

TOWN OF TOPSFIELD, MASSACHUSETTS

Financial Statements

June 30, 2017

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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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, 2017 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, 2017 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 report dated February 26, 2018, 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

February 26, 2018

**Town of Topsfield, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2017**

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, 2017.

Financial Highlights

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 \$17,081,114 (net position). Included in that amount is a (\$19,045,280) deficit in unrestricted net position. The unrestricted net position of the Town's governmental activities is a deficit of (\$20,449,109). 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 \$1,403,829 and may be used to meet the ongoing obligations of the Town's Business-type activities.

The total revenue for fiscal year 2017 was \$30,011,939 from governmental activities, and \$1,350,957 from Business-type activities.

The total cost of all Town services for fiscal year 2017 was \$31,970,449, of which \$30,852,050 was for governmental services, and \$1,118,399 of which was for Business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,226,374 or 15% of total general fund expenditures.

The Town of Topsfield, Massachusetts's total long term debt decreased by \$575,000 or 19% 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 three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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.

A 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.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 25,029,194	\$ 17,355,744	\$ 2,435,788	\$ 2,256,267	\$ 27,464,982	\$ 19,612,011
Capital Assets	23,642,745	23,132,900	7,851,129	7,545,784	31,493,874	30,678,684
Total Assets	<u>48,671,939</u>	<u>40,488,644</u>	<u>10,286,917</u>	<u>9,802,051</u>	<u>58,958,856</u>	<u>50,290,695</u>
Deferred Outflows of Resources Ban	<u>1,398,982</u>	<u>735,895</u>	<u>81,988</u>	<u>42,511</u>	<u>1,480,970</u>	<u>778,406</u>
Other Liabilities	10,794,967	2,958,711	1,970,181	1,674,841	12,765,148	4,633,552
Long Term Liabilities	28,798,284	27,307,614	1,485,457	1,389,617	30,283,741	28,697,231
Total Liabilities	<u>39,593,251</u>	<u>30,266,325</u>	<u>3,455,638</u>	<u>3,064,458</u>	<u>43,048,889</u>	<u>33,330,783</u>
Deferred Inflows of Resources	<u>276,171</u>	<u>29,651</u>	<u>13,652</u>	<u>-</u>	<u>289,823</u>	<u>29,651</u>
Net Position:						
Net Investment in Capital Assets	19,224,146	19,186,176	5,495,786	5,593,648	24,719,932	24,779,824
Restricted	11,426,462	10,684,485	-	-	11,426,462	10,684,485
Unrestricted	(20,449,109)	(18,942,098)	1,403,829	1,186,456	(19,045,280)	(17,755,642)
Total Net Position	<u>\$ 10,201,499</u>	<u>\$ 10,928,563</u>	<u>\$ 6,899,615</u>	<u>\$ 6,780,104</u>	<u>\$ 17,101,114</u>	<u>\$ 17,708,667</u>

The net position of the Town decreased by \$607,553. The net position of the governmental activities decreased by \$727,064 or about 6.7% and the net position of the business-type activities increased by \$119,511 or around 1.8%.

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.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,165,234	\$ 1,214,193	\$ 1,350,957	\$ 1,183,530	\$ 2,516,191	\$ 2,397,723
Operating Grants and Contributions	4,696,301	3,487,327	-	-	4,696,301	3,487,327
Capital Grants and Contributions	41,913	879,700	-	-	41,913	879,700
General Revenues:						
Property Taxes	21,835,476	20,963,664	-	-	21,835,476	20,963,664
Motor Vehicle and Other Excises	1,306,058	1,088,072	-	-	1,306,058	1,088,072
Intergovernmental Not Restricted to a Specific Program	713,953	691,135	-	-	713,953	691,135
Other	253,004	256,332	-	6,000	253,004	262,332
Total Revenues	<u>30,011,939</u>	<u>28,580,423</u>	<u>1,350,957</u>	<u>1,189,530</u>	<u>31,362,896</u>	<u>29,769,953</u>
Expenses						
General Government	1,895,108	1,567,431	-	-	1,895,108	1,567,431
Public Safety	2,669,491	2,415,573	-	-	2,669,491	2,415,573
Education	17,820,789	16,893,825	-	-	17,820,789	16,893,825
Highways and Public Works	2,126,155	2,465,276	-	-	2,126,155	2,465,276
Human Services	275,349	291,040	-	-	275,349	291,040
Culture and Recreation	862,964	689,480	-	-	862,964	689,480
Debt Service	72,290	75,250	-	-	72,290	75,250
Employee Benefits	5,129,904	4,470,617	-	-	5,129,904	4,470,617
Water	-	-	1,118,399	932,460	1,118,399	932,460
Total Expenses	<u>30,852,050</u>	<u>28,868,492</u>	<u>1,118,399</u>	<u>932,460</u>	<u>31,970,449</u>	<u>29,800,952</u>
Increase (Decrease) in Net Position						
Before Transfers	(840,111)	(288,069)	232,558	257,070	(607,553)	(30,999)
Transfers	113,047	(74,197)	(113,047)	(76,362)	-	(150,559)
Increase (Decrease) in Net Position	<u>\$ (727,064)</u>	<u>\$ (362,266)</u>	<u>\$ 119,511</u>	<u>\$ 180,708</u>	<u>\$ (607,553)</u>	<u>\$ (181,558)</u>

Governmental Activities

In fiscal year 2017, property taxes accounted for approximately 73% of the revenues. In fiscal year 2016, property taxes accounted for 74% 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 \$160,300 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>
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
2016	-	1,110,590	527,312	3,693,552	5,331,454
2017	-	931,151	334,229	4,226,374	5,491,754

<u>Fiscal Year</u>	<u>Free Cash</u>
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
2016	1,611,613
2017	2,280,274

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 \$6,899,615.

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, 2017, amounts to \$31,473,874 (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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 5,196,767	\$ 5,196,767	\$ 323,038	\$ 323,038	\$ 5,519,805	\$ 5,519,805
Construction in Progress	1,428,409	295,244	750,578	1,326,710	2,178,987	1,621,954
Buildings	8,835,805	9,230,226	88,963	92,576	8,924,768	9,322,802
Improvements Other Than Buildings	69,925	76,681	6,500	7,500	76,425	84,181
Infrastructure	5,297,537	5,379,218	6,597,679	5,689,582	11,895,216	11,068,800
Equipment	635,919	714,924	16,217	18,751	652,136	733,675
Vehicles	2,178,383	2,239,840	68,154	87,627	2,246,537	2,327,467
Total	<u>\$ 23,642,745</u>	<u>\$ 23,132,900</u>	<u>\$ 7,851,129</u>	<u>\$ 7,545,784</u>	<u>\$ 31,493,874</u>	<u>\$ 30,678,684</u>

Debt

The Town had \$2,510,000 in bonds outstanding on June 30, 2017. This represents a \$575,000 decrease.

<u>Governmental Activities</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
General Obligation Bonds Payable	<u>\$ 1,870,500</u>	<u>\$ 2,366,000</u>	<u>\$ (495,500)</u>
<u>Business-type Activities</u>			
Water	<u>639,500</u>	<u>719,000</u>	<u>(79,500)</u>
Total Debt	<u>\$ 2,510,000</u>	<u>\$ 3,085,000</u>	<u>\$ (575,000)</u>

Fiscal Year 2018 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 \$907,923 of general fund reserves to fund the fiscal year 2018 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, 2017

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Government - Wide Total</u>
Assets			
Current:			
Cash/Investments	\$ 24,277,239	\$ 2,054,918	\$ 26,332,157
Petty Cash	575	-	575
Receivables:			
Property Taxes	183,519	-	183,519
Tax Liens	130,314	-	130,314
Excises	70,631	-	70,631
User Charges	-	379,514	379,514
Intergovernmental Liens	366,916 -	- 1,356	366,916 1,356
Noncurrent:			
Capital Assets:			
Assets Not Being Depreciated	6,625,176	1,073,616	7,698,792
Assets Being Depreciated, Net	17,017,569	6,777,513	23,795,082
Total Assets	48,671,939	10,286,917	58,958,856
Deferred Outflows of Resources			
Pension	1,388,177	81,988	1,470,165
Debt Refunding	10,805	-	10,805
Total Deferred Outflows of Resources	1,398,982	81,988	1,480,970
Liabilities			
Current:			
Warrants Payable	587,369	54,374	641,743
Accrued Salaries Payable	153,717	7,279	160,996
Employees' Withholding Payable	29,229	-	29,229
Intergovernmental	2,625	-	2,625
Unclaimed Checks	5,489	-	5,489
Landfill Closure Costs Payable	38,700	-	38,700
Other	1,326	-	1,326
Bond Anticipation Notes Payable	9,359,000	1,818,000	11,177,000
Capital Leasing	28,137	-	28,137
Accrued Interest	18,051	9,809	27,860
Bonds Payable	505,500	79,500	585,000
Compensated Absences	65,824	1,219	67,043
Noncurrent:			
Bonds Payable	1,365,000	560,000	1,925,000
Compensated Absences	263,295	4,878	268,173
Landfill Closure Costs Payable	742,512	-	742,512
Net Pension Liability	12,835,452	758,084	13,593,536
Other Post Employment Benefit Obligations	13,592,025	162,495	13,754,520
Total Liabilities	39,593,251	3,455,638	43,048,889
Deferred Inflows of Resources			
Pension	231,146	13,652	244,798
Unavailable Revenues	45,025	-	45,025
Total Deferred Inflows of Resources	276,171	13,652	289,823
Net Position			
Net Investment in Capital Assets	19,224,146	5,495,786	24,719,932
Restricted for:			
Gifts, Grants and Other Statutory Restrictions	1,551,054	-	1,551,054
Perpetual Funds:			
Expendable	995,013	-	995,013
Nonexpendable	8,880,395	-	8,880,395
Unrestricted	(20,449,109)	1,403,829	(19,045,280)
Total Net Position	\$ 10,201,499	\$ 6,899,615	\$ 17,101,114

Town of Topsfield, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges	Operating	Capital	Governmental Activities	Business-Type Activities	Total
		for Services	Grants and Contributions	Grants and Contributions			
<i>Governmental Activities:</i>							
General Government	\$ 1,895,108	\$ 119,370	\$ 211,747	\$ -	\$ (1,563,991)	\$ -	\$ (1,563,991)
Public Safety	2,669,491	338,755	99,508	-	(2,231,228)	-	(2,231,228)
Education	17,820,789	567,081	3,296,420	-	(13,957,288)	-	(13,957,288)
Highways and Public Works	2,126,155	35,460	287,733	41,913	(1,761,049)	-	(1,761,049)
Human Services	275,349	91,470	43,609	-	(140,270)	-	(140,270)
Culture and Recreation	862,964	13,098	757,284	-	(92,582)	-	(92,582)
Debt Service	72,290	-	-	-	(72,290)	-	(72,290)
Employee Benefits	5,129,904	-	-	-	(5,129,904)	-	(5,129,904)
Total Governmental Activities	30,852,050	1,165,234	4,696,301	41,913	(24,948,602)	-	(24,948,602)
<i>Business-Type Activities:</i>							
Water	1,118,399	1,350,957	-	-	-	232,558	232,558
Total Business-Type Activities	1,118,399	1,350,957	-	-	-	232,558	232,558
Total	\$ 31,970,449	\$ 2,516,191	\$ 4,696,301	\$ 41,913	(24,948,602)	232,558	(24,716,044)
<i>General Revenues:</i>							
Property Taxes					21,835,476	-	21,835,476
Motor Vehicle and Other Excise Taxes					1,306,058	-	1,306,058
Penalties and Interest on taxes					41,276	-	41,276
Other Taxes and Assessments					76,581	-	76,581
Intergovernmental - Unrestricted					713,953	-	713,953
Interest and Investment Income					45,545	-	45,545
Other Revenue					73,152	-	73,152
Contributions to Permanent Funds					16,450	-	16,450
Transfers In (Out)					113,047	(113,047)	-
Total General Revenues					24,221,538	(113,047)	24,108,491
Change in Net Position					(727,064)	119,511	(607,553)
<i>Net Position:</i>							
Beginning of the Year					10,928,563	6,780,104	17,708,667
End of the Year					\$ 10,201,499	\$ 6,899,615	\$ 17,101,114

Town of Topsfield, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2017

	<u>General</u>	<u>Gould Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash/Investments	\$ 6,199,334	\$ 8,658,939	\$ 9,418,966	\$ 24,277,239
Petty Cash	575	-	-	575
Receivables:				
Property Taxes	183,519	-	-	183,519
Tax Liens	130,314	-	-	130,314
Excises	70,631	-	-	70,631
Intergovernmental	-	-	366,916	366,916
Tax Foreclosures	33,939	-	-	33,939
Total Assets	<u>\$ 6,618,312</u>	<u>\$ 8,658,939</u>	<u>\$ 9,785,882</u>	<u>\$ 25,063,133</u>
Liabilities:				
Warrants Payable	\$ 550,413	\$ -	\$ 36,956	\$ 587,369
Accrued Salaries Payable	152,875	-	842	153,717
Employees' Withholding Payable	29,229	-	-	29,229
Intergovernmental	2,625	-	-	2,625
Unclaimed Checks	5,489	-	-	5,489
Other	5,982	-	(4,656)	1,326
Bonds Anticipation Notes Payable	-	-	9,359,000	9,359,000
Total Liabilities	<u>746,613</u>	<u>-</u>	<u>9,392,142</u>	<u>10,138,755</u>
Deferred Inflows of Resources:				
Unavailable Revenues	379,945	-	366,916	746,861
Total Deferred Inflows of Resources	<u>379,945</u>	<u>-</u>	<u>366,916</u>	<u>746,861</u>
Fund Equity:				
Fund Balances:				
Nonspendable	-	8,111,327	769,068	8,880,395
Restricted	-	547,612	1,819,753	2,367,365
Committed	931,151	-	252,018	1,183,169
Assigned	334,229	-	-	334,229
Unassigned	4,226,374	-	(2,814,015)	1,412,359
Total Fund Balances	<u>5,491,754</u>	<u>8,658,939</u>	<u>26,824</u>	<u>14,177,517</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,618,312</u>	<u>\$ 8,658,939</u>	<u>\$ 9,785,882</u>	<u>\$ 25,063,133</u>

Town of Topsfield, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2017

	<u>General</u>	<u>Gould Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 21,826,245	\$ -	\$ -	\$ 21,826,245
Tax Liens	73,126	-	-	73,126
Excises	1,277,346	-	-	1,277,346
Penalties and Interest	41,276	-	-	41,276
Licenses and Permits	240,545	-	-	240,545
Intergovernmental	3,551,492	-	830,598	4,382,090
Charges for Services	255,830	-	629,021	884,851
Fines and Forfeits	49,215	-	-	49,215
Earnings on Investments	45,545	672,907	14,847	733,299
In Lieu of Taxes	76,581	-	-	76,581
Contributions	-	-	96,502	96,502
Miscellaneous	115,066	-	87,780	202,846
Total Revenues	<u>27,552,267</u>	<u>672,907</u>	<u>1,658,748</u>	<u>29,883,922</u>
<u>Expenditures:</u>				
General Government	1,427,305	-	1,289,079	2,716,384
Public Safety	2,494,013	-	21,078	2,515,091
Education	16,500,897	-	1,058,050	17,558,947
Highways and Public Works	1,825,507	-	218,902	2,044,409
Human Services	224,336	-	36,901	261,237
Culture and Recreation	569,002	118,677	93,695	781,374
Debt Service	570,076	-	-	570,076
Intergovernmental	296,783	-	-	296,783
Employee Benefits	3,533,032	-	-	3,533,032
Total Expenditures	<u>27,440,951</u>	<u>118,677</u>	<u>2,717,705</u>	<u>30,277,333</u>
Excess of Revenues Over (Under) Expenditures	<u>111,316</u>	<u>554,230</u>	<u>(1,058,957)</u>	<u>(393,411)</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	201,356	-	152,372	353,728
Transfers (Out)	(152,372)	(46,376)	(41,933)	(240,681)
Total Other Financing Sources (Uses)	<u>48,984</u>	<u>(46,376)</u>	<u>110,439</u>	<u>113,047</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>160,300</u>	<u>507,854</u>	<u>(933,519)</u>	<u>(265,365)</u>
Fund Balance, Beginning	<u>5,331,454</u>	<u>8,151,085</u>	<u>960,343</u>	<u>14,442,882</u>
Fund Balance, Ending	<u>\$ 5,491,754</u>	<u>\$ 8,658,939</u>	<u>\$ 26,824</u>	<u>\$ 14,177,517</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, 2017

Total governmental fund balances	\$	14,177,517
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		23,642,745
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		667,897
Deferred Outflows/Inflows of Resources related to Pensions and Debt Refundings are not required to be reported in the fund financial statements. However, they must be amortized as expenses in future periods in the entity- wide financial statements:		
Deferred Outflows of Resources - Pensions		1,388,177
Deferred Inflows of Resources - Pensions		(231,146)
Deferred Outflows of Resources - Debt Refundings		10,805
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(1,870,500)
Accrued Interest on Bonds		(18,051)
Other Post Employment Benefit Obligations		(13,592,025)
Net Pension Liability		(12,835,452)
Landfill Liability		(781,212)
Capital Leasing		(28,137)
Compensated Absences		(329,119)
Net position of governmental activities	\$	<u>10,201,499</u>

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, 2017

Net change in fund balances - total governmental funds \$ (265,365)

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.

Assets Acquired	1,494,126	
Depreciation	(965,721)	
Net Effect of Reporting Capital Assets	528,405	528,405

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. 8,500

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. 104,518

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. 493,339

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 difference in the current and prior year accrued long-term debt interest. 4,447

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. (1,600,908)

Change in net position of governmental activities \$ (727,064)

Town of Topsfield, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2017

	<u>Water Enterprise</u>
Assets	
Current:	
Cash and Cash Investments	\$ 2,054,918
Receivables, Net of Allowance for Uncollectibles:	
User Charges	379,514
Liens	1,356
Noncurrent:	
Assets Not Being Depreciated	1,073,616
Assets Being Depreciated, Net	<u>6,777,513</u>
Total Assets	<u><u>10,286,917</u></u>
Deferred Outflows of Resources	
Pension	<u>81,988</u>
Total Deferred Outflows of Resources	<u><u>81,988</u></u>
Liabilities	
Current:	
Warrants Payable	54,374
Accrued Wages Payable	7,279
Bond Anticipation Notes Payable	1,818,000
Accrued Interest Payable	9,809
Compensated Absences	1,219
Bonds Payable	79,500
Noncurrent:	
Bonds Payable	560,000
Net Pension Liability	758,084
Compensated Absences	4,878
Other Post Employment Benefit Obligations	<u>162,495</u>
Total Liabilities	<u><u>3,455,638</u></u>
Deferred Inflows of Resources	
Pension	<u>13,652</u>
Net Position	
Net Investment in Capital Assets	5,495,786
Unrestricted	<u>1,403,829</u>
Total Net Position	<u><u>\$ 6,899,615</u></u>

Town of Topsfield, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2017

	<u>Water Enterprise</u>
Operating Revenues:	
Charges for Services	\$ 1,350,957
	<u>1,350,957</u>
Total Operating Revenues	<u>1,350,957</u>
Operating Expenditures:	
Personal Services	279,646
Nonpersonal Service	544,422
Depreciation	260,362
	<u>260,362</u>
Total Operating Expenditures	<u>1,084,430</u>
Operating Income (Loss)	<u>266,527</u>
Nonoperating Revenues (Expenses):	
Interest Expense	<u>(33,969)</u>
Total Nonoperating Revenues (Expenses)	<u>(33,969)</u>
Income (Loss) Before Contributions and Transfers	<u>232,558</u>
Transfers Out	<u>(113,047)</u>
Change in Net Position	<u>119,511</u>
Total Net Position July 1, 2016	<u>6,780,104</u>
Total Net Position June 30, 2017	<u>\$ 6,899,615</u>

Town of Topsfield, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2017

	<u>Water Enterprise</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,297,575
Payments to Employees	(271,893)
Payments to Vendors	(369,500)
Net Cash Flows Provided (Used) by Operating Activities	<u>656,182</u>
Cash Flows from Non Capital Related Financing Activities:	
Transfer from (to) Other Funds	<u>(113,047)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(113,047)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(565,707)
Payment of Bond Anticipation Note	(1,555,000)
Proceeds from Bonds Anticipation Note	1,818,000
Principal Payments on Notes and Bonds	(79,500)
Interest Expense	(34,789)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(416,996)</u>
Cash Flows from Investing Activities:	
Net Cash Flows Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>126,139</u>
Cash and Cash Equivalents, July 1, 2016	<u>1,928,779</u>
Cash and Cash Equivalents, June 30, 2017	<u><u>\$ 2,054,918</u></u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 266,527
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	260,362
(Increase) Decrease in Assets/Deferred Outflows of Resources	
Accounts Receivable - Customer	(53,382)
Deferred Outflows of Resources - Pensions	13,652
Increase (Decrease) in Liabilities/Deferred Inflows of Resources	
Warrants and Accounts Payable	15,034
Net Pension Liability	153,989
Net Cash Provided by Operating Activities	<u><u>\$ 656,182</u></u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Net Position
June 30, 2017

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Assets			
Cash and Cash Investments	\$ 504,950	\$ -	\$ 504,950
Investments:			
Domestic Equity - Large Cap	-	149,662	149,662
Domestic Equity - Small/Mid Cap	-	67,348	67,348
International Equity - Developed Market	-	59,865	59,865
International Equity - Emerging Market	-	22,449	22,449
Domestic Fixed Income	-	239,458	239,458
Alternatives	-	59,865	59,865
Total Assets	<u>504,950</u>	<u>598,647</u>	<u>1,103,597</u>
Liabilities			
Current	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Restricted for:			
Other Post Employment Benefits	-	598,647	598,647
Other Purposes	<u>504,950</u>	<u>-</u>	<u>504,950</u>
Total Net Position	<u>\$ 504,950</u>	<u>\$ 598,647</u>	<u>\$ 1,103,597</u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2017

Additions	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Contribution - Employer	\$ -	\$ 568,827	\$ 568,827
Gift	815	-	815
Interest, Dividends, and Other	30,892	40,148	71,040
Total Additions	<u>31,707</u>	<u>608,975</u>	<u>640,682</u>
 Deductions			
Education - Scholarships	4,575	-	4,575
Benefit Payments	-	468,827	468,827
Total Deductions	<u>4,575</u>	<u>468,827</u>	<u>473,402</u>
Change in Net Position	<u>27,132</u>	<u>140,148</u>	<u>167,280</u>
 Net Position:			
Beginning of the Year	<u>477,818</u>	<u>458,499</u>	<u>936,317</u>
Ending of the Year	<u>\$ 504,950</u>	<u>\$ 598,647</u>	<u>\$ 1,103,597</u>

Town of Topsfield, Massachusetts
Notes to the Financial Statements
June 30, 2017

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Topsfield as of June 30, 2017. 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, 2017, 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.

(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 2017. The budget amounts include special Town meeting votes applicable to fiscal year 2017 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, 2017.

	<u>Revenues</u>
As Reported Budget Basis	\$ 25,920,241
Adjustments:	
Sixty Day Property Tax Accrual - Net	(60,900)
Stabilization Fund Interest Earnings - General Fund for GAAP	17,478
MTRS Pension Expense Subsidy Included in Intergovernmental Revenue - GAAP Basis	1,675,448
As Reported GAAP Statement	<u>\$ 27,552,267</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 25,272,428
Adjustments:	
July 1, 2016 Encumbrances	722,850
June 30, 2017 Encumbrances	(382,457)
OPEB Contribution - Transfer Out on Budgetary Basis, but Employee Benefit Expense on GAAP Basis	100,000
Expense Accrued in Prior Year on GAAP Basis	52,682
MTRS Pension Expense Subsidy Included in Education Expense - GAAP Basis	1,675,448
As Reported GAAP Statement	<u>\$ 27,440,951</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 acquisition 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 that time.

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 are not considered "available". The government wide financial statements (statement of net position) reflect deferred outflows of resources related to pensions and to a debt refunding issue. They, also, reflect deferred inflows of resources related to pensions and to revenues that are not considered available.

(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	\$ -	\$ 8,111,327	\$ 769,068	\$ 8,880,395
Total Nonspendable	<u>-</u>	<u>8,111,327</u>	<u>769,068</u>	<u>8,880,395</u>
Restricted for:				
General Government	-	-	326,892	326,892
Public Safety	-	-	36,402	36,402
Education	-	-	307,797	307,797
Public Works	-	-	666,439	666,439
Human Services	-	-	21,864	21,864
Culture and Recreation	-	547,612	51,660	599,272
Capital Outlay	-	-	57,654	57,654
Debt Services	-	-	27,420	27,420
Kindergarten and Pre-School Tuition	-	-	323,625	323,625
Total Restricted	<u>-</u>	<u>547,612</u>	<u>1,819,753</u>	<u>2,367,365</u>
Committed to:				
General Government	143,627	-	78,372	221,999
Public Safety	161,510	-	-	161,510
Education	179,192	-	69,132	248,324
Public Works	185,207	-	73,316	258,523
Human Services	7,200	-	11,328	18,528
Culture and Recreation	4,415	-	19,870	24,285
Employee Benefits	150,000	-	-	150,000
Capital Outlay	100,000	-	-	100,000
Total Committed	<u>931,151</u>	<u>-</u>	<u>252,018</u>	<u>1,183,169</u>
Assigned to:				
General Government	563	-	-	563
Public Safety	6,243	-	-	6,243
Education	120,645	-	-	120,645
Public Works	8,359	-	-	8,359
Human Services	2,529	-	-	2,529
Culture and Recreation	313	-	-	313
Employee Benefits	19,158	-	-	19,158
Reduce the Tax Levy	176,419	-	-	176,419
Total Assigned	<u>334,229</u>	<u>-</u>	<u>-</u>	<u>334,229</u>
Unassigned	<u>4,226,374</u>	<u>-</u>	<u>(2,814,015)</u>	<u>1,412,359</u>
Total Fund Balances	<u>\$ 5,491,754</u>	<u>\$ 8,658,939</u>	<u>\$ 26,824</u>	<u>\$ 14,177,517</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 create 1 or more stabilization funds and appropriate any amount into the funds. Any interest shall be added to and become part of the fund".

“The treasurer shall be the custodian of all stabilization funds and may deposit the proceeds in a trust company, co-operative bank or savings bank, if the trust company or bank is organized or exists pursuant to the laws of the commonwealth or any other state or may transact business in the commonwealth and has its main office or a branch office in the commonwealth; a national bank, federal savings bank or federal savings and loan association, if the bank or association may transact business and has its main office or a branch office in the commonwealth; provided, however, that a state-chartered or federally-chartered bank shall be insured by the Federal Deposit Insurance Corporation or its successor; or may invest the funds in participation units in a combined investment fund pursuant to section 38A of chapter 29 or in securities that are legal investments for savings banks.”

“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 \$1,411,640. 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, 2017 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	295,244	1,205,047	(71,882)	1,428,409
Total Capital Assets Not Being Depreciated	<u>5,492,011</u>	<u>1,205,047</u>	<u>(71,882)</u>	<u>6,625,176</u>
Assets Being Depreciated:				
Buildings	17,665,255	24,530	-	17,689,785
Improvements Other Than Buildings	266,947	-	-	266,947
Infrastructure	14,193,430	71,882	-	14,265,312
Equipment	2,152,171	15,538	-	2,167,709
Vehicles	3,553,445	230,451	(66,678)	3,717,218
Total Capital Assets Being Depreciated	<u>37,831,248</u>	<u>342,401</u>	<u>(66,678)</u>	<u>38,106,971</u>
Less Accumulated Depreciation for:				
Buildings	(8,435,029)	(418,951)	-	(8,853,980)
Improvements Other Than Buildings	(190,266)	(6,756)	-	(197,022)
Infrastructure	(8,814,212)	(153,563)	-	(8,967,775)
Equipment	(1,437,247)	(94,543)	-	(1,531,790)
Vehicles	(1,313,605)	(291,908)	66,678	(1,538,835)
Total Accumulated Depreciation	<u>(20,190,359)</u>	<u>(965,721)</u>	<u>66,678</u>	<u>(21,089,402)</u>
Capital Assets Being Depreciated, Net	<u>17,640,889</u>	<u>(623,320)</u>	<u>-</u>	<u>17,017,569</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,132,900</u>	<u>\$ 581,727</u>	<u>\$ (71,882)</u>	<u>\$ 23,642,745</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 20,956
Public Safety	237,909
Education	284,363
Highways and Public Works	291,439
Human Services	14,112
Culture and Recreation	116,942
Total Governmental Activities Depreciation Expense	<u>\$ 965,721</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	1,326,710	566,343	(1,142,475)	750,578
Total Capital Assets Not Being Depreciated	<u>1,649,748</u>	<u>566,343</u>	<u>(1,142,475)</u>	<u>1,073,616</u>
Assets Being Depreciated:				
Buildings	144,521	-	-	144,521
Improvements Other Than Buildings	30,400	-	-	30,400
Infrastructure	10,158,177	1,141,839	-	11,300,016
Equipment	106,342	-	-	106,342
Vehicles	132,418	-	-	132,418
Total Capital Assets Being Depreciated	<u>10,571,858</u>	<u>1,141,839</u>	<u>-</u>	<u>11,713,697</u>
Less Accumulated Depreciation for:				
Buildings	(51,945)	(3,613)	-	(55,558)
Improvements Other Than Buildings	(22,900)	(1,000)	-	(23,900)
Infrastructure	(4,468,595)	(233,742)	-	(4,702,337)
Equipment	(87,591)	(2,534)	-	(90,125)
Vehicles	(44,791)	(19,473)	-	(64,264)
Total Accumulated Depreciation	<u>(4,675,822)</u>	<u>(260,362)</u>	<u>-</u>	<u>(4,936,184)</u>
Capital Assets Being Depreciated, Net	<u>5,896,036</u>	<u>881,477</u>	<u>-</u>	<u>6,777,513</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,545,784</u>	<u>\$ 1,447,820</u>	<u>\$ (1,142,475)</u>	<u>\$ 7,851,129</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:

Water \$ 260,362

(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. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, \$4,066,498 of the Town's bank balance of \$14,435,366 was exposed to credit risk as follow:

Uninsured and Uncollateralized \$ 4,066,498

Investments

As of June 30, 2017, 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>
<u>Debt Related Securities:</u>				
U. S. Government Obligations	\$ 551,159	\$ -	\$ 551,159	\$ -
Corporation Notes and Bonds	<u>3,066,864</u>	<u>723,329</u>	<u>2,036,958</u>	<u>306,577</u>
Total	<u>\$ 3,618,023</u>	<u>\$ 723,329</u>	<u>\$ 2,588,117</u>	<u>\$ 306,577</u>
<u>Other Investments:</u>				
Money Market Funds	\$ 357,967			
Certificates of Deposit	809,678			
Mutual Funds	1,054,926			
Equities	6,270,877			
Mass. Municipal Depository Trust	<u>1,315,911</u>			
Total Other Investment	<u>9,809,359</u>			
Total Investments	<u>\$ 13,427,382</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.

Fair Value Measurement

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

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

Level 2 -Inputs to the valuation methodology include:

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

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

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

The Town has the following recurring fair value measurements as of June 30, 2017:

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Level 1</u> Quoted Prices in Active Markets for Identical Assets	<u>Level 2</u> Significant Other Observable Inputs	<u>Level 3</u> Significant Unobservable Inputs
Investment by Fair Value Level:				
U. S. Treasuries	\$ 119,173	\$ 119,173	\$ -	\$ -
Government Agency	431,986	431,986	-	-
Corporate Bonds	2,467,547	-	2,467,547	-
Mutual Funds	1,054,926	1,054,926	-	-
Money Market Mutual Funds	357,967	357,967	-	-
Fixed Income Funds	599,317	599,317	-	-
Common Stock	6,270,877	6,270,877	-	-
Total Assets in the Fair Value Hierarchy	<u>11,301,793</u>	<u>\$ 8,834,246</u>	<u>\$ 2,467,547</u>	<u>\$ -</u>
Investment not Subject to Fair Value Hierarchy Reporting:				
Certificates of Deposit	809,678			
Mass. Municipal Depository Trust	<u>1,315,911</u>			
Total Investments	<u>\$ 13,427,382</u>			

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

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	\$ 201,356	\$ (152,372)	\$ 48,984
Gould Trust	-	(46,376)	(46,376)
Non-major Governmental	152,372	(41,933)	110,439
Enterprise - Business Type	-	(113,047)	(113,047)
Total	<u>\$ 353,728</u>	<u>\$ (353,728)</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:

https://www.essexregional.com/sites/essexregionalretirement/files/uploads/67_and_68_report_start_errs_fy2017.pdf

or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

Benefits Provided

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

Retirement Benefits

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

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

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

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

multiplied by a percentage according to the tables below based on the age and years of the member at retirement:

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

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

Retirement Benefits - Superannuation

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

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

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

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

Ordinary Disability Benefits

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

percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

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

Death Benefits

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

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

Contributions

Active members of the Essex Regional Retirement System contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The 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, 2017 was 23.26% 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 \$1,024,777 for the year ending June 30, 2017.

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

At June 30, 2017, the Town reported a liability of \$13,593,536 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2016, the Town's proportion was 3.741283%.

For the year ended June 30, 2017, the Town recognized pension expense of \$1,569,748. At June 30, 2017, 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	\$ -	\$ (244,798.00)
Change in assumptions	576,107	-
Net differences between projected and actual earnings on pension plan investments	595,465	-
Changes in proportion and differences between contributions and proportionate share of contributions	298,593	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 1,470,165</u>	<u>\$ (244,798)</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
2017	\$ 342,911
2018	342,911
2019	355,832
2020	157,202
2021	26,511

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016.

Valuation Date	January 1, 2016														
Actuarial Cost Method	Entry age normal cost method														
Amortization Method	7.41% contribution increases for five years,, 6.36% for one year and 4.00% increases thereafter until final year which will be 3.89% %														
Remaining Amortization Period	18 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. (same as prior valuation)														
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%														
Cost of Living Adjustments	3.00% of first \$13,000 (granted annually)														
Rates of Retirement	Varies based upon age for general employees, police and fire employees.														
Rates of Disability	Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and Group 2 and 10% ordinary and 90% accidental for Group 4.														
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 healthy annuitant table is used. (Prior valuation used the same assumption))														
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. (Prior valuation used the same assumption))														
Investment Rate of Return/Discount Rate	7.75.% per year (8.00% in prior valuation)														

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 projected generationally from 2009 with Scale BB2D and the RP-2000 Healthy Annuitant Mortality Table generationally from 2009 with Scale BB2D 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>
Global Equities:		
Large Cap Equities	14.50%	7.50%
Mid/Small Cap Equities	3.50%	7.75%
International Equities	16.00%	7.83%
Emerging Market Equities	6.00%	9.61%
Core Fixed Income:		
Core Bonds	5.00%	4.00%
20+ Year Treasury STRIPS	5.00%	3.75%
TIPS	3.00%	3.75%
Value-Added Fixed Income:		
High-Yiel Bonds	1.50%	5.75%
Bank Loans	1.50%	6.00%
EMD (External)	1.00%	5.75%
EMD (Local Currency)	2.00%	6.50%
Private Debt	4.00%	9.06%
Private Equity	10.00%	9.50%
Real Estate	10.00%	6.50%
Timberland	4.00%	6.00%
Hedge Funds/Portfolio Completion	13.00%	6.48%
Total Target Allocation/Total Rate of Return	<u>100.00%</u>	<u>7.80%</u>

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2016 (net of investment expenses) was 7.80%. (1.04% for December 31, 2015). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.75% (8.00% 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 Town's share of the net pension liability of the Essex Regional Retirement System, calculated using the discount rate of 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Town's proportionate share of the Net Pension Liability	\$16,661,195	\$13,593,536	\$11,324,001

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 at:

https://www.essexregional.com/sites/essexregionalretirement/files/uploads/67_and_68_report_start_errs_fy2017.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, 2017, the Town's proportionate share of the collective pension expense was \$1,675,448. The Town's proportionate share was based on its percentage share of covered payroll in the MTRS. 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, 2017, or fund balance/net position at June 30, 2017.

The Commonwealth's proportionate share of net pension liability associated with the Town is \$16,424,903.

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/comptroller/docs/reports-audits/cafr/2016-cafr.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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return (same as the previous valuation), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 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-2014 Employees table projected generationally with Scale BB and a base year 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 (gender distinct)
 - Disability – assumed to be in accordance RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years

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, 2016 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Global Equity	40.00%	6.90%
Core fixed income	13.00%	1.60%
Private Equity	10.00%	8.70%
Real estate	10.00%	4.60%
Value Added Fixed Income	10.00%	4.80%
Hedge Funds	9.00%	4.00%
Portfolio Completion Strategies	4.00%	3.60%
Timber/Natural Resources	4.00%	5.40%
	<u>100%</u>	

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/mtrs/docs/financial-reports/gasb68report-06302016.pdf>

L) Other Postemployment Benefits (OPEB) Disclosures

- a. The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which became effective for the current reporting period. GASB Statement #74 relates to reporting requirements of the Town's OPEB Trust fund. The net other post-employment benefits **liability** reported in the GASB Statement #74 disclosures differs from the net other post-employment benefits **obligation** amount reported in the Town's statement of net position. The reporting requirements related to the Town's statement of net position are currently guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the Town's net other post-employment benefits liability is being "phased in" over a thirty year period. Concurrent with GASB Statement #74, the GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement #75 (effective for the June 30, 2018 reporting period) which eliminates the thirty year phase in of the other post-employment benefits liability. Therefore, the net other post employment liability reported in the Town's June 30, 2018 statement of net position will agree with the GASB Statement #74 disclosures related to the Town's OPEB Trust.

Plan Description.

Plan Administration: The Town administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the

Town. Management of the plan is vested in the Commissioners and the Town's Treasurer.

Plan Membership: At June 30, 2017, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	82
Active Plan Members	<u>164</u>
Total	246

Benefits Provided: The Town provides retired employees and their spouses and dependents with payments for a portion of their health care benefits. Benefits are provided through a third party insurer.

Contributions. An employee who is eligible to receive retirement pension benefits is eligible to receive other post employment benefits. The Department pays 70% of the total premiums for health insurance, 50% of the dental premiums and 50% of the premiums for a \$5,000 life insurance policy. The contribution requirements of plan members and the Department are established by union agreements and may be amended from time to time.

Investments

Investment Policy: The plan's policy in regard to the allocation of invested assets is approved and may be amended by the Treasurer with the approval of the Board of Selectmen. The policy pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2017:

	<u>Target Allocation</u>
Domestic Equity - Large Cap	25.00%
Domestic Equity - Small/Mid Cap	11.25%
International Equity - Developed Market	10.00%
International Equity - Emerging Market	3.75%
Domestic Fixed Income	40.00%
International Fixed Income	0.00%
Alternatives	10.00%
Real Estate	0.00%
Cash	0.00%
	<u><u>100.00%</u></u>

Concentrations

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

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 6.34%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the Net OPEB liability of the Town at June 30, 2017 were as follows:

Total OPEB Liability	\$16,211,312
Plan Fiduciary Net Position	(598,647)
Net OPEB Liability	<u>\$15,612,665</u>

Plan fiduciary net position as a percentage of the total OPEB liability	3.69%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% as of June 30, 2017 and for future periods
Salary Increases	3.00% annually as of June 30, 2017 and for future periods
Single Equivalent Discount Rate	4.5%, net of OPEB plan investment expense, including inflation
Mortality Rates were based on the tables noted below: Healthy:	
Pre-Retirement	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Post-Retirement	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Disabled	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized in the table below:

	<u>Long Term Expected Rate of Return</u>
Domestic Equity - Large Cap	4.00%
Domestic Equity - Small/Mid Cap	6.00%
International Equity - Developed Market	4.50%
International Equity - Emerging Market	7.00%
Domestic Fixed Income	2.00%
International Fixed Income	3.00%
Alternatives	6.50%
Real Estate	6.25%
Cash	0.00%

Discount rate: The discount rate used to measure the total OPEB liability was 4.5% (3.5% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that Town contributions will not be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, a blended rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease	Discount Rate	1% Increase
	<u>3.50%</u>	<u>4.50%</u>	<u>5.50%</u>
Net OPEB Liability (asset)	\$18,209,684	\$15,612,665	\$13,531,307

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

	1% Decrease	Healthcare Cost Trend	1% Increase
	<u>4.00%</u>	<u>5.00%</u>	<u>6.00%</u>
Net OPEB Liability (asset)	\$12,015,719	\$15,612,665	\$20,168,974

Employer's Reporting (GASB Statement #45)

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 #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, 2017, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$ 1,988,387
Interest on Net OPEB Obligation	442,209
Adjustment to the ARC	(663,725)
Amortization of Actuarial (Gains)/Losses	<u>(74,947)</u>
Annual OPEB Cost (Expense)	1,691,924
Contributions Made	<u>(571,922)</u>
Increase in Net OPEB Obligation	<u>1,120,002</u>
Net OPEB Obligation (NOO)- Beginning of Year	<u>12,634,518</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$ 13,754,520</u></u>

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

Fiscal Year <u>Ended June 30</u>	Annual Required <u>Contribution (ARC)</u>	Percentage of ARC <u>Contributed</u>	Net OPEB <u>Obligation</u>
2015	\$2,055,263	15.1%	\$11,529,047
2016	\$1,958,253	26.4%	\$12,634,519
2017	\$1,988,387	28.8%	\$13,754,520

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$18,349,471 and the actuarial value of assets was \$342,853, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$18,006,618. The actual value of the assets as a percentage of the Actuarial Accrued Liability (funded ratio) was 1.9%. **Subsequent to the most recent valuation date, the Town made contributions to and had earnings in the OPEB trust. The balance in the OPEB trust as of June 30, 2017, was \$598,647. The plan assets are recorded and reported in the Town's fiduciary fund financial statements.**

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.

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, 2015, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 3.5% investment rate of return (4.0% 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 same as the previous valuation). The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period with 26 years remaining at July 1, 2015.

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

2017	\$ 133,518	
2016	9,479	
2015	9,704	
2014	9,263	
2013	8,399	
2012	8,825	
Total Real Estate Taxes		<u>\$ 179,188</u>

Personal Property Taxes

2017	\$ 1,053	
2016	834	
2015	521	
2014	602	
2013	242	
2012	239	
2011 and prior	840	
Total Personal Property Taxes		<u>4,331</u>

Total Property Taxes Receivable \$ 183,519

Tax Liens \$ 130,314

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2017	\$ 53,166	
2016	7,430	
2015	2,887	
2014	2,000	
2013	2,065	
2012	2,132	
2011	951	
Tax Excise Receivable		<u>\$ 70,631</u>

(A) Accounts Receivable (Continued)

Intergovernmental:

Commonwealth - Highway Funds

\$ 366,916

Total Intergovernmental

\$ 366,916

Business Type Activities:

User Charges:

Water

\$ 379,514

Liens:

Water Liens

\$ 1,356

(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2017 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	\$ 74,000	\$ -	\$ 74,000	\$ -		
SCH - Exterior Painting & Preservation	135,000	110,000	135,000	110,000	10/20/2017	2.00%
Town Hall Exterior Envelop Repair	177,000	177,000	177,000	177,000	10/20/2017	2.00%
HWY Catch Basin Cleaner Truck	165,000	165,000	165,000	165,000	10/20/2017	2.00%
Fire Ladder Truck	1,000,000	1,000,000	1,000,000	1,000,000	10/20/2017	2.00%
Fire Rescue Vehicle	210,000	210,000	210,000	210,000	10/20/2017	2.00%
SCH - Steward Sidewalk Repair	-	20,000	-	20,000	10/20/2017	2.00%
SCH - Proctor Hallway Floors	-	60,000	-	60,000	10/20/2017	2.00%
SCH - Proctor LIB HVAC Sys Engineer	-	20,000	-	20,000	10/20/2017	2.00%
SCH - Proctor Lavatory Renovations	-	48,000	-	48,000	10/20/2017	2.00%
SCH - Cupola & Engineering Study	-	49,000	-	49,000	10/20/2017	2.00%
Town Hall Renovation	-	1,500,000	-	1,500,000	10/20/2017	1.35%
Town Hall Renovation	-	6,000,000	-	6,000,000	3/8/2018	2.00%
Total	<u>\$ 1,761,000</u>	<u>\$ 9,359,000</u>	<u>\$ 1,761,000</u>	<u>\$ 9,359,000</u>		
<u>Business-Type Activities:</u>						
Water Mains - Washington St.	\$ 900,000	\$ 318,000	\$ 900,000	\$ 318,000	10/20/2017	2.00%
Water Mains - Washington St.	200,000	700,000	200,000	700,000	10/20/2017	1.35%
Water Treatment Plant	455,000	800,000	455,000	800,000	10/20/2017	1.35%
Total	<u>\$ 1,555,000</u>	<u>\$ 1,818,000</u>	<u>\$ 1,555,000</u>	<u>\$ 1,818,000</u>		

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2017, 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, 2017:

<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, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>July 1, 2017</u>
Bridge Reconstruction	1/15/2011	\$ 360,000	2.0 - 4.0%	2021	\$ 161,000	\$ -	\$ (30,500)	\$ 130,500
Building Construction	1/15/2011	823,000	2.0 - 4.0%	2020	405,000	-	(80,000)	325,000
Library Building Remodeling	1/15/2011	649,000	2.0 - 4.0%	2018	195,000	-	(95,000)	100,000
Landfill Area - Close	1/15/2011	765,000	2.0 - 4.0%	2021	390,000	-	(95,000)	295,000
Building - Town Hall	2/14/2012	70,000	2.0 - 4.0%	2019	30,000	-	(10,000)	20,000
Building - School	2/14/2012	66,000	2.0 - 4.0%	2022	45,000	-	(5,000)	40,000
Engineering - School	2/14/2012	267,000	2.0 - 4.0%	2022	170,000	-	(25,000)	145,000
School Project	2/14/2012	1,543,000	2.0 - 4.0%	2022	970,000	-	(155,000)	815,000
				Total Governmental Activities	<u>\$2,366,000</u>	<u>\$ -</u>	<u>\$ (495,500)</u>	<u>\$ 1,870,500</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, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>July 1, 2017</u>
Washington Grove	1/15/2011	\$ 505,000	2.0 - 4.0%	2026	\$ 330,000	\$ -	\$ (35,000)	\$ 295,000
Water Mains Ipswich RD	1/15/2011	550,000	2.0 - 4.0%	2026	350,000	-	(35,000)	315,000
10% Public Works Bond	1/15/2011	40,000	2.0 - 4.0%	2021	39,000	-	(9,500)	29,500
				Total Business Type Activities	<u>\$ 719,000</u>	<u>\$ -</u>	<u>\$ (79,500)</u>	<u>\$ 639,500</u>

(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>
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	320,000	11,840	70,000	14,615
2022	200,000	4,000	70,000	12,375
2023-2026	<u>0</u>	<u>0</u>	<u>260,000</u>	<u>24,375</u>
	<u>\$1,870,500</u>	<u>\$126,347</u>	<u>\$639,500</u>	<u>\$109,198</u>

(B) Liabilities (Continued)

(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.

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2018	\$743,665	\$226,600
2019	745,000	230,600
2020	734,250	222,200
2021	727,500	208,000
2022	<u>724,500</u>	<u>204,000</u>
	<u>\$3,674,915</u>	<u>\$1,091,400</u>

Economic Gain from Refunding Issue

The total net present value benefit as a result of the refunding issues is \$1,034,954.

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2017, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 6, 2014	Water Main - Washington St.	\$1,018,000
May 6, 2014	Fire Ladder Truck	1,000,000
May 6, 2014	Water Treatment Plant Design	800,000
May 6, 2014	Fire Rescue Vehicle	210,000
May 5, 2015	Catch Basin Cleaner	165,000
May 5, 2015	School Building Remodeling	110,000
May 5, 2015	School Building Remodeling	60,000
May 5, 2015	Planning School Roof	49,000
May 5, 2015	School Building Remodeling	48,000
May 5, 2015	Sidewalk Repair	20,000
May 5, 2015	Planning - HVAC Library	20,000
May 5, 2015	Town Hall Remodeling	227,000
May 3, 2016	Town Hall Design/Remodeling	9,859,000
May 2, 2017	Water Mains	1,500,000
May 2, 2017	School Roofs	7,651,757
June 20, 2017	Water Treatment Facility	<u>9,250,000</u>
	Total	<u>\$31,987,757</u>

(C) Liabilities (Continued)

iii Changes in the government's long-term liabilities for the year ended June 30, 2016 are as follows:

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>July 1, 2017</u>	<u>Current Portion</u>
Governmental Activities:					
Bonds Payable	\$ 2,366,000	\$ -	\$ (495,500)	\$ 1,870,500	\$ 505,500
Capital Lease Obligations	55,196	-	(27,059)	28,137	28,137
Post-Closure Landfill Monitoring	825,511	-	(44,299)	781,212	38,700
Compensated Absences	280,785	104,491	(56,157)	329,119	65,824
Net Pension Liability	11,908,007	2,219,722	(1,292,277)	12,835,452	-
Other Post Employment Benefits	<u>12,488,496</u>	<u>1,672,118</u>	<u>(568,589)</u>	<u>13,592,025</u>	<u>-</u>
Total Governmental Activities	<u>\$ 27,923,995</u>	<u>\$ 3,996,331</u>	<u>\$ (2,483,881)</u>	<u>\$ 29,436,445</u>	<u>\$ 638,161</u>
Business Type Activities:					
Bonds Payable	\$ 719,000	\$ -	\$ (79,500)	\$ 639,500	\$ 79,500
Compensated Absences	0	6,097	0	6,097	1,219
Net Pension Liability	604,095	131,287	22,702	758,084	-
Other Post Employment Benefits	<u>146,022</u>	<u>19,806</u>	<u>(3,333)</u>	<u>162,495</u>	<u>-</u>
Total Business Type Activities	<u>\$ 1,469,117</u>	<u>\$ 157,190</u>	<u>\$ (60,131)</u>	<u>\$ 1,566,176</u>	<u>\$ 80,719</u>

IV. Subsequent Year Authorizations

At the May 2, 2017 annual town meeting, the Town adopted a fiscal 2018 operating and capital budget of \$29,765,118. Fiscal 2018 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	\$ 25,288,825
Enterprise Fund Revenues	1,461,144
Enterprise Fund Retained Earnings	1,504,522
Other Available Funds	100,000
Committed Fund Balance	184,528
Restricted Fund Balance	318,176
General Fund - Committed Fund Balance	731,504
General Fund - Assigned Fund Balance	176,419
Total	<u>\$ 29,765,118</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 \$157,810.

VI. Implementation of New GASB Pronouncements

During fiscal year 2017, the following GASB pronouncements were implemented:

- 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 implementation of this pronouncement did not impact the financial statements.
- 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 implementation of this pronouncement required new disclosures and required supplementary information schedules related to the Town's Other Post-Employment Benefits Trust Fund.
- The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* which is required to be implemented in fiscal year 2017. 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal years beginning after December 15, 2016.
- The GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented in fiscal years beginning after June 15, 2018.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in fiscal years beginning after December 15, 2018.
- The GASB issued Statement No. 85, *Omnibus 2017* which is required to be implemented in fiscal years beginning after June 15, 2017.

- The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* which is required to be implemented in fiscal years beginning after June 15, 2017
- The GASB issued Statement No. 87, *Leases* which is required to be implemented in fiscal years beginning after December 15, 2019.

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 Statement #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, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 21,800,858	\$ 21,800,858	\$ 21,887,144	\$ 86,286
Tax Liens	-	-	73,126	73,126
Excises	905,000	905,000	1,277,346	372,346
Penalties and Interest	26,000	26,000	41,276	15,276
Licenses and Permits	190,000	190,000	240,545	50,545
Intergovernmental	1,875,920	1,875,920	1,876,044	124
Charges for Services	178,000	178,000	255,830	77,830
Fines and Forfeits	49,000	49,000	49,215	215
Earnings on Investments	13,000	13,000	28,068	15,068
In Lieu of Taxes	56,500	56,500	76,581	20,081
Miscellaneous	10,500	10,500	115,066	104,566
Total Revenues	<u>25,104,778</u>	<u>25,104,778</u>	<u>25,920,241</u>	<u>815,463</u>
<u>Expenditures</u>				
General Government	1,378,977	1,409,786	1,260,182	149,604
Public Safety	2,471,661	2,482,956	2,422,289	60,667
Education	14,838,396	14,838,396	14,801,769	36,627
Highway and Public Works	1,737,120	1,829,637	1,797,823	31,814
Health and Human Services	242,836	228,519	208,553	19,966
Culture and Recreation	573,491	575,507	561,743	13,764
Debt Service	579,486	579,486	570,076	9,410
Intergovernmental	294,285	294,285	296,783	(2,498)
Employee Benefits	3,830,934	3,630,242	3,353,210	277,032
Total Expenditures	<u>25,947,186</u>	<u>25,868,814</u>	<u>25,272,428</u>	<u>596,386</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(842,408)</u>	<u>(764,036)</u>	<u>647,813</u>	<u>1,411,849</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	201,356	201,356	201,356	-
Transfers Out	(299,000)	(377,372)	(377,372)	-
Unrestricted Net Position	940,052	940,052	940,052	-
Total Other Financing Sources (Uses)	<u>842,408</u>	<u>764,036</u>	<u>764,036</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,411,849</u>	<u>\$ 1,411,849</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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Town's proportionate share of net pension liability (asset) (%)	3.528151%	3.443645%	3.383071%	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>						
Town's proportionate share of net pension liability (asset) (\$)	13,593,536	12,512,102	11,477,481							
Town's covered-employee payroll	4,405,007	4,486,856	4,050,676							
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	308.59%	278.86%	283.35%							
Plan fiduciary net position as a percentage of the pension liability	51.12%	51.01%	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>									
Contractually required contribution	\$ 1,022,265	\$ 946,077	\$ 867,685							
Contributions in relation to the contractually required contribution	<u>(1,024,777)</u>	<u>(948,614)</u>	<u>(867,685)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ (2,512)</u>	<u>\$ (2,537)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	4,405,007	4,486,856	4,050,676							
Contributions as a percentage of covered-employee payroll	23.26%	21.14%	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Town's proportionate share of collective net pension liability (asset) (%)	0.00%	0.00%	0.00%	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</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>\$ 16,424,903</u>	<u>\$ 15,159,297</u>	<u>\$ 10,923,645</u>							
Total	<u>\$ 16,424,903</u>	<u>\$ 15,159,297</u>	<u>\$ 10,923,645</u>							
Town's covered-employee payroll	4,832,143	4,689,826	4,213,440							
Town's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%							
Plan fiduciary net position as a percentage of the pension liability	52.73%	55.38%	61.64%							
Town's expense and revenue recognized for Commonwealth support	<u>\$ 1,675,448</u>	<u>\$ 1,229,554</u>	<u>\$ 758,918</u>							

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Funding Progress and Employer's Contributions - Other Post Employment Benefits (GASB 45)
 Fiscal Year Ended June 30, 2017

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
7/1/2011	\$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
7/1/2015	\$342,853	\$18,349,471	\$18,006,618	1.9%	N/A	N/A

Schedule of Employer's Contributions

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
2015	\$2,055,263	15.1%	\$11,529,047
2016	\$1,958,253	26.4%	\$12,634,519
2017	\$1,988,387	28.8%	\$13,754,520

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Valuation Details - Other Post Employment Benefits (GASB 45)
 Fiscal Year Ended June 30, 2017

Valuation Date	July 1, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	As Level Dollar Amount over 30 years
Remaining Amortization Period	26 Years as of July 1, 2015
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	3.5% (previously 4.0%)
Medical/Drug Cost Trend Rate	5%
Dental Cost Trend Rate	5%

Plan Membership:

Current retirees, beneficiaries, and dependents	82
Current active members	<u>164</u>
Total	<u><u>246</u></u>

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios (GASB 74)
June 30, 2017
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total OPEB liability										
Service cost	\$ 597,061	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>								
Interest	708,300									
Changes of benefit terms	-									
Difference between expected and actual experience	-									
Changes in assumptions	-									
Benefit payments including implicit cost	(468,827)									
Net change in total OPEB liability	836,534									
Total OPEB liability - beginning	15,374,778									
Total OPEB liability - ending (a)	<u>\$ 16,211,312</u>									
 Plan Fiduciary net position										
Contributions - employer	\$ 568,827									
Net investment income	40,148									
Benefit payments	(468,827)									
Administrative expense	-									
Net change in plan fiduciary net position	140,148									
Plan fiduciary net position - beginning	458,499									
Plan fiduciary net position - ending (b)	<u>\$ 598,647</u>									
 Town's net OPEB liability - ending (a) - (b)	<u>\$ 15,612,665</u>									
 Plan fiduciary net position as a percentage of the total OPEB liability	3.69%									
 Covered-employee payroll	\$ 9,205,453									
 Town's net OPEB liability as a percentage of covered - employee payroll	169.60%									

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Contributions (GASB 74)
 June 30, 2017
 Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>									
Actuarial determined contribution	\$ 1,473,361									
Contributions in relating to the actuarially determined contribution		568,827								
Contribution deficiency (excess)		\$ 904,534								
Covered-employee payroll	\$ 9,205,453									
Contributions as a percentage of covered-employee payroll		6.18%								

Notes to Schedule

Valuation date: 7/1/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method Individual Entry Age Normal Cost
 Asset valuation method Market Value
 Inflation 2.75% as of June 30, 2017 and for future periods
 Single Equivalent Discount Rate 4.50%
 Salary increases 3.00% annually as of June 30, 2017 and for future periods

Mortality

Healthy:

Pre-Retirement RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females

Post-Retirement RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females

Disabled RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females

Other information:

The discount rate utilized was 4.5%. It was, previously, 3.5%.

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Investment Returns (GASB 74)
 June 30, 2017
 Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-weighted rate of return, net of investment expense	6.34%	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>								

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
Notes to the Required Supplementary Information
June 30, 2017

(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

I. Pension Plans

i. 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.

ii. Funding Plan

Active members of the Essex Regional Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The 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.

iii. 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.

iv. Change in Assumptions

Discount Rate:

The discount rate was lowered from 8.00% to 7.75%.

(C) Other Postemployment Benefits

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45), "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," the Department accounts for and reports the value of its future OPEB obligations currently rather than on a pay as you go basis.

i. Plan Description

In addition to providing pension benefits, the Department provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Department retirees receiving a pension from the Essex Regional Retirement System are eligible for post-retirement medical benefits. Currently there are approximately 164 active employees and 82 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.

ii. Funding Policy

The Department pays 70% of the total premiums for health insurance, 50% of the dental premiums and 50% of the premiums for a \$5,000 life insurance policy. The contribution requirements of plan members and the Department are established by union agreements and may be amended from time to time.

iii. Annual OPEB Cost and OPEB Obligation

The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Department, an amount that has been actuarially determined in accordance with the parameters of GASB 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.

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
Eight West Common
Topsfield, MA 01983

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, 2017, 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 February 26, 2018.

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

February 26, 2018