,310</u></u>
 Liabilities	
Current:	
Warrants Payable	28,813
Accrued Wages Payable	8,256
Bond Anticipation Notes Payable	1,555,000
Accrued Interest Payable	11,399
Bonds Payable	84,000
Noncurrent:	
Bonds Payable	719,000
Net Pension Liability	547,028
Other Post Employment Benefit Obligations	<u>130,039</u>
Total Liabilities	<u><u>3,083,535</u></u>
 Deferred Inflows of Resources	
Pension	<u>2,379</u>
 Net Position	
Net Investment in Capital Assets	5,639,265
Unrestricted	<u>960,131</u>
Total Net Position	<u><u>\$ 6,599,396</u></u>

Town of Topsfield, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2015

	<u>Water Enterprise</u>
Operating Revenues:	
Charges for Services	\$ 1,061,172
Total Operating Revenues	<u>1,061,172</u>
Operating Expenditures:	
Personal Services	257,040
Nonpersonal Service	355,596
Depreciation	<u>220,580</u>
Total Operating Expenditures	<u>833,216</u>
Operating Income (Loss)	<u>227,956</u>
Nonoperating Revenues (Expenses):	
Earnings on Investments	3,148
Interest Expense	<u>(39,610)</u>
Total Nonoperating Revenues (Expenses)	<u>(36,462)</u>
Income (Loss) Before Contributions and Transfers	<u>191,494</u>
Operating Transfers Out	<u>(109,702)</u>
Total Contributions and Transfers	<u>(109,702)</u>
Change in Net Position	<u>81,792</u>
Total Net Position July 1, 2014	<u>7,064,090</u>
Prior Period Adjustment	<u>(546,486)</u>
Total Net Position July 1, 2014, as Restated	<u>6,517,604</u>
Total Net Position June 30, 2015	<u><u>\$ 6,599,396</u></u>

Town of Topsfield, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2015

	<u>Water Enterprise</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,044,693
Payments to Employees	(255,929)
Payments to Vendors	(332,475)
Net Cash Flows Provided (Used) by Operating Activities	<u>456,289</u>
Cash Flows from Non Capital Related Financing Activities:	
Transfer from (to) Other Funds	<u>(109,702)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(109,702)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(1,240,218)
Proceeds from Bonds Anticipation Note	1,555,000
Principal Payments on Notes and Bonds	(83,500)
Interest Expense	(28,212)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>203,070</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>3,148</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>3,148</u>
Net Increase (Decrease) in Cash and Cash Equivalents	552,805
Cash and Cash Equivalents, July 1, 2014	<u>1,501,740</u>
Cash and Cash Equivalents, June 30, 2015	<u><u>\$ 2,054,545</u></u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 227,956
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	220,580
(Increase) Decrease in Assets/Deferred Outflows of Resources	
Accounts Receivable - Customer	(16,479)
Deferred Outflows of Resources - Pensions	(595)
Increase (Decrease) in Liabilities/Deferred Inflows of Resources	
Warrants and Accounts Payable	21,311
Net Pension Liability	3,516
Net Cash Provided by Operating Activities	<u><u>\$ 456,289</u></u>

Town of Topsfield, Massachusetts
 Fiduciary Funds
 Statement of Net Position
 June 30, 2015

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Assets			
Cash and Cash Investments	\$ 311,826	\$ 342,853	\$ 654,679
	<u>311,826</u>	<u>342,853</u>	<u>654,679</u>
Total Assets			
Liabilities			
Current:	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities			
Net Position			
Reserved for Individuals and Other			
Expendable	259,953	-	259,953
Nonexpendable	51,873	342,853	394,726
	<u>51,873</u>	<u>342,853</u>	<u>394,726</u>
Total Net Position	<u>\$ 311,826</u>	<u>\$ 342,853</u>	<u>\$ 654,679</u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2015

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Additions			
Contribution - Employer	\$ -	\$ 100,000	\$ 100,000
Interest, Dividends, and Other	-	4,696	4,696
Total Additions	<u>-</u>	<u>104,696</u>	<u>104,696</u>
Deductions			
Education - Scholarships	300	-	300
Public Assistance	7,175	-	7,175
Total Deductions	<u>7,475</u>	<u>-</u>	<u>7,475</u>
Change in Net Position	<u>(7,475)</u>	<u>104,696</u>	<u>97,221</u>
Net Position:			
Beginning of the Year	<u>319,301</u>	<u>238,157</u>	<u>557,458</u>
Ending of the Year	<u>\$ 311,826</u>	<u>\$ 342,853</u>	<u>\$ 654,679</u>

Town of Topsfield, Massachusetts
Notes to the Financial Statements
June 30, 2015

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Topsfield as of June 30, 2015. The report includes all the services provided by the Town to its residents and businesses within its boundaries. Municipal services provided include public safety, recreation, public works, library, water and general administration. Criteria used in determining the scope of the reporting entity included the Town's ability to significantly influence operations, selection of governing authority, designation of management, financial interdependency and accountability for fiscal matters. All operations of the Town that meet the preceding criteria are included in the reporting entity.

II. Summary of Significant Accounting Policies

The accounting policies of the Town of Topsfield, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2015, conform to accounting principles generally accepted in the United States of America for local government units.

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

(A) Government-wide and fund financial statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Major Fund Criteria

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

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

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

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

Government-Wide Financial Statements

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

Fund Financial Statements

Governmental **fund** financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. All other revenues are recognized when received.

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

The Town reports the following major governmental funds:

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

Gould Fund – This 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 types are funds that are included in the nonmajor category:

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

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

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

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

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

The Town reports the following major proprietary fund:

Water Fund – This fund accounts for activities related to the operation of the water system.

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

The following fiduciary fund types are reported:

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

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

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

(C) Budgetary Data

i) General Budget Policies

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

ii) Budget Basis of Accounting

The budget amounts appearing in the financial statements are taken from the Town's annual recap sheet and include only those amounts which pertain to fiscal year 2015. The budget amounts include special Town meeting votes applicable to fiscal year 2015 and any reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (fund financial statements) for the year ended June 30, 2015.

	<u>Revenues</u>
As Reported Budget Basis	\$ 23,498,243
Adjustments:	
Sixty Day Property Tax Accrual - Net	(15,267)
GASB 54 - Stabilization Interest Earnings	2,937
On Behalf Payments Included in Intergovernmental	758,918
As Reported GAAP Statement	<u>\$ 24,244,831</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 23,414,814
Adjustments:	
July 1, 2014 Encumbrances	658,967
June 30, 2015 Encumbrances	(706,365)
OPEB Contribution - Budgetary Transfer Out, but GAAP	100,000
On Behalf Payments Included in Intergovernmental	758,918
As Reported GAAP Statement	<u>\$ 24,226,334</u>

(D) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Equipment	5-25
Improvements	20-50
Infrastructure	40-50
Vehicles	5-15

(E) Deferred Outflows/Inflows of Resources

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

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

The Town's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that do not meet the "available" criteria. The government wide financial statements reflect deferred inflows of resources related to the calculation of the pension expense and deferred outflows of resources relating to unavailable revenues and to a debt refunding.

(F) Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

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

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

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

Net position that is not restricted or otherwise separately stated is reported as unrestricted.

Fund Financial Statements (Fund Balances)

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

Governmental Accounting Standards Board Statement # 54 requires that the Town report fund balance amounts within one of the fund balance categories listed below:

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

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

3.**Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of Town meeting (the Town’s highest level of decision-making authority). Committed fund balance cannot be used for any other purpose unless the same formal action (Town meeting vote) that was taken to commit the fund balance is taken to uncommit it or commit it for another purpose.

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

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

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

Details of Fund Balance Classifications

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

	<u>General Fund</u>	<u>Gould Trust</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Perpetual Permanent Funds	\$ -	\$ 7,511,102	\$ 687,204	\$ 8,198,306
Total Nonspendable	<u>-</u>	<u>7,511,102</u>	<u>687,204</u>	<u>8,198,306</u>
Restricted for:				
General Government	-	-	247,281	247,281
Public Safety	-	-	25,318	25,318
Education	-	-	556,837	556,837
Public Works	-	-	618,055	618,055
Human Services	-	-	15,446	15,446
Culture and Recreation	-	560,493	262,336	822,829
Debts	-	-	55,254	55,254
Total Restricted	<u>-</u>	<u>560,493</u>	<u>1,780,527</u>	<u>2,341,020</u>
Committed to:				
General Government	552,833	-	500	553,333
Public Safety	60,164	-	86,549	146,713
Education	216,982	-	786	217,768
Public Works	-	-	149,153	149,153
Human Services	72,762	-	9,502	82,264
Culture and Recreation	38,456	-	13,310	51,766
Employee Benefits	274,626	-	-	274,626
Capital Outlay	100,000	-	-	100,000
Total Committed	<u>1,315,823</u>	<u>-</u>	<u>259,800</u>	<u>1,575,623</u>
Assigned to:				
General Government	11,300	-	-	11,300
Public Safety	21,578	-	-	21,578
Education	224,637	-	-	224,637
Public Works	12,794	-	-	12,794
Human Services	1,850	-	-	1,850
Culture and Recreation	3,633	-	-	3,633
Reduce the Tax Levy	392,690	-	-	392,690
Total Assigned	<u>668,482</u>	<u>-</u>	<u>-</u>	<u>668,482</u>
Unassigned	<u>3,183,028</u>	<u>-</u>	<u>(471,897)</u>	<u>2,711,131</u>
Total Fund Balances	<u>\$ 5,167,333</u>	<u>\$ 8,071,595</u>	<u>\$ 2,255,634</u>	<u>\$ 15,494,562</u>

Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund”.

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

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

The Town’s stabilization fund has a current balance of \$1,128,324. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet, in accordance with GASB 54.

(G) Pensions

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

(H) Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Government Activities:				
Land	\$ 5,196,767	\$ -	\$ -	\$ 5,196,767
Construction in Progress	71,882	326,897	-	398,779
Total Capital Assets Not Being Depreciated	<u>5,268,649</u>	<u>326,897</u>	<u>-</u>	<u>5,595,546</u>
Assets Being Depreciated:				
Buildings	17,636,058	-	-	17,636,058
Improvements Other Than Buildings	266,947	-	-	266,947
Infrastructure	13,313,730	-	-	13,313,730
Equipment	1,852,408	205,021	(55,416)	2,002,013
Vehicles	2,420,341	231,024	(151,800)	2,499,565
Total Capital Assets Being Depreciated	<u>35,489,484</u>	<u>436,045</u>	<u>(207,216)</u>	<u>35,718,313</u>
Less Accumulated Depreciation for:				
Buildings	(7,609,391)	(411,359)	-	(8,020,750)
Improvements Other Than Buildings	(170,681)	(10,517)	-	(181,198)
Infrastructure	(8,547,265)	(127,975)	-	(8,675,240)
Equipment	(1,326,375)	(76,600)	55,416	(1,347,559)
Vehicles	(1,499,901)	(157,630)	151,800	(1,505,731)
Total Accumulated Depreciation	<u>(19,153,613)</u>	<u>(784,081)</u>	<u>207,216</u>	<u>(19,730,478)</u>
Capital Assets Being Depreciated, Net	<u>16,335,871</u>	<u>(348,036)</u>	<u>-</u>	<u>15,987,835</u>
Governmental Activities Capital Assets, Net	<u>\$ 21,604,520</u>	<u>\$ (21,139)</u>	<u>\$ -</u>	<u>\$ 21,583,381</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 19,399
Public Safety	142,353
Education	267,076
Highways and Public Works	226,170
Human Services	14,112
Culture and Recreation	114,971
Total Governmental Activities Depreciation Expense	<u>\$ 784,081</u>

(H) Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	\$ 323,038	\$ -	\$ -	\$ 323,038
Construction in Progress	-	963,173	-	963,173
Total Capital Assets Not Being Depreciated	<u>323,038</u>	<u>963,173</u>	<u>-</u>	<u>1,286,211</u>
Assets Being Depreciated:				
Buildings	144,521	-	-	144,521
Improvements Other Than Buildings	30,400	-	-	30,400
Infrastructure	9,881,131	277,046	-	10,158,177
Equipment	106,342	-	-	106,342
Vehicles	81,865	-	-	81,865
Total Capital Assets Being Depreciated	<u>10,244,259</u>	<u>277,046</u>	<u>-</u>	<u>10,521,305</u>
Less Accumulated Depreciation for:				
Buildings	(44,719)	(3,613)	-	(48,332)
Improvements Other Than Buildings	(20,380)	(1,520)	-	(21,900)
Infrastructure	(4,040,859)	(207,087)	-	(4,247,946)
Equipment	(80,255)	(3,668)	-	(83,923)
Vehicles	(64,125)	(4,692)	-	(68,817)
Total Accumulated Depreciation	<u>(4,250,338)</u>	<u>(220,580)</u>	<u>-</u>	<u>(4,470,918)</u>
Capital Assets Being Depreciated, Net	<u>5,993,921</u>	<u>56,466</u>	<u>-</u>	<u>6,050,387</u>
Business-Type Activities Capital Assets, Net	<u>\$ 6,316,959</u>	<u>\$ 1,019,639</u>	<u>\$ -</u>	<u>\$ 7,336,598</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:

Water \$ 220,580

(I) Cash and Investments, Property Taxes and Warrants Payable

(i) Cash and Investments

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

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

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. As of June 30, 2015, \$2,802,104 of the Town's bank balance of \$7,700,402 was uninsured and uncollateralized.

Uninsured and Uncollateralized \$ 2,802,104

Investments

According to GASB Statement No. 40, ("Deposit and Investment Risk Disclosures") disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates.

As of June 30, 2015, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Certificates of Deposit	\$ 280,907	\$ 215,477	\$ 65,430	\$ -
U. S. Government Obligations	420,142	-	420,142	-
Corporation Notes and Bonds	<u>1,929,630</u>	<u>816,968</u>	<u>899,178</u>	<u>213,484</u>
Total	<u>\$ 2,630,679</u>	<u>\$ 1,032,445</u>	<u>\$ 1,384,750</u>	<u>\$ 213,484</u>
Other Investments:				
Money Market Funds	\$ 976,841			
Mutual Funds	1,986,946			
Equities	4,914,998			
Mass. Municipal Depository Trust	<u>1,298,539</u>			
Total Other Investment	<u>9,177,324</u>			
Total Investments	<u>\$ 11,808,003</u>			

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

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

Concentration of Credit Risk

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

ii) Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. Estimated bills (based on the prior year) are due on August 1 and November 1. Actual bills are mailed after the tax rate has been set and are due on February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1st of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the Town's property. In addition, the law limits the amount by which the total property tax levy can be increased to 2.5% of the preceding year's levy plus any new growth.

iii) Warrants Payable

This account consists of those warrants approved by the Town Accountant for payment between July 1 and July 15. These warrants have been recorded as expenditures during the current fiscal year and the corresponding credit is to the account entitled warrants payable.

(J) Interfund Transfers, Compensated Absences, Long Term Obligations, Estimates and Total Column

i) Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues nor expenditures of the funds.

Operating transfers - by fund - are detailed below:

	<u>Transfers In</u>	<u>Transfers (Out)</u>	<u>Total</u>
General	\$ 283,720	\$ (3,920)	\$ 279,800
Gould Trust	-	(263,069)	(263,069)
Non-major Governmental	197,069	(104,098)	92,971
Enterprise - Business Type	-	(109,702)	(109,702)
Total	<u>\$ 480,789</u>	<u>\$ (480,789)</u>	<u>\$ -</u>

ii) Compensated Absences

The liabilities for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual vacation and sick leave benefits. The liabilities have been calculated using the vesting method, in which leave amounts are considered for employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination.

iii) Long-Term Obligations

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

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

iv) Use of Estimates

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

v) Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

(K) Pension Plans

A. General Information about the Pension Plan

Plan Description

The Town provides pension benefits to eligible employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees (not including teachers who are included in the Massachusetts Teachers' Retirement System). The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

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

http://www.essexregional.com/Pages/ERRS_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012.31.pdf or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

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

Retirement Benefits

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

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

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

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

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

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

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

Retirement Benefits - Superannuation

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

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

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55 and age 50, respectively.

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

Ordinary Disability Benefits

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

Accidental Disability Benefit

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

Death Benefits

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

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

will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2015 was 21.42% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$867,685 for the year ending June 30, 2015.

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

At June 30, 2015, the Town reported a liability of \$11,477,481 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2014, the Town's proportion was 3.383071%. Since this is the implementation year of GASB 68 the increase/decrease of its proportion measured as of December 31, 2013 was not calculated.

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$14,000 effective July 1, 2014.

For the year ended June 30, 2015, the Town recognized pension expense of \$941,455. Since the system performs an actuarial valuation bi-annually, there are not reported differences between expected and actual experience or a change of assumptions as of December 31, 2014. Additionally, the changes in proportion and differences between employer contributions and proportionate share of contributions are not presented in the initial year of reporting in accordance with GASB Statements

67, 68 and 71. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	49,917
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
	<u>\$ -</u>	<u>\$ 49,917</u>

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

Year ended June 30:	Amount
2016	\$ (12,479)
2017	(12,479)
2018	(12,479)
2019	(12,480)

Actuarial Assumptions

The total pension liability as of December 31, 2014 was determined by updating an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	January 1, 2014														
Actuarial Cost Method	Entry age normal cost method														
Amortization Method	Closed - approximate level percent payroll (in prior valuation - Level dollar for ERI liability for most units, 4.5% annual increases for ERI Liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%).														
Remaining Amortization Period	20 years for the fresh start base														
Asset Valuation Method	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. (in prior valuation Sum of actuarial value at beginning of year and increase in cost value during year excluding realized appreciation or losses plus 20 percent of market value at the end of year -as reported in the Annual Statement - in excess of that preliminary value, adjusted to be within 20 percent of their market value).														
Salary Increases	<table><thead><tr><th>In Year</th><th></th></tr></thead><tbody><tr><td>1</td><td>7.50%</td></tr><tr><td>2</td><td>6.50%</td></tr><tr><td>3</td><td>6.00%</td></tr><tr><td>4</td><td>5.50%</td></tr><tr><td>5</td><td>5.00%</td></tr><tr><td>Thereafter</td><td>3.75%</td></tr></tbody></table>	In Year		1	7.50%	2	6.50%	3	6.00%	4	5.50%	5	5.00%	Thereafter	3.75%
In Year															
1	7.50%														
2	6.50%														
3	6.00%														
4	5.50%														
5	5.00%														
Thereafter	3.75%														
Investment Rate of Return/Discount Rate	8.0% per year (8.25% in prior valuation)														
Cost of Living Adjustments	3.00% of first \$13,000 (granted annually)														
Mortality Rates Were Based on the Tables Noted Below:															
Pre-Retirement	The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the health annuitant table is used.														
Disabled Retiree	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time.														

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table (sex distinct) projected with Scale BB and the RP-2000 Healthy Annuitant Mortality Table for healthy annuitants (sex distinct) projected with Scale BB were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

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

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Core Bonds	13.00%	0.97%
Value-Added Bonds	10.00%	3.80%
Large Cap Equities	14.50%	4.61%
Mid/Small Cap Equities	3.50%	4.85%
International Equities	16.00%	5.10%
Emerging Market Equities	6.00%	6.31%
Private Equity	10.00%	6.55%
Real Estate	10.00%	3.40%
Timber/Natural Resources	4.00%	3.64%
Hedge Funds	9.00%	3.64%
Cash/Portfolio Completion	4.00%	0.00%
	<u>100%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2014 (net of investment expenses) was 8.48%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 8.00% (8.25% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the

pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Essex Regional Retirement System, calculated using the discount rate of 8.0%, as well as what the Essex Regional Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Town's proportionate share of the Net Pension Liability	\$14,186,295	\$11,477,481	\$9,297,830

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Essex Regional Retirement System financial report. The System issues a stand-alone financial report that can be obtained through the Systems website:

(http://www.essexregional.com/Pages/ERRS_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012.31.pdf).

C. Massachusetts Teachers Retirement System

Special Funding Situation

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

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

For the fiscal year ended June 30, 2014, the Town's proportionate share of the collective pension expense was \$758,918. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. Since this is the implementation year for GASB 68, the Town's percentage has not changed. Accordingly, the accompanying financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2015, or fund balance/net position at June 30, 2015.

The Commonwealth's proportionate share of the collective net pension liability associated with the Town is \$10,923,645.

The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.mass.gov/osc/docs/reports-audits/cafr/cafr-2014.pdf>.

Benefits provided

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

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

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

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation

1984-6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation
1979 to present	An additional 2% of regular compensation over \$30,000

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

1. (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

	Target <u>Allocation</u>	<u>Long Term Expected Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global Equity	43.00%	7.20%	7.70%
Core fixed income	13.00%	2.50%	2.00%
Hedge Funds	10.00%	5.50%	4.75%
Private Equity	10.00%	8.80%	9.00%
Real estate	10.00%	6.30%	6.00%
Value Added Fixed Income	10.00%	6.30%	6.30%
Timber/Natural Resources	4.00%	5.00%	5.00%
	100%		

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

Since the Town is not responsible for its proportionate share of the collective net pension liability, a sensitivity analysis of the discount rate is not required.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.mass.gov/osc/docs/reports-audits/cafr/cafr-2014.pdf>.

Based upon updated actuarial information, the Commonwealth has adjusted certain information as previously reported in the Schedule of Changes in the Massachusetts Teachers' Retirement System Net Pension Liability and Related Ratios (changes in total pension liability) as contained in the required supplemental section of the Commonwealth's 2014 CAFR. The change resulted in a reduction of previously reported differences between expected and actual experience by \$85,597,000 which affected the following elements in the schedule of pension amounts as of and for the year ending June 30, 2014 (amounts in thousands):

Beginning total pension liability	\$(21,000)
Service cost	(26,337)
Interest on pension liability and benefit payments	<u>132,934</u>
Total adjustments	<u>\$85,597</u>

(L) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2015. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits, the Town provides for a portion of health insurance benefits for eligible plan members. An employee hired before April 2, 2012 shall become eligible to retire under this plan upon attainment of age 55 as

an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service. Currently there are approximately 163 active employees and 46 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

- b. **Funding Policy.** Depending on the insurance plan, the Town pays a between 60% - 67% of the premiums for health insurance for the retirees. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2015, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$2,055,263
Interest on Net OPEB Obligation	405,127
Adjustment to Annual Required Contribution	(563,185)
Other Adjustments	(185,339)
Annual OPEB Cost (Expense)	<u>\$1,711,866</u>
Contributions Made	<u>(310,981)</u>
Increase in Net OPEB Obligation	<u>1,400,885</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>10,128,161</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$11,529,046</u></u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation for recent years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2013	\$2,699,000	22.1%	\$8,888,461
2014	\$1,641,184	24.5%	\$10,128,161
2015	\$1,711,866	18.2%	\$11,529,047

- c. **Funded Status and Funding Progress.** As of July 1, 2013, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$15,141,371 and the actuarial value of assets was \$130,198, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$15,011,173. The actual value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 0.9%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- d. **Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) 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 plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return (same as in prior valuation), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 5% per year (the previous valuation utilized 8% initially, reduced by decrements of 1% annually to an ultimate rate of 5%). The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period with 24 years remaining at July 1, 2013.

III. Detail Notes on All Funds

(A) Accounts Receivable

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

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes

2015	\$ 153,634	
2014	9,263	
2013	8,399	
2012	8,825	
Total Real Estate Taxes	<u> </u>	<u>\$ 180,121</u>

Personal Property Taxes

2015	\$ 3,066	
2014	2,888	
2013	415	
2012	239	
2011	275	
2010	214	
2009 and prior	396	
Total Personal Property Taxes	<u> </u>	<u>7,493</u>

Total Property Taxes Receivable \$ 187,614

Tax Liens \$ 118,198

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2015	\$ 41,201	
2014	7,689	
2013	2,562	
2012	2,517	
2011	988	
Tax Excise Receivable	<u> </u>	<u>\$ 54,957</u>

Other:

Police and Fire Details \$ 26,816

(A) Accounts Receivable (Continued)

Intergovernmental:	
Commonwealth - Highway Funds	\$ 389,743
Other Federal and State Grants	41,444
Total Intergovernmental	<u>\$ 431,187</u>
 <u>Business Type Activities:</u>	
User Charges:	
Water	<u>\$ 294,099</u>
Liens:	
Water Liens	<u>\$ 68</u>

(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2015 as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
<u>Governmental Activities:</u>						
Highway Dump Truck	\$0	\$145,000	\$0	\$145,000	10/23/2015	0.55%
Fire Ladder Truck	0	326,897	0	326,897	10/23/2015	0.50%
Fire Rescue Vehicle	<u>0</u>	<u>210,000</u>	<u>0</u>	<u>210,000</u>	10/23/2015	0.50%
Total	<u>\$0</u>	<u>\$681,897</u>	<u>\$0</u>	<u>\$681,897</u>		
 <u>Business-Type Activities:</u>						
Water Mains	\$0	\$900,000	\$0	\$900,000	10/23/2015	0.55%
Water Mains	0	200,000	0	200,000	10/23/2015	0.50%
Water Treatment Plant	<u>0</u>	<u>455,000</u>	<u>0</u>	<u>455,000</u>	10/23/2015	0.55%
Total	<u>\$0</u>	<u>\$1,555,000</u>	<u>\$0</u>	<u>\$1,555,000</u>		

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2015, bear interest at various rates.

(a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2015:

<u>Governmental Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance	
<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Borrowing</u>	<u>Interest Cost</u>	<u>Fiscal Year</u>	<u>July 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2015</u>	
Bridge Reconstruction	1/15/2011	\$ 360,000	2.0 - 4.0%	2021	\$ 223,500	\$ -	\$ (31,500)	\$ 192,000	
Fire Equipment	1/15/2011	\$ 250,000	2.0 - 4.0%	2015	60,000	-	(60,000)	-	
Building Construction	1/15/2011	\$ 823,000	2.0 - 4.0%	2020	565,000	-	(85,000)	480,000	
Library Building Remodeling	1/15/2011	\$ 649,000	2.0 - 4.0%	2018	390,000	-	(95,000)	295,000	
Fire Equipment	1/15/2011	\$ 98,000	2.0 - 4.0%	2015	25,000	-	(25,000)	-	
Landfill Area - Close	1/15/2011	\$ 765,000	2.0 - 4.0%	2021	555,000	-	(75,000)	480,000	
Building - Town Hall	2/14/2012	\$ 70,000	2.0 - 4.0%	2019	50,000	-	(10,000)	40,000	
Building - School	2/14/2012	\$ 66,000	2.0 - 4.0%	2022	55,000	-	(5,000)	50,000	
Engineering - School	2/14/2012	\$ 267,000	2.0 - 4.0%	2022	220,000	-	(25,000)	195,000	
School Project	2/14/2012	\$ 1,543,000	2.0 - 4.0%		<u>1,265,000</u>	<u>-</u>	<u>(145,000)</u>	<u>1,120,000</u>	
					Total Governmental Activities	<u>\$3,408,500</u>	<u>\$ -</u>	<u>\$ (556,500)</u>	<u>\$ 2,852,000</u>
<u>Business Type Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance	
<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Borrowing</u>	<u>Interest Cost</u>	<u>Fiscal Year</u>	<u>July 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2015</u>	
Washington Grove	1/15/2011	\$ 505,000	2.0 - 4.0%	2026	\$ 400,000	\$ -	\$ (35,000)	\$ 365,000	
Water Mains Ipswich RD	1/15/2011	\$ 550,000	2.0 - 4.0%	2026	430,000	-	(40,000)	390,000	
10% Public Works Bond	1/15/2011	\$ 40,000	2.0 - 4.0%	2021	<u>56,500</u>	<u>-</u>	<u>(8,500)</u>	<u>48,000</u>	
					Total Business Type Activities	<u>\$ 886,500</u>	<u>\$ -</u>	<u>\$ (83,500)</u>	<u>\$ 803,000</u>

(B) Liabilities (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$486,000	\$75,059	\$84,000	\$24,871
2017	495,500	63,439	79,500	23,191
2018	505,500	50,827	79,500	21,403
2019	420,000	37,190	80,000	19,415
2020	425,000	22,490	80,000	17,015
2021 - 2025	520,000	15,840	335,000	48,928
2026 - 2030	<u>0</u>	<u>0</u>	<u>65,000</u>	<u>2,437</u>
	<u>\$2,852,000</u>	<u>\$264,845</u>	<u>\$803,000</u>	<u>\$157,260</u>

(c) Refunding of Long Term Debt

On February 14, 2012, the Town issued \$1,946,000 of General Obligations Refunding Bonds with an average interest rate of 1.34% as its share of an advance refunding of \$5,740,000 of outstanding debt with an average interest rate of 2.87%. The Town received a grant from the Massachusetts School Building Authority in the amount of \$3,772,390 for the school projects being refinanced with the grant and the bond proceeds. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were invested pursuant to G.L. C. 44, s. 55. As a result, the refunded bonds are considered to be defeased. As of June 30, 2015, \$4,275,000 of the defeased bonds remains outstanding.

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2015, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 6, 2014	Fire Vehicle and Truck	\$1,210,000
May 6, 2014	DPW Vehicle	145,000
May 6, 2014	Water Main - Washington St.	1,100,000
May 6, 2014	Water Treatment Plant Design	800,000
May 5, 2015	Town Hall Exterior Repairs	227,000
May 5, 2015	Catch Basin Cleaner	165,000
May 5, 2015	Sidewalk Repairs	20,000
May 5, 2015	School Repairs	<u>312,000</u>
	Total	<u>\$3,979,000</u>

(B) Liabilities (Continued)

iii Changes in the government's long-term liabilities for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current Portion
Governmental Activities:					
Bonds Payable	\$ 3,408,500	\$ -	\$ (556,500)	\$ 2,852,000	\$ 486,000
Capital Lease Obligations	106,247	-	(25,027)	81,220	26,024
Post-Closure Landfill Monitoring	887,618	-	(33,972)	853,646	38,700
Compensated Absences	219,560	139,885	(43,912)	315,533	63,107
Net Pension Liability	10,860,199	896,584	(826,330)	10,930,453	-
Other Post Employment Benefits	<u>10,016,309</u>	<u>1,693,679</u>	<u>(310,981)</u>	<u>11,399,007</u>	<u>-</u>
Total Governmental Activities	<u>\$ 25,498,433</u>	<u>\$ 2,730,148</u>	<u>\$ (1,796,722)</u>	<u>\$ 26,431,859</u>	<u>\$ 613,831</u>
Business Type Activities:					
Total Bonds Payable	886,500	-	(83,500)	803,000	84,000
Net Pension Liability	543,512	44,871	(41,355)	547,028	-
Other Post Employment Benefits	<u>111,852</u>	<u>18,187</u>	<u>-</u>	<u>130,039</u>	<u>-</u>
Total Business Type Activities	<u>\$ 1,541,864</u>	<u>\$ 63,058</u>	<u>\$ (124,855)</u>	<u>\$ 1,480,067</u>	<u>\$ 84,000</u>

IV. Subsequent Year Authorizations

At the May 5, 2015 annual town meeting, the Town adopted a fiscal 2016 operating and capital budget of \$26,665,120. Fiscal 2016 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes, State Aid and Non-Property Tax Revenue	\$ 23,732,272
Enterprise Fund Revenues and Available Funds	1,251,988
Other Available Funds	377,920
General Fund - Other	<u>1,302,940</u>
Total	<u>\$ 26,665,120</u>

V. Significant Commitments

Encumbrances for open purchase are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The assigned fund balance in the general fund includes encumbrances of \$275,791.

VI. Prior Period Adjustment

Fiscal year 2015 is the implementation year for Governmental Accounting Standards Board Statement # 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. In accordance with the statement, a prior period adjustment was made in the governmental activities (\$10,919,621) to reflect the net pension liability as of July 1, 2014. The net position previously reported was \$22,984,319. The net position after the adjustment was \$12,064,698. In addition, a prior period adjustment was made in the

business type activities (\$546,486) to reflect the net pension liability of the Water enterprise fund as of July 1, 2014. The net position previously reported was \$7,064,090. The net position after the adjustment was \$6,517,604.

VII. Implementation of New GASB Pronouncements

During fiscal year 2015, the following GASB pronouncements were implemented:

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. The implementation of this pronouncement required a restatement of prior net position to reflect the net pension liability as of July 1, 2014, the recognition of the pension expense and the reporting of deferred outflows/inflows related to pensions. The notes to the financial statements and the Required Supplementary Information were enhanced to comply with Statement #68.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement #71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*. The implementation of this pronouncement did not impact the financial statements.

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

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2016.
- The GASB issued Statement No. 77 *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statements #74 & 75 will have a significant impact on the Town's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the Town's Other Post-Employment Benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Topsfield, Massachusetts
Required Supplementary Information
Statement of Revenues and Expenditures - Budget and Actual
General Fund (Budgetary Basis)
Fiscal Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Revenues				
Property Taxes	\$ 19,817,158	\$ 19,817,158	\$ 19,875,709	\$ 58,551
Tax Liens	-	-	38,149	38,149
Excises	800,975	800,975	1,090,920	289,945
Penalties and Interest	25,300	25,300	37,826	12,526
Licenses and Permits	185,000	185,000	226,750	41,750
Intergovernmental	1,784,311	1,784,311	1,801,809	17,498
Charges for Services	172,737	172,737	269,481	96,744
Fines and Forfeits	48,000	48,000	57,472	9,472
Earnings on Investments	13,000	13,000	14,768	1,768
In Lieu of Taxes	56,400	56,400	57,481	1,081
Miscellaneous	10,400	10,400	27,878	17,478
Total Revenues	<u>22,913,281</u>	<u>22,913,281</u>	<u>23,498,243</u>	<u>584,962</u>
Expenditures				
General Government	1,567,892	1,506,851	1,302,312	204,539
Public Safety	2,209,489	2,394,937	2,335,058	59,879
Education	13,477,203	13,490,199	13,543,180	(52,981)
Highway and Public Works	818,739	1,011,141	1,004,501	6,640
Health and Human Services	625,243	626,314	638,862	(12,548)
Culture and Recreation	879,406	895,804	857,984	37,820
Debt Service	654,469	654,469	653,469	1,000
Intergovernmental	283,024	283,024	301,348	(18,324)
Employee Benefits	3,280,183	2,956,806	2,778,100	178,706
Total Expenditures	<u>23,795,648</u>	<u>23,819,545</u>	<u>23,414,814</u>	<u>404,731</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(882,367)</u>	<u>(906,264)</u>	<u>83,429</u>	<u>989,693</u>
Other Financing Sources (Uses):				
Transfers In	228,424	275,747	283,720	7,973
Transfers Out	(210,000)	(213,920)	(213,920)	-
Reserved for Subsequent Year	-	(19,506)	(19,506)	-
Other Available Funds	31,407	31,407	31,407	-
Free Cash	832,536	832,536	832,536	-
Total Other Financing Sources (Uses)	<u>882,367</u>	<u>906,264</u>	<u>914,237</u>	<u>7,973</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 997,666</u>	<u>\$ 997,666</u>

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Topsfield, Massachusetts' Proportionate Share of the Net Pension Liability
Essex Regional Retirement System
Last Ten Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	
Town's proportionate share of net pension liability (asset) (%)	3.383071%	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>									
Town's proportionate share of net pension liability (asset) (\$)	11,477,481										
Town's covered-employee payroll	4,050,676										
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	283.35%										
Plan fiduciary net position as a percentage of the pension liability	52.27%										

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

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of the Town of Topsfield, Massachusetts' Employers Contributions
Essex Regional Retirement System
Last Ten Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 867,685	\$ 780,404	\$ 741,727	\$ 718,673	\$ 653,289	\$ 630,612	\$ 576,103	\$ 618,800	\$ 518,521	\$ 473,082
Contributions in relation to the contractually required contribution	<u>(867,685)</u>	<u>(780,404)</u>	<u>(741,727)</u>	<u>(718,673)</u>	<u>(653,289)</u>	<u>(630,612)</u>	<u>(576,103)</u>	<u>(618,800)</u>	<u>(518,521)</u>	<u>(473,082)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	4,050,676 <i>(Historical information prior to implementation of GASB 67/68 is not required)</i>									
Contributions as a percentage of covered-employee payroll	21.42%									

See Notes to the Required Supplementary Information

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Town's proportionate share of collective net pension liability (asset) (%)	0.00% <i>(Historical information prior to implementation of GASB 67/68 is not required)</i>									
Town's proportionate share of collective net pension liability (asset) (\$)	\$	-								
State's proportionate share of collective net pension liability (asset) associated with Town (\$)	\$	<u>10,923,645</u>								
Total	\$	<u>10,923,645</u>								
Town's covered-employee payroll	4,213,440									
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	0.00%									
Plan fiduciary net position as a percentage of the pension liability	61.64%									
Town's expense and revenue recognized for Commonwealth support	\$	<u>758,918</u>								

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Funding Progress - Other Post Employment Benefits
 Fiscal Year Ended June 30, 2015

Projected Unit Credit, Pay-As-You-Go Assumptions (4.00%)

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a) / (b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b) - (a) / (c)]</u>
7/1/2009	\$0	\$15,246,807	\$15,246,807	0%	\$7,818,687	195%
7/1/2011	\$0	\$22,221,197	\$22,221,197	0%	\$8,308,723	267%
7/1/2013	\$130,198	\$15,141,371	\$15,011,173	0.9%	N/A	N/A

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Valuation Details - Other Post Employment Benefits
 Fiscal Year Ended June 30, 2015

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	As Level Dollar Amount over 30 years
Remaining Amortization Period	24 Years as of July 1, 2013
Asset Valuation Method	Market Value of the Plan's Assets

Actuarial Assumptions:

Investment Rate of Return	4% (same as previous valuation)
Medical/Drug Cost Trend Rate	5.0% (previously 8% decrease 1% annually to an ultimate rate of 5%).
Dental Cost Trend Rate	5.0% (previously 8% decrease 1% annually to an ultimate rate of 5%).

Plan Membership:

Current retirees, beneficiaries, and dependents	46
Current active members	<u>163</u>
Total	<u>209</u>

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
Notes to the Required Supplementary Information
June 30, 2015

(A) Budgetary Information

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

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

(B) Pension Plans

a. Plan Description

The Town provides pension benefits to eligible employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees (not including teachers who are included in the Massachusetts Teachers' Retirement System). The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

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

The Town, also, provides benefits to teachers through the Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67. The Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contributions. Therefore, the Town has a special funding situation.

b. Funding Plan

Active members of the Essex Regional Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon

which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Essex Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

c. Changes in Benefit Terms

Chapter 176 of the Acts of 2011 was incorporated in the valuation. The benefit features (i.e. retirement age, percentages used in calculation of pensions) changed for members hired on or after April 2, 2012.

d. Change in Assumptions

Mortality:

The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. (Prior valuation used RP-2000 mortality table projected 18 years with scale AA.). During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.

Disabled Life Mortality:

The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time. (Prior valuation used P-2000 mortality table projected 18 years with scale AA).

Discount Rate:

The discount rate was lowered from 8.25% to 8.0%.

Salary Increases

The salary increase assumption was changed from a flat 5% to a 7.5% increase declining to an ultimate rate of 3.75% in year five.

Administrative Expense

The administrative expense assumption was changed from \$945,000 to \$1,110,000.

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

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

f. Schedule of the Town's Contributions

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

g. Schedule of Town's Proportionate Share of the Net Pension Liability - Massachusetts Teachers' Retirement System

Since the Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contribution, the Town has a special funding situation relating to the Massachusetts Teachers Retirement System. Therefore, the Town does not recognize a net pension liability. This schedule provides information about the state's proportionate share of the collective net pension liability associated with the Town and the plans fiduciary net position as a percentage of the total pension liability. It, also, details the Town's revenue and expense recognized from the Commonwealth's support. As more information becomes available, this will be a ten year schedule.

(C) Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 45 (GASB 45), "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" that are effective June 30, 2015. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis.

- a. **Plan Description.** In addition to providing pension benefits, the Town provides for a portion of health insurance benefits for eligible plan members. An employee hired before April 2, 2012 shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service or an employee shall be able to retire with 20 years of service regardless of age. Those hired on or after April 2, 2012 shall be eligible to retire upon attainment of age 60 with 10 years of creditable service. Currently there are approximately 163 active employees and 46 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** Depending on the insurance plan, the Town pays a between 60% - 67% of the premiums for health insurance for the retirees. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town may be amended from time to time.

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

Board of Selectmen
Town of Topsfield
1 Main Street
Topsfield, MA 01463

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Town of Topsfield, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Topsfield's basic financial statements, and have issued our report thereon dated March 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Topsfield'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 of Topsfield's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Topsfield'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 of Topsfield's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

March 28, 2016