

TOWN OF TOPSFIELD, MASSACHUSETTS

Financial Statements

June 30, 2019

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Topsfield, Massachusetts
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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, 2019 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, 2019 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 January 31, 2020, 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

January 31, 2020

Town of Topsfield, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2019

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, 2019.

Financial Highlights

The Town's assets and deferred outflows exceed its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$21,039,230 (net position). The unrestricted net position of the Town's governmental activities is a deficit of (\$21,428,652). 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 \$874,994 and may be used to meet the ongoing obligations of the Town's Business-type activities.

The total revenue for fiscal year 2019 was \$35,091,789 from governmental activities, and \$1,756,403 from Business-type activities. The Town recognized a capital grant in the amount of \$2,115,117 from the Massachusetts School Building Authority related to a school building project.

The total cost of all Town services for fiscal year 2019 was \$34,492,688, of which \$32,950,100 was for governmental activities, and \$1,542,588 of which was for business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,238,188 or 14.1% of total general fund expenditures.

The Town of Topsfield, Massachusetts issued \$16,976,644 in long term debt (including premium) during fiscal year 2019. Principal payments of \$708,000 were made during the year on previously issued enterprise and general long term debt. As a result, the Town's total long term debt increased by \$16,268,644 or 248% 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. The prior year amounts were adjusted to reflect the prior period adjustment.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and Other Assets	\$ 21,748,300	\$ 28,198,069	\$ 2,863,845	\$ 8,650,458	\$ 24,612,145	\$ 36,848,527
Capital Assets	39,012,070	30,330,238	17,830,254	12,358,494	56,842,324	42,688,732
Total Assets	<u>60,760,370</u>	<u>58,528,307</u>	<u>20,694,099</u>	<u>21,008,952</u>	<u>81,454,469</u>	<u>79,537,259</u>
Deferred Outflows of Resources	1,548,403	1,210,702	81,186	68,330	1,629,589	1,279,032
Other Liabilities	6,241,223	15,731,144	3,552,826	10,866,437	9,794,049	26,597,581
Long Term Liabilities	41,090,341	30,998,124	9,729,272	2,773,800	50,819,613	33,771,924
Total Liabilities	<u>47,331,564</u>	<u>46,729,268</u>	<u>13,282,098</u>	<u>13,640,237</u>	<u>60,613,662</u>	<u>60,369,505</u>
Deferred Inflows of Resources	1,393,424	1,692,405	37,742	70,655	1,431,166	1,763,060
Net Position:						
Net Investment in Capital Assets	21,976,202	19,706,457	6,580,451	6,708,173	28,556,653	26,414,630
Restricted	13,036,235	12,100,728	-	-	13,036,235	12,100,728
Unrestricted	(21,428,652)	(20,489,849)	874,994	658,217	(20,553,658)	(19,831,632)
Total Net Position	<u>\$ 13,583,785</u>	<u>\$ 11,317,336</u>	<u>\$ 7,455,445</u>	<u>\$ 7,366,390</u>	<u>\$ 21,039,230</u>	<u>\$ 18,683,726</u>

The net position of the Town increased by \$2,355,504. The net position of the governmental activities increased by \$2,266,449 or 19.7% and the net position of the business-type activities increased by \$89,055 or 1.2%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position have changed during the fiscal year. The prior year amounts were adjusted to reflect the prior period adjustment.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,198,975	\$ 1,285,404	\$ 1,756,403	\$ 1,580,084	\$ 2,955,378	\$ 2,865,488
Operating Grants and Contributions	5,453,538	5,064,380	-	-	5,453,538	5,064,380
Capital Grants and Contributions	2,115,117	201,624	-	-	2,115,117	201,624
General Revenues:						
Property Taxes	23,899,815	23,565,659	-	-	23,899,815	23,565,659
Motor Vehicle and Other Excises	1,224,754	1,174,062	-	-	1,224,754	1,174,062
Intergovernmental Not Restricted to a Specific Program	763,543	736,836	-	-	763,543	736,836
Other	436,047	696,434	-	-	436,047	696,434
Total Revenues	<u>35,091,789</u>	<u>32,724,399</u>	<u>1,756,403</u>	<u>1,580,084</u>	<u>36,848,192</u>	<u>34,304,483</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Expenses						
General Government	2,121,411	1,830,220	-	-	2,121,411	1,830,220
Public Safety	2,920,378	2,753,327	-	-	2,920,378	2,753,327
Education	19,136,214	18,533,776	-	-	19,136,214	18,533,776
Highways and Public Works	2,043,593	2,330,143	-	-	2,043,593	2,330,143
Human Services	273,151	284,701	-	-	273,151	284,701
Culture and Recreation	915,079	886,486	-	-	915,079	886,486
Debt Service	795,231	364,959	-	-	795,231	364,959
Employee Benefits	4,745,043	4,288,859	-	-	4,745,043	4,288,859
Water	-	-	1,542,588	1,034,601	1,542,588	1,034,601
Total Expenses	<u>32,950,100</u>	<u>31,272,471</u>	<u>1,542,588</u>	<u>1,034,601</u>	<u>34,492,688</u>	<u>32,307,072</u>
Increase (Decrease) in Net Position						
Before Transfers	2,141,689	1,451,928	213,815	545,483	2,355,504	1,997,411
Transfers	<u>124,760</u>	<u>119,926</u>	<u>(124,760)</u>	<u>(119,926)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 2,266,449</u>	<u>\$ 1,571,854</u>	<u>\$ 89,055</u>	<u>\$ 425,557</u>	<u>\$ 2,355,504</u>	<u>\$ 1,997,411</u>

Governmental Activities

In fiscal year 2019, property taxes accounted for approximately 68 % of the revenues. In fiscal year 2018, property taxes accounted for 72% of the revenues. The large capital grant received in fiscal year 2019 is the primary reason for the change in percentage.

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 \$75,566 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>
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
2018	-	1,383,648	542,647	4,644,490	6,570,785
2019	-	1,757,069	651,094	4,238,188	6,646,351

<u>Fiscal Year</u>	<u>Free Cash</u>
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
2018	2,564,754
2019	2,046,950

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 \$7,455,445. The unrestricted net position at the end of the fiscal year was \$874,994 which is a \$216,777 or 32.9% increase over the prior year (after the prior period adjustment).

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, 2019, amounts to \$56,842,324 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 5,196,767	\$ 5,196,767	\$ 323,038	\$ 323,038	\$ 5,519,805	\$ 5,519,805
Intangible - Conservation Restriction	494,810	494,810	-	-	494,810	494,810
Construction in Progress	-	8,301,665	15,948	5,531,007	15,948	13,832,672
Buildings	25,261,901	8,418,576	11,345,753	85,350	36,607,654	8,503,926
Improvements Other Than Buildings	57,765	63,845	-	5,500	57,765	69,345
Infrastructure	5,401,459	5,140,381	6,102,890	6,350,101	11,504,349	11,490,482
Equipment	530,226	551,112	13,417	14,817	543,643	565,929
Vehicles	2,069,142	2,163,082	29,208	48,681	2,098,350	2,211,763
Total	\$ 39,012,070	\$ 30,330,238	\$ 17,830,254	\$ 12,358,494	\$ 56,842,324	\$ 42,688,732

Debt

The Town had \$22,826,644 in bonds payable outstanding on June 30, 2019. This represents a \$16,268,644 increase.

	2019	2018	Increase (Decrease)
Governmental Activities			
General Obligation Bonds Payable	\$ 13,396,644	\$ 4,440,500	\$ 8,956,144
Business-type Activities			
Water	9,430,000	2,117,500	7,312,500
Total Debt	\$ 22,826,644	\$ 6,558,000	\$ 16,268,644

Fiscal Year 2020 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 \$2,083,102 of general fund reserves to fund the fiscal year 2020 budget. However, the Town’s “free cash” was still a healthy \$2,046,950 as of June 30, 2019.

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, 2019

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government - Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 20,580,941	\$ 2,366,112	\$ 22,947,053
Petty Cash	541	-	541
Receivables:			
Property Taxes	198,856	-	198,856
Tax Liens	275,239	-	275,239
Excises	109,715	-	109,715
User Charges	-	496,377	496,377
Other	26,293	-	26,293
Intergovernmental	556,715	-	556,715
Liens	-	1,356	1,356
Noncurrent:			
Capital Assets:			
Assets Not Being Depreciated	5,691,577	338,986	6,030,563
Assets Being Depreciated, Net	33,320,493	17,491,268	50,811,761
Total Assets	60,760,370	20,694,099	81,454,469
Deferred Outflows of Resources			
Pension	1,541,465	81,181	1,622,646
Other Post Employment Benefit Obligations	455	5	460
Debt Refunding	6,483	-	6,483
Total Deferred Outflows of Resources	1,548,403	81,186	1,629,589
Liabilities			
Current:			
Warrants and Accounts Payable	652,263	202,894	855,157
Accrued Salaries Payable	344,502	13,283	357,785
Employees' Withholding Payable	143,409	-	143,409
Intergovernmental	3,445	-	3,445
Unclaimed Checks	5,489	-	5,489
Landfill Closure Costs Payable	38,700	-	38,700
Other	2,917	-	2,917
Bond Anticipation Notes Payable	4,020,743	2,696,549	6,717,292
Accrued Interest	150,711	96,030	246,741
Bonds Payable	789,282	542,300	1,331,582
Compensated Absences	89,762	1,770	91,532
Noncurrent:			
Bonds Payable	12,607,362	8,887,700	21,495,062
Compensated Absences	359,047	7,082	366,129
Landfill Closure Costs Payable	672,294	-	672,294
Net Pension Liability	13,434,475	707,524	14,141,999
Other Post Employment Benefit Liability	14,017,163	126,966	14,144,129
Total Liabilities	47,331,564	13,282,098	60,613,662
Deferred Inflows of Resources			
Pension	541,384	28,512	569,896
Other Post Employment Benefit Obligations	829,455	9,230	838,685
Deferred Revenues	22,585	-	22,585
Total Deferred Inflows of Resources	1,393,424	37,742	1,431,166
Net Position			
Net Investment in Capital Assets	21,976,202	6,580,451	28,556,653
Restricted for:			
Gifts, Grants and Other Statutory Restrictions	1,617,693	-	1,617,693
Perpetual Funds:			
Expendable	1,144,560	-	1,144,560
Nonexpendable	10,273,982	-	10,273,982
Unrestricted	(21,428,652)	874,994	(20,553,658)
Total Net Position	\$ 13,583,785	\$ 7,455,445	\$ 21,039,230

The Notes to the Financial Statements
are an Integral Part of this Exhibit.

Town of Topsfield, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 2,121,411	\$ 100,855	\$ 324,502	\$ -	\$ (1,696,054)	\$ -	\$ (1,696,054)
Public Safety	2,920,378	427,818	18,137	-	(2,474,423)	-	(2,474,423)
Education	19,136,214	534,571	3,464,170	2,115,117	(13,022,356)	-	(13,022,356)
Highways and Public Works	2,043,593	47,328	370,421	-	(1,625,844)	-	(1,625,844)
Human Services	273,151	78,661	54,081	-	(140,409)	-	(140,409)
Culture and Recreation	915,079	9,742	1,025,053	-	119,716	-	119,716
Debt Service	795,231	-	197,174	-	(598,057)	-	(598,057)
Employee Benefits	4,745,043	-	-	-	(4,745,043)	-	(4,745,043)
Total Governmental Activities	<u>32,950,100</u>	<u>1,198,975</u>	<u>5,453,538</u>	<u>2,115,117</u>	<u>(24,182,470)</u>	<u>-</u>	<u>(24,182,470)</u>
<i>Business-Type Activities:</i>							
Water	1,542,588	1,756,403	-	-	-	213,815	213,815
Total Business-Type Activities	<u>1,542,588</u>	<u>1,756,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,815</u>	<u>213,815</u>
Total	<u>\$ 34,492,688</u>	<u>\$ 2,955,378</u>	<u>\$ 5,453,538</u>	<u>\$ 2,115,117</u>	<u>(24,182,470)</u>	<u>213,815</u>	<u>(23,968,655)</u>
<i>General Revenues:</i>							
Property Taxes					23,899,815	-	23,899,815
Motor Vehicle and Other Excise Taxes					1,224,754	-	1,224,754
Penalties and Interest on taxes					27,570	-	27,570
Other Taxes and Assessments					78,526	-	78,526
Intergovernmental - Unrestricted					763,543	-	763,543
Interest and Investment Income					286,631	-	286,631
Other Revenue					31,595	-	31,595
Contributions to Permanent Funds					11,725	-	11,725
Transfers In (Out)					124,760	(124,760)	-
Total General Revenues					<u>26,448,919</u>	<u>(124,760)</u>	<u>26,324,159</u>
Change in Net Position					2,266,449	89,055	2,355,504
<i>Net Position:</i>							
Beginning of the Year					<u>11,505,021</u>	<u>7,293,853</u>	<u>18,798,874</u>
Prior Period Adjustment					<u>(187,685)</u>	<u>72,537</u>	<u>(115,148)</u>
Beginning of the Year, as Restated					<u>11,317,336</u>	<u>7,366,390</u>	<u>18,683,726</u>
End of the Year					<u>\$ 13,583,785</u>	<u>\$ 7,455,445</u>	<u>\$ 21,039,230</u>

Town of Topsfield, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2019

	<u>General</u>	<u>Gould Trust</u>	<u>Town Hall and Town Hall Renovation</u>	<u>Town Hall and School Roof Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Cash/Investments	\$ 7,585,557	\$ 10,116,511	\$ 43,564	\$ 331,472	\$ 2,503,837	\$ 20,580,941
Petty Cash	541	-	-	-	-	541
Receivables:						
Property Taxes	198,856	-	-	-	-	198,856
Tax Liens	275,239	-	-	-	-	275,239
Excises	109,715	-	-	-	-	109,715
Other	-	-	-	-	26,293	26,293
Intergovernmental	-	-	-	-	556,715	556,715
Tax Foreclosures	33,939	-	-	-	-	33,939
Total Assets	<u>\$ 8,203,847</u>	<u>\$ 10,116,511</u>	<u>\$ 43,564</u>	<u>\$ 331,472</u>	<u>\$ 3,086,845</u>	<u>\$ 21,782,239</u>
Liabilities:						
Warrants and Accounts Payable	\$ 642,540	\$ -	\$ -	\$ -	\$ 9,723	\$ 652,263
Accrued Salaries Payable	324,277	-	-	-	20,225	344,502
Employees' Withholding Payable	143,409	-	-	-	-	143,409
Intergovernmental	3,445	-	-	-	-	3,445
Unclaimed Checks	5,489	-	-	-	-	5,489
Other	-	-	-	-	2,917	2,917
Bonds Anticipation Notes Payable	-	-	2,261,680	1,759,063	-	4,020,743
Total Liabilities	<u>1,119,160</u>	<u>-</u>	<u>2,261,680</u>	<u>1,759,063</u>	<u>32,865</u>	<u>5,172,768</u>
Deferred Inflows of Resources:						
Unavailable Revenues	438,336	-	-	-	134,256	572,592
Total Deferred Inflows of Resources	<u>438,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,256</u>	<u>572,592</u>
Fund Equity:						
Fund Balances:						
Nonspendable	-	9,456,181	-	-	817,801	10,273,982
Restricted	-	660,330	-	-	1,863,344	2,523,674
Committed	1,757,069	-	-	-	238,579	1,995,648
Assigned	651,094	-	-	-	-	651,094
Unassigned	4,238,188	-	(2,218,116)	(1,427,591)	-	592,481
Total Fund Balances	<u>6,646,351</u>	<u>10,116,511</u>	<u>(2,218,116)</u>	<u>(1,427,591)</u>	<u>2,919,724</u>	<u>16,036,879</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,203,847</u>	<u>\$ 10,116,511</u>	<u>\$ 43,564</u>	<u>\$ 331,472</u>	<u>\$ 3,086,845</u>	<u>\$ 21,782,239</u>

Town of Topsfield, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2019

	<u>General</u>	<u>Gould Trust</u>	<u>Town Hall Renovation</u>	<u>School Roof Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>						
Property Taxes	\$ 23,762,865	\$ -	\$ -	\$ -	\$ -	\$ 23,762,865
Tax Liens	47,586	-	-	-	-	47,586
Excises	1,238,056	-	-	-	-	1,238,056
Penalties and Interest	27,570	-	-	-	-	27,570
Licenses and Permits	318,977	-	-	-	-	318,977
Intergovernmental	3,823,949	-	-	2,115,117	1,022,552	6,961,618
Charges for Services	304,962	-	-	-	575,586	880,548
Fines and Forfeits	22,802	-	-	-	-	22,802
Earnings on Investments	78,526	993,568	-	-	73,758	1,145,852
In Lieu of Taxes	286,631	-	-	-	-	286,631
Contributions	-	-	-	-	198,310	198,310
Miscellaneous	40,238	-	200,000	254,000	236,857	731,095
Total Revenues	<u>29,952,162</u>	<u>993,568</u>	<u>200,000</u>	<u>2,369,117</u>	<u>2,107,063</u>	<u>35,621,910</u>
<u>Expenditures:</u>						
General Government	1,684,049	-	2,584,709	-	68,598	4,337,356
Public Safety	2,682,244	-	-	-	14,218	2,696,462
Education	17,706,417	-	-	6,657,844	962,588	25,326,849
Highways and Public Works	1,772,895	-	-	-	545,939	2,318,834
Human Services	246,044	-	-	-	27,107	273,151
Culture and Recreation	604,707	140,115	-	-	56,044	800,866
Debt Service	1,095,062	-	-	-	136,762	1,231,824
Intergovernmental	296,652	-	-	-	-	296,652
Employee Benefits	4,001,062	-	-	-	-	4,001,062
Total Expenditures	<u>30,089,132</u>	<u>140,115</u>	<u>2,584,709</u>	<u>6,657,844</u>	<u>1,811,256</u>	<u>41,283,056</u>
Excess of Revenues Over (Under) Expenditures	<u>(136,970)</u>	<u>853,453</u>	<u>(2,384,709)</u>	<u>(4,288,727)</u>	<u>295,807</u>	<u>(5,661,146)</u>
<u>Other Financing Sources (Uses):</u>						
Transfers In	236,166	-	165,010	-	23,630	424,806
Transfers (Out)	(23,630)	-	-	-	(276,416)	(300,046)
Proceeds from Bonds	-	-	5,800,000	3,246,000	-	9,046,000
Total Other Financing Sources (Uses)	<u>212,536</u>	<u>-</u>	<u>5,965,010</u>	<u>3,246,000</u>	<u>(252,786)</u>	<u>9,170,760</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>75,566</u>	<u>853,453</u>	<u>3,580,301</u>	<u>(1,042,727)</u>	<u>43,021</u>	<u>3,509,614</u>
Fund Balance, Beginning	<u>6,570,785</u>	<u>9,263,058</u>	<u>(5,798,417)</u>	<u>(384,864)</u>	<u>2,876,703</u>	<u>12,527,265</u>
Fund Balance, Ending	<u>\$ 6,646,351</u>	<u>\$ 10,116,511</u>	<u>\$ (2,218,116)</u>	<u>\$ (1,427,591)</u>	<u>\$ 2,919,724</u>	<u>\$ 16,036,879</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, 2019

Total governmental fund balances	\$	16,036,879
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		39,012,070
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		516,068
Deferred Outflows/Inflows of Resources related to Pensions, OPEB 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		1,541,465
Deferred Outflows of Resources - OPEB		455
Deferred Inflows of Resources - Pensions		(541,384)
Deferred Inflows of Resources - OPEB		(829,455)
Deferred Outflows of Resources - Debt Refundings		6,483
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(13,396,644)
Accrued Interest on Bonds		(150,711)
Other Post Employment Benefit Obligations		(14,017,163)
Net Pension Liability		(13,434,475)
Landfill Liability		(710,994)
Compensated Absences		(448,809)
		(48,138,249)
Net position of governmental activities	\$	13,583,785

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, 2019

Net change in fund balances - total governmental funds \$ 3,509,614

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	9,933,933	
Depreciation	(1,255,101)	
Net Effect of Reporting Capital Assets	8,678,832	8,678,832

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. 3,000

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. (67,477)

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. (8,958,305)

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. (116,746)

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. (782,469)

Change in net position of governmental activities \$ 2,266,449

Town of Topsfield, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2019

	<u>Water Enterprise</u>
Assets	
Current:	
Cash and Cash Investments	\$ 2,366,112
Receivables, Net of Allowance for Uncollectibles:	
User Charges	496,377
Liens	1,356
Noncurrent:	
Assets Not Being Depreciated	338,986
Assets Being Depreciated, Net	17,491,268
Total Assets	20,694,099
Deferred Outflows of Resources	
Pension	81,181
Other Post Employment Benefit Obligations	5
Total Deferred Outflows of Resources	81,186
Liabilities	
Current:	
Warrants Payable	202,894
Accrued Wages Payable	13,283
Bond Anticipation Notes Payable	2,696,549
Accrued Interest Payable	96,030
Compensated Absences	1,770
Bonds Payable	542,300
Noncurrent:	
Bonds Payable	8,887,700
Net Pension Liability	707,524
Compensated Absences	7,082
Other Post Employment Benefit Obligations	126,966
Total Liabilities	13,282,098
Deferred Inflows of Resources	
Pension	28,512
Other Post Employment Benefit Obligations	9,230
Total Deferred Outflows of Resources	37,742
Net Position	
Net Investment in Capital Assets	6,580,451
Unrestricted	874,994
Total Net Position	\$ 7,455,445

Town of Topsfield, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2019

	<u>Water Enterprise</u>
Operating Revenues:	
Charges for Services	\$ 1,756,403
Total Operating Revenues	<u>1,756,403</u>
Operating Expenditures:	
Personal Services	326,493
Nonpersonal Service	318,109
Depreciation	<u>415,222</u>
Total Operating Expenditures	<u>1,059,824</u>
Operating Income (Loss)	<u>696,579</u>
Nonoperating Revenues (Expenses):	
Interest Expense	<u>(482,764)</u>
Total Nonoperating Revenues (Expenses)	<u>(482,764)</u>
Income (Loss) Before Contributions and Transfers	<u>213,815</u>
Transfers In	35,000
Transfers Out	<u>(159,760)</u>
Total Contributions and Transfers	<u>(124,760)</u>
Change in Net Position	<u>89,055</u>
Total Net Position July 1, 2018	<u>7,293,853</u>
Prior Period Adjustment	<u>72,537</u>
Total Net Position July 1, 2018, as Restated	<u>7,366,390</u>
Total Net Position June 30, 2019	<u><u>\$ 7,455,445</u></u>

Town of Topsfield, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2019

	<u>Water Enterprise</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 1,697,335
Payments to Employees	(321,062)
Payments to Vendors	(616,879)
Net Cash Flows Provided (Used) by Operating Activities	<u>759,394</u>
Cash Flows from Non Capital Related Financing Activities:	
Transfer from (to) Other Funds	<u>(124,760)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(124,760)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(5,886,982)
Payment of Bond Anticipation Note	(10,196,549)
Proceeds from Bonds Anticipation Note	2,696,549
Premium on Bond	266,000
Proceeds from Bonds	7,199,000
Principal Payments on Notes and Bonds	(152,500)
Interest Expense	(405,833)
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(6,480,315)</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>(5,845,681)</u>
Cash and Cash Equivalents, July 1, 2018	<u>8,211,793</u>
Cash and Cash Equivalents, June 30, 2019	<u>\$ 2,366,112</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 696,579
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	415,222
(Increase) Decrease in Assets/Deferred Outflows of Resources	
Accounts Receivable - Customer	(59,068)
Deferred Outflows of Resources - OPEB	(5)
Deferred Outflows of Resources - Pensions	(12,851)
Increase (Decrease) in Liabilities/Deferred Inflows of Resources	(32,913)
Warrants and Accounts Payable	(272,744)
Net Pension Liability	20,745
Other Post Employment Benefit Obligations	4,429
Net Cash Provided by Operating Activities	<u>\$ 759,394</u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Net Position
June 30, 2019

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Assets			
Cash and Cash Investments	\$ 601,166	\$ -	\$ 601,166
Investments:			
Domestic Equity - Large Cap	-	272,377	272,377
Domestic Equity - Small/Mid Cap	-	122,569	122,569
International Equity - Developed Market	-	108,951	108,951
International Equity - Emerging Market	-	40,856	40,856
Domestic Fixed Income	-	291,443	291,443
International Fixed Income	-	144,360	144,360
Alternatives	-	108,951	108,951
Total Assets	<u>601,166</u>	<u>1,089,507</u>	<u>1,690,673</u>
Liabilities			
Current			
Accrued Salaries Payable	<u>325</u>	<u>-</u>	<u>325</u>
Total Liabilities	<u>325</u>	<u>-</u>	<u>325</u>
Net Position			
Restricted for:			
Other Post Employment Benefits	-	1,089,507	1,089,507
Other Purposes	<u>600,841</u>	<u>-</u>	<u>600,841</u>
Total Net Position	<u>\$ 600,841</u>	<u>\$ 1,089,507</u>	<u>\$ 1,690,348</u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2019

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Additions			
Contributions:			
Employer	\$ -	\$ 798,275	\$ 798,275
Gift	1,481	-	1,481
Total Contributions	<u>1,481</u>	<u>798,275</u>	<u>799,756</u>
Investment Earnings:			
Interest, Dividends, and Other	58,851	56,410	115,261
Total Investment Earnings	<u>58,851</u>	<u>56,410</u>	<u>115,261</u>
Total Additions	<u>60,332</u>	<u>854,685</u>	<u>915,017</u>
Deductions			
Public Assistance	3,425	-	3,425
Benefit Payments	-	498,275	498,275
Total Deductions	<u>3,425</u>	<u>498,275</u>	<u>501,700</u>
Change in Net Position	<u>56,907</u>	<u>356,410</u>	<u>413,317</u>
Net Position:			
Beginning of the Year	<u>543,934</u>	<u>733,097</u>	<u>1,277,031</u>
Ending of the Year	<u>\$ 600,841</u>	<u>\$ 1,089,507</u>	<u>\$ 1,690,348</u>

Town of Topsfield, Massachusetts
Notes to the Financial Statements
June 30, 2019

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Topsfield as of June 30, 2019. 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, 2019, 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.

Town Hall Renovation Fund - This major fund reports the activity related to the Town Hall Renovation Capital Project.

School Roof Project - This major fund reports the activity related to the School Roof Capital Project.

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 2019. The budget amounts include special Town meeting votes applicable to fiscal year 2019 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, 2019.

As Reported Budget Basis	<u>Revenues</u> \$ 27,982,420
Adjustments:	
Sixty Day Property Tax Accrual - Net	70,488
Stabilization Fund Interest Earnings - General Fund for GAAP	53,777
MTRS Pension Expense Subsidy Included in Intergovernmental Revenue - GAAP Basis	1,845,477
As Reported GAAP Statement	<u><u>\$ 29,952,162</u></u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 27,889,957
Adjustments:	
July 1, 2018 Encumbrances	404,172
June 30, 2019 Encumbrances	(350,474)
OPEB Contribution - Transfer Out on Budgetary Basis, but Employee Benefit Expense on GAAP Basis	300,000
MTRS Pension Expense Subsidy Included in Education Expense - GAAP Basis	1,845,477
As Reported GAAP Statement	<u>\$ 30,089,132</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, other post employment benefits and to a debt refunding issue. They, also, reflect deferred inflows of resources related to pensions, other post employment benefits and to deferred revenues.

(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>Town Hall Renovation</u>	<u>School Roof Project</u>	<u>Non Major Funds</u>	<u>Total</u>
Fund Balances:						
Nonspendable:						
General Government	\$ -	\$ -	\$ -	\$ -	6,682	\$ 6,682
Education	-	-	-	-	3,217	3,217
Cemetery	-	-	-	-	633,406	633,406
Human Services	-	-	-	-	8,627	8,627
Culture and Recreation	-	-	-	-	165,869	165,869
Library	-	9,456,181	-	-	-	9,456,181
Total Nonspendable	-	9,456,181	-	-	817,801	10,273,982
Restricted for:						
General Government	-	-	-	-	317,225	317,225
Public Safety	-	-	-	-	47,677	47,677
Education	-	-	-	-	366,929	366,929
Public Works	-	-	-	-	689,855	689,855
Human Services	-	-	-	-	29,006	29,006
Culture and Recreation	-	660,330	-	-	49,675	710,005
Capital Outlay	-	-	-	-	8,193	8,193
Debt Services	-	-	-	-	156,842	156,842
Kindergarten and Pre-School Tuition	-	-	-	-	197,942	197,942
Total Restricted	-	660,330	-	-	1,863,344	2,523,674

	<u>General Fund</u>	<u>Gould Trust</u>	<u>Town Hall Renovation</u>	<u>School Roof Project</u>	<u>Non Major Funds</u>	<u>Total</u>
Committed to:						
General Government	544,847	-	-	-	172,939	717,786
Public Safety	102,507	-	-	-	-	102,507
Education	499,250	-	-	-	38,461	537,711
Public Works	200,465	-	-	-	-	200,465
Human Services	-	-	-	-	10,358	10,358
Culture and Recreation	10,000	-	-	-	16,821	26,821
Employee Benefits	300,000	-	-	-	-	300,000
Capital Outlay	100,000	-	-	-	-	100,000
Total Committed	1,757,069	-	-	-	238,579	1,995,648
Assigned to:						
General Government	28,749	-	-	-	-	28,749
Public Safety	2,380	-	-	-	-	2,380
Education	119,891	-	-	-	-	119,891
Public Works	74	-	-	-	-	74
Reduce the Tax Levy	500,000	-	-	-	-	500,000
Total Assigned	651,094	-	-	-	-	651,094
Unassigned	4,238,188	-	(2,218,116)	(1,427,591)	-	592,481
Total Fund Balances	\$ 6,646,351	\$ 10,116,511	\$ (2,218,116)	\$ (1,427,591)	\$ 2,919,724	\$ 16,036,879

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 \$1,734,480. 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, 2019 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
Intangible - Conservation Restriction	494,810	-	-	494,810
Construction in Progress	8,301,665	-	(8,301,665)	-
Total Capital Assets Not Being Depreciated	<u>13,993,242</u>	<u>-</u>	<u>(8,301,665)</u>	<u>5,691,577</u>
Assets Being Depreciated:				
Buildings	17,689,785	17,544,217	-	35,234,002
Improvements Other Than Buildings	266,947	-	-	266,947
Infrastructure	14,265,312	422,459	-	14,687,771
Equipment	2,128,850	78,971	-	2,207,821
Vehicles	3,922,041	192,951	(39,646)	4,075,346
Total Capital Assets Being Depreciated	<u>38,272,935</u>	<u>18,238,598</u>	<u>(39,646)</u>	<u>56,471,887</u>
Less Accumulated Depreciation for:				
Buildings	(9,271,209)	(700,892)	-	(9,972,101)
Improvements Other Than Buildings	(203,102)	(6,080)	-	(209,182)
Infrastructure	(9,124,931)	(161,381)	-	(9,286,312)
Equipment	(1,577,738)	(99,857)	-	(1,677,595)
Vehicles	(1,758,959)	(286,891)	39,646	(2,006,204)
Total Accumulated Depreciation	<u>(21,935,939)</u>	<u>(1,255,101)</u>	<u>39,646</u>	<u>(23,151,394)</u>
Capital Assets Being Depreciated, Net	<u>16,336,996</u>	<u>16,983,497</u>	<u>-</u>	<u>33,320,493</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,330,238</u>	<u>\$ 16,983,497</u>	<u>\$ (8,301,665)</u>	<u>\$ 39,012,070</u>

(H) Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 131,915
Public Safety	229,258
Education	462,502
Highways and Public Works	322,872
Culture and Recreation	108,554
Total Governmental Activities Depreciation Expense	<u>\$ 1,255,101</u>

	<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	5,531,007	-	(5,515,059)	15,948
Total Capital Assets Not Being Depreciated	<u>5,854,045</u>	<u>-</u>	<u>(5,515,059)</u>	<u>338,986</u>
Assets Being Depreciated:				
Buildings	164,521	11,402,041	-	11,566,562
Improvements Other Than Buildings	10,400	-	-	10,400
Infrastructure	11,300,016	-	-	11,300,016
Equipment	106,342	-	-	106,342
Vehicles	132,418	-	-	132,418
Total Capital Assets Being Depreciated	<u>11,713,697</u>	<u>11,402,041</u>	<u>-</u>	<u>23,115,738</u>
Less Accumulated Depreciation for:				
Buildings	(73,671)	(147,138)	-	(220,809)
Improvements Other Than Buildings	(10,400)	-	-	(10,400)
Infrastructure	(4,949,915)	(247,211)	-	(5,197,126)
Equipment	(91,525)	(1,400)	-	(92,925)
Vehicles	(83,737)	(19,473)	-	(103,210)
Total Accumulated Depreciation	<u>(5,209,248)</u>	<u>(415,222)</u>	<u>-</u>	<u>(5,624,470)</u>
Capital Assets Being Depreciated, Net	<u>6,504,449</u>	<u>10,986,819</u>	<u>-</u>	<u>17,491,268</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,358,494</u>	<u>\$ 10,986,819</u>	<u>\$ (5,515,059)</u>	<u>\$ 17,830,254</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Water	<u>\$ 415,222</u>

(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, 2019, \$2,412,138 of the Town’s bank balance of \$8,501,903 was exposed to credit risk as follow:

Uninsured and Uncollateralized \$ 2,412,138

Investments

As of June 30, 2019, 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>
Debt Related Securities:				
U. S. Government Obligations	\$ 988,752	\$ 563,282	\$ 425,470	\$ -
Corporation Notes and Bonds	<u>2,898,221</u>	<u>965,988</u>	<u>1,932,233</u>	<u>-</u>
Total	<u>\$ 3,886,972</u>	<u>\$ 1,529,270</u>	<u>\$ 2,357,703</u>	<u>\$ -</u>
Other Investments:				
Money Market Funds	\$ 1,121,147			
Certificates of Deposit	242,284			
Mutual Funds	2,128,835			
Equities	7,396,590			
Mass. Municipal Depository Trust	<u>1,370,194</u>			
Total Other Investments	<u>12,259,051</u>			
Total Investments	<u>\$ 16,146,023</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, 2019:

	<u>Fair Value Measurements Using</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	<u>Total</u>			
Investment by Fair Value Level:				
U. S. Treasuries	\$ -	\$ -	\$ -	\$ -
Government Agency	988,752	988,752	-	-
Corporate Bonds	2,898,221	-	2,898,221	-
Mutual Funds	2,128,835	2,128,835	-	-
Money Market Mutual Funds	1,121,147	1,121,147	-	-
Common Stock	7,396,590	7,396,590	-	-
Total Assets in the Fair Value Hierarchy	<u>14,533,545</u>	<u>\$ 11,635,324</u>	<u>\$ 2,898,221</u>	<u>\$ -</u>
Investment not Subject to Fair Value Hierarchy Reporting:				
Certificates of Deposit	242,284			
Mass. Municipal Depository Trust	<u>1,370,194</u>			
Total Investments	<u>\$ 16,146,023</u>			

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

Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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	\$ 236,166	\$ (23,630)	\$ 212,536
Town Hall Renovation	165,010	-	165,010
Non-major Governmental	23,630	(276,416)	(252,786)
Enterprise - Business Type	35,000	(159,760)	(124,760)
Total	<u>\$ 459,806</u>	<u>\$ (459,806)</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. 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/essex_regional_retirement_system_financial_statements_12-31-2018.pdf

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

Benefits Provided

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

Retirement Benefits

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

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

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

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

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

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

Retirement Benefits - Superannuation

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

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

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

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

Ordinary Disability Benefits

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

Accidental Disability Benefit

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

Death Benefits

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

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

Contributions

Active members of the Essex Regional Retirement System contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The 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, 2019 was 24.67% 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 \$1,121,142 for the year ending June 30, 2019.

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

At June 30, 2019, the Town reported a liability of \$14,141,999 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the Town's proportion was 3.347491%.

For the year ended June 30, 2019, the Town recognized pension expense of \$1,568,409. At June 30, 2019, 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	\$ -	\$ (122,659)
Net differences between projected and actual earnings on pension plan investments	727,376	-
Change in assumptions	749,749	-
Changes in proportion and differences between contributions and proportionate share of contributions	145,521	(447,237)
Contributions subsequent to the measurement date	-	-
	<u>\$ 1,622,646</u>	<u>\$ (569,896)</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. 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
2020	\$ 429,467
2021	240,071
2022	113,637
2023	269,575
Total	<u>\$ 1,052,750</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2018.

Valuation Date	January 1, 2018
Actuarial Cost Method	Entry age normal cost method
Salary Increases	Based on years of service, ranging from 7.5% at 0 years of service decreasing to 3.5% after 5 years of service.
Investment Rate of Return/Discount Rate	7.5% net of pension plan investment expense, included inflation (7.5% in previous report)
Inflation Rate	2.75% (2.75% in previous report)
Cost of Living Adjustments	3.00% of first \$14,000
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates Were Based on the Tables Noted Below:	
Pre-Retirement	The RP-2000 Employee Mortality Table projected generationally with Scale BB
Healthy Retiree	The RP-2000 Health Annuity Mortality Table projected generationally with Scale BB
Disabled	The RP-2000 Health Annuity Mortality Table, set forward two years projected generationally with Scale BB

Changes in Actuarial Assumptions and Plan Provisions

Actuarial Assumptions

There were not any changes in the actuarial assumptions.

Plans Provisions

There were not any changes in the plan provisions.

Investment Policy

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

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. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The mortality tables listed in the assumption table were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

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

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	21.00%	6.16%
International Developed Markets Equity	13.00%	6.69%
International Emerging Markets Equity	5.00%	9.47%
Core Fixed Income	15.00%	1.89%
High-Yield Fixed Income	8.00%	4.00%
Real Estate	10.00%	4.58%
Commodities	4.00%	4.77%
Hedge Funds, GTAA, Risk Parity	11.00%	3.68%
Private Equity	13.00%	10.00%
Total	<u>100.00%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2018 (net of investment expenses) was negative 2.43% (positive 17.11% for December 31, 2017). 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 7.50% (7.50% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. 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 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Town's proportionate share of the Net Pension Liability	\$17,483,928	\$14,141,999	\$11,330,364

Pension Plan Fiduciary Net Position

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

https://www.essexregional.com/sites/essexregionalretirement/files/uploads/essex_regional_retirement_system_financial_statements_12-31-2018.pdf

C. Massachusetts Teachers Retirement System

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, 2019, the Town's proportionate share of the collective pension expense was 1,845,477. 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, 2019, or fund balance/net position at June 30, 2019.

The Commonwealth's proportionate share of net pension liability associated with the Town is \$18,211,552. 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.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy18.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 6/30/2001	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

In addition, members who join the system on or after April 2, 2012 will have their withholding rate reduced to 8% after achieving 30 years of creditable service.

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

1. (a) 7.35% investment rate of return (7.50% in 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 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct). In the previous report it was the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.
4. An Experience Study was performed as follows:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

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, 2019 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long- Term Expected Real Rate of Return</u>
Global Equity	39.00%	5.00%
Portfolio Completion Strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private Equity	12.00%	6.60%
Real Estate	10.00%	3.80%
Value Added Fixed Income	10.00%	3.80%
Timber/Natural Resources	4.00%	3.40%
Total	<u>100.00%</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.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy18.pdf>

L) Other Postemployment Benefits (OPEB) Disclosures

Summary of Significant Accounting Policies (OPEB)

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

General Information About the Plan

Plan Description

Plan Administration: The 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 Board of Selectmen's and the Town's Treasurer. The Town's Board of Selectmen has the authority to establish and amend benefit terms.

Plan Membership: At June 30, 2019, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	85
Active Plan Members	<u>155</u>
Total	240

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 Town 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 Town are established by union agreements and may be amended from time to time.

Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Total OPEB Liability	\$15,233,636
Plan Fiduciary Net Position	<u>(1,089,507)</u>
Net OPEB Liability	<u><u>\$14,144,129</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	7.15%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% as of July 1, 2019 and for future periods
Salary Increases	3.00% annually as of July 1, 2019 and for future periods
Investment Rate of Return	6.47%, net of OPEB plan investment expense, including inflation
Municipal Bond Rate	Municipal Bond Rate 2.79% as of June 30, 2019 (source: S&P Municipal Bond 20-Year High Grade Index – (SAPIHG))
Single Equivalent Discount Rate	5.25%, net of OPEB plan investment expense, including inflation (previously 5.0%)
Health Cost Trend Rates	5.00% per Year
Mortality Rates were based on the tables noted below:	
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
Assumption Experience Study	The actuarial assumptions used to calculate the actuarial accrued liability and the service cost primarily reflect the latest experience studies of the Massachusetts PERAC issued in 2014.

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 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 long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class summarized in the target asset allocation as of June 30, 2019, are summarized in the table below:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity - Large Cap	25.00%	4.00%
Domestic Equity - Small/Mid Cap	11.25%	6.00%
International Equity - Developed Market	10.00%	4.50%
International Equity - Emerging Market	3.75%	7.00%
Domestic Fixed Income	26.75%	2.00%
International Fixed Income	13.25%	3.00%
Alternatives	10.00%	6.50%
Real Estate	0.00%	6.25%
	<u>100.00%</u>	

Concentrations

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

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 5.60% (5.32% in prior year). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate: The discount rate used to measure the total OPEB liability was 5.25% (5.0% 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 long-term expected rate of return on OPEB plan investments was applied to determine the total OPEB liability.

Changes in Net OPEB Liability

	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances 7/1/2018	\$ 14,629,703	\$ 598,647	\$ 14,031,056
Prior Period Adjustment	249,598	134,450	115,148
Adjusted Balance	14,879,301	733,097	14,146,204
Service cost	524,237	-	524,237
Interest	795,773	-	795,773
Changes of benefit terms	-	-	-
Changes in assumptions	(467,400)	-	(467,400)
Difference between expected and actual experience	-	-	-
Net investment income	-	56,410	(56,410)
Contributions - employer	-	798,275	(798,275)
Benefit payments	(498,275)	(498,275)	-
Net changes	<u>354,335</u>	<u>356,410</u>	<u>(2,075)</u>
Balances 6/30/19	<u>\$ 15,233,636</u>	<u>\$ 1,089,507</u>	<u>\$ 14,144,129</u>

Changes in Assumptions:

The discount rate is 5.25%. It was 5.00% in the prior year

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 <u>4.25%</u>	Discount Rate <u>5.25%</u>	1% Increase <u>6.25%</u>
Net OPEB Liability (asset)	\$16,489,363	\$14,144,129	\$12,249,767

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 <u>4.00%</u>	Healthcare Cost Trend <u>5.00%</u>	1% Increase <u>6.00%</u>
Net OPEB Liability (asset)	\$10,841,457	\$14,144,129	\$18,301,508

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$1,074,754. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (444,162)
Change in assumptions	-	(390,144)
Net differences between projected and actual earnings on OPEB plan investments	460	(4,379)
	<u>\$ 460</u>	<u>\$ (838,685)</u>

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

Year ended June 30:	Amount
2020	\$ (188,271)
2021	(188,271)
2022	(188,270)
2023	(186,811)
2024	(82,738)
Thereafter	(3,864)
Total	<u>\$ (838,225)</u>

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

III. Detail Notes on All Funds

(A) Accounts Receivable

(A) Accounts Receivable

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

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes:

2019	\$ 196,022
Total Real Estate Taxes	<u>\$ 196,022</u>

(A) Accounts Receivable (Continued)

Personal Property Taxes:		
2019	1,464	
2018	609	
2017	323	
2016	384	
2015	54	
Total Personal Property Taxes	<u>2,834</u>	
Total Property Taxes Receivable		<u>\$ 198,856</u>
Tax Liens		<u>\$ 275,239</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes:		
2019	\$ 91,917	
2018	8,483	
2017	5,714	
2016	1,601	
2015	2,000	
Tax Excise Receivable	<u>109,715</u>	<u>\$ 109,715</u>
Other:		
Police and Fire Details		<u>\$ 26,293</u>
Intergovernmental:		
Commonwealth - Highway Funds	<u>\$ 556,715</u>	
Total Intergovernmental		<u>\$ 556,715</u>
<u>Business Type Activities:</u>		
User Charges:		
Water		<u>\$ 496,377</u>
Liens:		
Water Liens		<u>\$ 1,356</u>

(B) Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2019 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>						
SCH - Roof	\$ 5,259,063	\$ 1,759,063	\$ 5,259,063	\$ 1,759,063	11/22/2019	2.50%
Town Hall Renovation	2,261,680	2,261,680	2,261,680	2,261,680	11/22/2019	2.50%
Town Hall Renovation	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>	<u>-</u>		
Total	<u>\$ 13,520,743</u>	<u>\$ 4,020,743</u>	<u>\$ 13,520,743</u>	<u>\$ 4,020,743</u>		
<u>Business-Type Activities:</u>						
Water Mains - River Road	\$ 970,000	\$ 970,000	\$ 970,000	\$ 970,000	11/22/2019	2.50%
Water Treatment Plant	1,500,000	-	1,500,000	-		
Water Treatment Plant	2,000,000	-	2,000,000	-		
Water Treatment Plant	<u>5,726,549</u>	<u>1,726,549</u>	<u>5,726,549</u>	<u>1,726,549</u>	11/22/2019	2.50%
Total	<u>\$ 10,196,549</u>	<u>\$ 2,696,549</u>	<u>\$ 10,196,549</u>	<u>\$ 2,696,549</u>		

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2019, 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, 2019:

<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, 2018</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2019</u>
Bridge Reconstruction	1/15/2011	\$ 400,000	2.0 - 4.0%	2021	\$ 120,000	\$ -	\$ (40,000)	\$ 80,000
Building Construction	1/15/2011	823,000	2.0 - 4.0%	2020	180,000	-	(90,000)	90,000
Landfill Area - Close	1/15/2011	765,000	2.0 - 4.0%	2021	245,000	-	(80,000)	165,000
Building - Town Hall	2/14/2012	70,000	2.0 - 4.0%	2019	10,000	-	(10,000)	-
Building - School	2/14/2012	66,000	2.0 - 4.0%	2022	35,000	-	(10,000)	25,000
Engineering - School	2/14/2012	267,000	2.0 - 4.0%	2022	115,000	-	(30,000)	85,000
School Project	2/14/2012	1,543,000	2.0 - 4.0%	2022	660,000	-	(160,000)	500,000
Fire Rescue Vehicle	10/20/2017	172,000	3.0 - 4.0%	2025	172,000	-	(22,000)	150,000
Town Hall Ext Window Repair	10/20/2017	172,300	3.0 - 4.0%	2038	172,300	-	(7,300)	165,000
Fire Ladder Truck	10/20/2017	947,000	3.0 - 4.0%	2036	947,000	-	(37,000)	910,000
HWY Catch Basin Cleaner	10/20/2017	108,000	3.0 - 4.0%	2025	108,000	-	(10,000)	98,000
School Ext Painting	10/20/2017	103,500	3.0 - 4.0%	2029	103,500	-	(9,500)	94,000
School Sidewalks	10/20/2017	19,700	3.0 - 4.0%	2022	19,700	-	(4,700)	15,000
School Roof Study	10/20/2017	46,000	3.0 - 4.0%	2028	46,000	-	(3,000)	43,000
School HVAC	10/20/2017	20,000	3.0 - 4.0%	2022	20,000	-	(5,000)	15,000
Town Hall Remodeling	10/20/2017	1,487,000	3.0 - 4.0%	2043	1,487,000	-	(37,000)	1,450,000
Town Hall Remodeling	3/1/2019	5,800,000	3.0 - 5.0%	2044	-	5,800,000	-	5,800,000
School Roof	3/1/2019	3,246,000	3.0 - 5.0%	2038	-	3,246,000	-	3,246,000
					<u>\$ 4,440,500</u>	<u>\$ 9,046,000</u>	<u>\$ (555,500)</u>	<u>\$ 12,931,000</u>

Total Governmental Activities

<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, 2018</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2019</u>
Washington Grove	1/15/2011	\$ 505,000	2.0 - 4.0%	2026	\$ 260,000	\$ -	\$ (35,000)	\$ 225,000
Water Mains Ipswich RD	1/15/2011	550,000	2.0 - 4.0%	2026	280,000	-	(35,000)	245,000
10% Public Works Bond	1/15/2011	40,000	2.0 - 4.0%	2021	20,000	-	(10,000)	10,000
Washington St Mains	10/20/2017	930,900	3.0 - 4.0%	2035	930,900	-	(42,900)	888,000
Water Treatment Plant	10/20/2017	626,600	3.0 - 4.0%	2035	626,600	-	(29,600)	597,000
Water Treatment Facility	10/15/2018	3,465,000	3.0 - 5.0%	2039	-	3,465,000	-	3,465,000
Water Treatment Facility Construction	3/1/2019	3,734,000	3.0 - 5.0%	2039	-	3,734,000	-	3,734,000
					<u>\$ 2,117,500</u>	<u>\$ 7,199,000</u>	<u>\$ (152,500)</u>	<u>\$ 9,164,000</u>

Total Business Type Activities

(B) Liabilities (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$766,000	\$467,096	\$529,000	\$342,696
2021	675,000	442,321	520,000	319,546
2022	650,000	419,681	520,000	296,506
2023	460,000	395,856	515,000	272,656
2024	480,000	374,306	515,000	250,319
2025 - 2029	2,560,000	1,534,081	2,335,000	944,094
2030 - 2034	2,820,000	995,331	2,165,000	521,525
2035 - 2039	2,600,000	559,191	2,065,000	182,388
2040 - 2044	<u>1,920,000</u>	<u>192,413</u>	-	-
	<u>\$12,931,000</u>	<u>\$5,380,276</u>	<u>\$9,164,000</u>	<u>\$3,129,730</u>

(c) Refunding of Long Term Debt

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

<u>Fiscal Year</u>	<u>Existing Debt Principal & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2020	\$734,250	\$222,200
2021	727,500	208,000
2022	<u>724,500</u>	<u>204,000</u>
	<u>\$2,186,250</u>	<u>\$634,200</u>

Economic Gain from Refunding Issue

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

(B) Liabilities (Continued)

(e) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2019, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 3, 2016	Town Hall Design/Remodeling	\$2,261,680
May 2, 2017	Water Mains	1,500,000
May 2, 2017	School Roofs	4,151,757
June 20, 2017	Water Treatment Facility	<u>1,726,549</u>
	Total	<u>\$9,639,986</u>

iii Changes in the government's long-term liabilities for the year ended June 30, 2019 are as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Bonds Payable	\$ 4,440,500	\$ 9,046,000	\$ (555,500)	\$ 12,931,000	\$ 766,000
Add: Unamortized Premium	-	465,644	-	465,644	23,282
Bonds Payable	4,440,500	9,511,644	(555,500)	13,396,644	789,282
Post-Closure Landfill Monitoring	746,928	-	(35,934)	710,994	38,700
Compensated Absences	374,387	149,299	(74,877)	448,809	89,762
Net Pension Liability	12,081,719	4,161,249	(2,808,493)	13,434,475	-
Other Post Employment Benefits	<u>14,023,667</u>	<u>822,951</u>	<u>(829,455)</u>	<u>14,017,163</u>	-
Total Governmental Activities	<u>\$ 31,667,201</u>	<u>\$ 14,645,143</u>	<u>\$ (4,304,259)</u>	<u>\$ 42,008,085</u>	<u>\$ 917,744</u>
Business Type Activities:					
Bonds Payable	\$ 2,117,500	\$ 7,199,000	\$ (152,500)	\$ 9,164,000	\$ 529,000
Add: Unamortized Premium	-	266,000	-	266,000	13,300
Total Bonds Payable	2,117,500	7,465,000	(152,500)	9,430,000	542,300
Compensated Absences	8,230	2,268	(1,646)	8,852	1,770
Net Pension Liability	686,779	173,678	(152,933)	707,524	-
Other Post Employment Benefits	<u>122,537</u>	<u>13,659</u>	<u>(9,230)</u>	<u>126,966</u>	-
Total Business Type Activities	<u>\$ 2,935,046</u>	<u>\$ 7,654,605</u>	<u>\$ (316,309)</u>	<u>\$ 10,273,342</u>	<u>\$ 544,070</u>

IV. Subsequent Year Authorizations

At the May 7, 2019 annual town meeting, the Town adopted a fiscal 2020 operating and capital budget of \$33,110,958. Fiscal 2020 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	\$ 28,381,482
Enterprise Fund Revenues and Retained Earnings	2,331,363
Other Available Funds	315,011
General Fund - Committed Fund Balance	1,583,102
General Fund - Assigned Fund Balance	500,000
Total	<u>\$ 33,110,958</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 \$151,094.

VI. Implementation of New GASB Pronouncements

During fiscal year 2019, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* which is required to be implemented for reporting periods beginning after June 15, 2018. The implementation of this statement did not impact the financial statements.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in reporting periods beginning after December 15, 2018. The implementation of this statement did not significantly impact the financial statements.
- The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which is required to be implemented in reporting periods beginning after June 15, 2018. The implementation of this statement did not impact the financial statements.

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

- The GASB issued Statement No. 87, *Leases* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 90 *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* which is required to be implemented in reporting periods beginning after December 15, 2018.
- The GASB issued Statement No. 91, *Conduit Debt Obligations* which is required to be implemented in reporting periods beginning after December 15, 2020.

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

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, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<u>Revenues</u>				
Property Taxes	\$ 23,804,751	\$ 23,804,751	\$ 23,743,312	\$ (61,439)
Tax Liens	-	-	47,586	47,586
Excises	1,000,000	1,000,000	1,187,121	187,121
Penalties and Interest	25,000	25,000	27,570	2,570
Licenses and Permits	190,000	190,000	318,977	128,977
Intergovernmental	1,971,181	1,971,181	1,978,472	7,291
Charges for Services	194,000	194,000	304,962	110,962
Fines and Forfeits	40,000	40,000	22,802	(17,198)
Earnings on Investments	15,000	15,000	78,526	63,526
In Lieu of Taxes	75,000	75,000	232,854	157,854
Miscellaneous	-	-	40,238	40,238
Total Revenues	<u>27,314,932</u>	<u>27,314,932</u>	<u>27,982,420</u>	<u>667,488</u>
<u>Expenditures</u>				
General Government	1,572,770	1,665,919	1,627,337	38,582
Public Safety	2,718,176	2,812,387	2,664,899	147,488
Education	15,947,585	16,046,585	16,011,386	35,199
Highway and Public Works	1,707,080	1,697,580	1,646,545	51,035
Health and Human Services	263,776	262,696	242,444	20,252
Culture and Recreation	609,774	609,774	604,570	5,204
Debt Service	1,139,567	1,139,567	1,095,062	44,505
Intergovernmental	315,376	315,376	296,652	18,724
Employee Benefits	3,934,577	3,658,797	3,701,062	(42,265)
Total Expenditures	<u>28,208,681</u>	<u>28,208,681</u>	<u>27,889,957</u>	<u>318,724</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(893,749)</u>	<u>(893,749)</u>	<u>92,463</u>	<u>986,212</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	236,166	236,166	236,166	-
Transfers Out	(440,000)	(440,000)	(448,630)	(8,630)
Free Cash	1,097,583	1,097,583	1,097,583	-
Total Other Financing Sources (Uses)	<u>893,749</u>	<u>893,749</u>	<u>885,119</u>	<u>(8,630)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,582</u>	<u>\$ 977,582</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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Town's proportionate share of net pension liability (asset) (%)	3.347491%	3.392671%	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) (\$)	14,141,999	12,768,498	13,593,536	12,512,102	11,477,481					
Town's covered payroll	4,544,928	4,366,319	4,405,007	4,486,856	4,050,676					
Town's proportionate share of net pension liability (asset) as a percentage of its covered payroll	311.16%	292.43%	308.59%	278.86%	283.35%					
Plan fiduciary net position as a percentage of the pension liability	51.89%	55.40%	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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</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	\$ 1,118,667	\$ 1,056,547	\$ 1,022,265	\$ 946,077	\$ 867,685					
Contributions in relation to the contractually required contribution	<u>(1,121,142)</u>	<u>(1,058,923)</u>	<u>(1,024,777)</u>	<u>(948,614)</u>	<u>(867,685)</u>	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ (2,475)</u>	<u>\$ (2,376)</u>	<u>\$ (2,512)</u>	<u>\$ (2,537)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	4,544,928	4,366,319	4,405,007	4,486,856	4,050,676					
Contributions as a percentage of covered payroll	24.67%	24.25%	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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Town's proportionate share of collective net pension liability (asset) (%)	0.00%	0.00%	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>\$ 18,211,552</u>	<u>\$ 17,178,385</u>	<u>\$ 16,424,903</u>	<u>\$ 15,159,297</u>	<u>\$10,923,645</u>					
Total	<u>\$ 18,211,552</u>	<u>\$ 17,178,385</u>	<u>\$ 16,424,903</u>	<u>\$ 15,159,297</u>	<u>\$10,923,645</u>					
Town's covered payroll	5,393,912	5,097,129	4,832,143	4,689,826	4,213,440					
Town's proportionate share of net pension liability (asset) as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%					
Plan fiduciary net position as a percentage of the pension liability	54.84%	54.25%	52.73%	55.38%	61.64%					
Town's expense and revenue recognized for Commonwealth support	<u>\$ 1,845,477</u>	<u>\$ 1,792,958</u>	<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 Changes in the Net OPEB Liability and Related Ratios (GASB 74 and GASB 75 Reporting)
June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total OPEB liability										
Service cost	\$ 524,237	\$ 525,119	\$ 597,061	<i>This schedule is intended to show information for 10 years.</i>						
Interest	795,773	719,231	708,300	<i>Additional years' information will be displayed as it becomes available.</i>						
Changes of benefit terms	-	-	-							
Difference between expected and actual experience	-	(2,132,648)	-							
Changes in assumptions	(467,400)	-	-							
Benefit payments including implicit cost	(498,275)	(443,713)	(468,827)							
Net change in total OPEB liability	<u>354,335</u>	<u>(1,332,011)</u>	<u>836,534</u>							
Total OPEB liability - beginning	<u>14,879,301</u>	<u>16,211,312</u>	<u>15,374,778</u>							
Total OPEB liability - ending (a)	<u><u>\$ 15,233,636</u></u>	<u><u>\$ 14,879,301</u></u>	<u><u>\$ 16,211,312</u></u>							
 Plan Fiduciary net position										
Contributions - employer	\$ 798,275	\$ 543,713	\$ 568,827							
Net investment income	56,410	34,450	40,148							
Benefit payments	(498,275)	(443,713)	(468,827)							
Administrative expense	-	-	-							
Net change in plan fiduciary net position	<u>356,410</u>	<u>134,450</u>	<u>140,148</u>							
Plan fiduciary net position - beginning	<u>733,097</u>	<u>598,647</u>	<u>458,499</u>							
Plan fiduciary net position - ending (b)	<u><u>\$ 1,089,507</u></u>	<u><u>\$ 733,097</u></u>	<u><u>\$ 598,647</u></u>							
 Town's net OPEB liability - ending (a) - (b)	<u><u>\$ 14,144,129</u></u>	<u><u>\$ 14,146,204</u></u>	<u><u>\$ 15,612,665</u></u>							
 Plan fiduciary net position as a percentage of the total OPEB liability	7.15%	4.93%	3.69%							
 Covered payroll	\$ 13,399,976	\$ 12,941,235	\$ 9,205,453							
 Town's net OPEB liability as a percentage of covered payroll	105.55%	109.31%	169.60%							
<i>Benefit changes</i>										
None										
<i>Changes in assumption</i>										
The discount rate was changed from 5.00% to 5.25%										

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Contributions (Employer Reporting - GASB 74 and GASB 75 Reporting)
 June 30, 2019
 Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarial determined contribution	\$ 1,423,506	\$ 1,492,382	\$ 1,473,361	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>						
Contributions in relating to the actuarially determined contribution	798,275	543,713	568,827							
Contribution deficiency (excess)	<u>\$ 625,231</u>	<u>\$ 948,669</u>	<u>\$ 904,534</u>							
Covered payroll	\$ 13,399,976	\$ 12,941,235	\$ 9,205,453							
Contributions as a percentage of covered payroll	5.96%	4.20%	6.18%							

Notes to Schedule

Valuation date: 7/1/2017 7/1/2017 7/1/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method Individual Entry Age Normal Actuarial Cost
 Asset valuation method Market Value of the Plan's assets as of the measurement date
 Inflation 2.75%
 Single Equivalent Discount Rate 5.25% (5.0% in prior report)
 Salary increases 3.00% per annum

Mortality

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 5.25%. It was, previously, 5.0%.

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Investment Returns (GASB 74 Plan Reporting)
 June 30, 2019
 Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Annual money-weighted rate of return, net of investment expense	5.60%	5.32%	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, 2019

(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. 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. 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 Actuarial Assumptions and Plan Provisions

Effective January 1, 2018 the following changes were made:

Actuarial Assumptions

There were not any changes in the actuarial assumptions.

Plans Provisions

There were not any changes in the plan provisions

iv. Schedule of Town's Proportionate Share of the Net Pension Liability

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

v. Schedule of the Town's Contributions

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

(C) Other Postemployment Benefits

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 Board of Selectmen and the Town's Treasurer. The Town's Board of Selectmen has the authority to establish and amend benefit terms.

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.

i. Schedules of Net OPEB Liability and Related Ratios (GASB 74 and GASB 75)

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

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

The schedule details the Town's actuarially required contributions, the contributions made by the Town, the deficiency/(excess) of contributions made by the Town, the Town's covered payroll and the Town's contributions as a percentage of covered payroll.

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

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

(D) 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, 2019, the Town's proportionate share of the collective pension expense was \$1,845,477. 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, 2019, or fund balance/net position at June 30, 2019.

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.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy18.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

In addition, members who join the system on or after April 2, 2012 will have their withholding rate reduced to 8% after achieving 30 years of creditable service.

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

1. (a) 7.35% investment rate of return (7.50% in 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 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct). In the previous report it was the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.
4. An Experience Study was performed as follows:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011

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.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy18.pdf>

i. Schedule of Proportionate Share of the Net Pension Liability – Massachusetts Teachers Retirement System

The schedule provides information about the net pension liability for the Town's teachers. The Commonwealth of Massachusetts is responsible for the entire liability.

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, 2019, 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 January 31, 2020.

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

January 31, 2020