

TOWN OF TOPSFIELD, MASSACHUSETTS

Financial Statements

June 30, 2020

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Topsfield, Massachusetts
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 For the Year Ended June 30, 2020
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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, 2020 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, 2020 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 March 25, 2021, on our consideration of the Town of Topsfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Topsfield's internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

March 25, 2021

**Town of Topsfield, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2020**

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, 2020.

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 \$22,882,878 (net position). The unrestricted net position of the Town's governmental activities is a deficit of (\$21,057,394). The deficit in the governmental activities is, primarily, due to reporting the Town's other post employment benefits liability and the net pension liability. The unrestricted net position of business-type activities is \$1,084,598 and may be used to meet the ongoing obligations of the Town's Business-type activities.

The total revenue for fiscal year 2020 was \$35,222,926 from governmental activities, and \$2,339,623 from Business-type activities.

The total cost of all Town services for fiscal year 2020 was \$35,718,901, of which \$33,819,984 was for governmental activities, and \$1,898,917 of which was for business-type activities.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,645,629 or 14.6% of total general fund expenditures.

The total long term debt for the Town as of June 30, 2020, was \$28,225,654. During fiscal year 2020, long term debt was issued, principal payments were made, and bond premiums were received and amortized. These transactions affected the Water enterprise fund and the general long term debt. As a result, the Town's total long term debt increased by \$5,399,010 or 24% during the year.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction of the Town of Topsfield, Massachusetts' basic financial statements. The Town of Topsfield, Massachusetts' basic financial statements consist of the following: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

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

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

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

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

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

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

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Town maintains fiduciary funds to account for activities related to charitable and scholarship trust funds and for its Other Post Employment Benefits (OPEB) trust fund. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

Notes to the Financial Statements

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

Other Information

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

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

Financial Analysis of the Government-wide Financial Statements

Net Position

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

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and Other Assets	\$ 22,157,370	\$ 21,748,300	\$ 2,682,931	\$ 2,863,845	\$ 24,840,301	\$ 24,612,145
Capital Assets	38,524,479	39,012,070	17,668,650	17,830,254	56,193,129	56,842,324
Total Assets	<u>60,681,849</u>	<u>60,760,370</u>	<u>20,351,581</u>	<u>20,694,099</u>	<u>81,033,430</u>	<u>81,454,469</u>
Deferred Outflows of Resources	1,643,112	1,548,403	89,718	81,186	1,732,830	1,629,589
Current Liabilities	1,651,342	6,241,223	846,192	3,552,826	2,497,534	9,794,049
Long Term Liabilities	41,062,827	41,090,341	11,769,032	9,729,272	52,831,859	50,819,613
Total Liabilities	<u>42,714,169</u>	<u>47,331,564</u>	<u>12,615,224</u>	<u>13,282,098</u>	<u>55,329,393</u>	<u>60,613,662</u>
Deferred Inflows of Resources	4,468,983	1,393,424	85,006	37,742	4,553,989	1,431,166
Net Position:						
Net Investment in Capital Assets	21,887,246	21,976,202	6,656,471	6,580,451	28,543,717	28,556,653
Restricted	14,311,957	13,036,235	-	-	14,311,957	13,036,235
Unrestricted	(21,057,394)	(21,428,652)	1,084,598	874,994	(19,972,796)	(20,553,658)
Total Net Position	<u>\$ 15,141,809</u>	<u>\$ 13,583,785</u>	<u>\$ 7,741,069</u>	<u>\$ 7,455,445</u>	<u>\$ 22,882,878</u>	<u>\$ 21,039,230</u>

The net position of the Town increased by 1,843,648. The net position of the governmental activities increased by \$1,558,024 or 11.5% and the net position of the business-type activities increased by \$285,624 or 3.8%.

Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net position have changed during the fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,340,260	\$ 1,198,975	\$ 2,339,623	\$ 1,756,403	\$ 3,679,883	\$ 2,955,378
Operating Grants and Contributions	6,510,630	5,453,538	-	-	6,510,630	5,453,538
Capital Grants and Contributions	-	2,115,117	-	-	-	2,115,117
General Revenues:						
Property Taxes	25,028,668	23,899,815	-	-	25,028,668	23,899,815
Motor Vehicle and Other Excises	1,232,555	1,224,754	-	-	1,232,555	1,224,754
Intergovernmental Not Restricted to a Specific Program	791,874	763,543	-	-	791,874	763,543
Other	318,939	436,047	-	-	318,939	436,047
Total Revenues	<u>35,222,926</u>	<u>35,091,789</u>	<u>2,339,623</u>	<u>1,756,403</u>	<u>37,562,549</u>	<u>36,848,192</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expenses						
General Government	2,338,475	2,121,411	-	-	2,338,475	2,121,411
Public Safety	2,935,497	2,920,378	-	-	2,935,497	2,920,378
Education	20,747,739	19,136,214	-	-	20,747,739	19,136,214
Highways and Public Works	2,221,260	2,043,593	-	-	2,221,260	2,043,593
Human Services	284,148	273,151	-	-	284,148	273,151
Culture and Recreation	917,811	915,079	-	-	917,811	915,079
Debt Service	635,511	795,231	-	-	635,511	795,231
Employee Benefits	3,739,543	4,745,043	-	-	3,739,543	4,745,043
Water	-	-	1,898,917	1,542,588	1,898,917	1,542,588
Total Expenses	<u>33,819,984</u>	<u>32,950,100</u>	<u>1,898,917</u>	<u>1,542,588</u>	<u>35,718,901</u>	<u>34,492,688</u>
Increase (Decrease) in Net Position						
Before Transfers	1,402,942	2,141,689	440,706	213,815	1,843,648	2,355,504
Transfers	<u>155,082</u>	<u>124,760</u>	<u>(155,082)</u>	<u>(124,760)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 1,558,024</u>	<u>\$ 2,266,449</u>	<u>\$ 285,624</u>	<u>\$ 89,055</u>	<u>\$ 1,843,648</u>	<u>\$ 2,355,504</u>

Governmental Activities

In fiscal year 2020, property taxes accounted for approximately 71% of the revenues. In fiscal year 2019, property taxes accounted for 68% of the revenues. The Town received a large capital grant received in fiscal year 2019. That caused the fiscal year 2019 percentage to be lower than what is typical for the Town.

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 \$95,814 less 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>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
2020	-	1,389,134	515,774	4,645,629	6,550,537

<u>Fiscal Year</u>	<u>Free Cash</u>
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
2020	2,618,095

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 \$7,741,069. The unrestricted net position at the end of the fiscal year was \$1,084,598 which is a \$209,604 or 24% increase over the unrestricted net position at the end of the prior fiscal year.

General Fund Budgetary Highlights

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, 2020, amounts to \$56,193,129 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
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	-	-	-	15,948	-	15,948
Buildings	24,669,223	25,261,901	11,446,211	11,345,753	36,115,434	36,607,654
Improvements Other Than Buildings	100,925	57,765	-	-	100,925	57,765
Infrastructure	5,235,854	5,401,459	5,855,799	6,102,890	11,091,653	11,504,349
Equipment	947,635	530,226	33,867	13,417	981,502	543,643
Vehicles	1,879,265	2,069,142	9,735	29,208	1,889,000	2,098,350
Total	<u>\$ 38,524,479</u>	<u>\$ 39,012,070</u>	<u>\$ 17,668,650</u>	<u>\$ 17,830,254</u>	<u>\$ 56,193,129</u>	<u>\$ 56,842,324</u>

Debt

The Town had \$28,225,654 in bonds payable outstanding on June 30, 2020. This represents a \$5,399,010 increase.

	2020	2019	Increase (Decrease)
Governmental Activities			
General Obligation Bonds Payable	<u>\$ 16,641,555</u>	<u>\$ 13,396,644</u>	<u>\$ 3,244,911</u>
Business-type Activities			
Water	<u>11,584,099</u>	<u>9,430,000</u>	<u>2,154,099</u>
Total Debt	<u>\$ 28,225,654</u>	<u>\$ 22,826,644</u>	<u>\$ 5,399,010</u>

Fiscal Year 2021 Budget

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

The Town utilized \$1,298,000 of general fund reserves to fund the fiscal year 2021 budget. However, the Town’s “free cash” was still a healthy \$2,618,095 as of June 30, 2020.

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, 2020

	Governmental Activities	Business - Type Activities	Government - Wide Total
Assets			
Current:			
Cash/Investments	\$ 21,227,141	\$ 1,955,448	\$ 23,182,589
Petty Cash	420	-	420
Receivables:			
Property Taxes	285,131	-	285,131
Tax Liens	274,103	-	274,103
Excises	87,785	-	87,785
User Charges	140,945	726,127	867,072
Other	45,574	-	45,574
Intergovernmental Liens	96,271 -	- 1,356	96,271 1,356
Noncurrent:			
Capital Assets:			
Assets Not Being Depreciated	5,691,577	323,038	6,014,615
Assets Being Depreciated, Net	32,832,902	17,345,612	50,178,514
Total Assets	60,681,849	20,351,581	81,033,430
Deferred Outflows of Resources			
Pension	1,604,868	89,371	1,694,239
Other Post Employment Benefit Obligations	33,922	347	34,269
Debt Refunding	4,322	-	4,322
Total Deferred Outflows of Resources	1,643,112	89,718	1,732,830
Liabilities			
Current:			
Warrants and Accounts Payable	256,370	50,407	306,777
Accrued Salaries Payable	204,880	14,379	219,259
Employees' Withholding Payable	115,419	-	115,419
Intergovernmental	1,981	-	1,981
Unclaimed Checks	5,489	-	5,489
Landfill Closure Costs Payable	40,000	-	40,000
Other	2,917	-	2,917
Accrued Interest	152,694	100,420	253,114
Bonds Payable	810,715	676,358	1,487,073
Compensated Absences	60,877	4,628	65,505
Noncurrent:			
Bonds Payable	15,830,840	10,907,741	26,738,581
Compensated Absences	243,507	18,511	262,018
Landfill Closure Costs Payable	636,944	-	636,944
Net Pension Liability	13,604,797	757,618	14,362,415
Other Post Employment Benefit Liability	10,746,739	85,162	10,831,901
Total Liabilities	42,714,169	12,615,224	55,329,393
Deferred Inflows of Resources			
Pension	870,699	48,487	919,186
Other Post Employment Benefit Obligations	3,574,635	36,519	3,611,154
Deferred Revenues	23,649	-	23,649
Total Deferred Inflows of Resources	4,468,983	85,006	4,553,989
Net Position			
Net Investment in Capital Assets	21,887,246	6,656,471	28,543,717
Restricted for:			
Gifts, Grants and Other Statutory Restrictions	2,091,720	-	2,091,720
Perpetual Funds:			
Expendable	1,234,809	-	1,234,809
Nonexpendable	10,985,428	-	10,985,428
Unrestricted	(21,057,394)	1,084,598	(19,972,796)
Total Net Position	\$ 15,141,809	\$ 7,741,069	\$ 22,882,878

Town of Topsfield, Massachusetts

Statement of Activities

Fiscal Year Ended June 30, 2020

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges	Operating	Capital	Governmental Activities	Business-Type Activities	Total
		for Services	Grants and Contributions	Grants and Contributions			
<i>Governmental Activities:</i>							
General Government	\$ 2,338,475	\$ 119,445	\$ 692,068	\$ -	\$ (1,526,962)	\$ -	\$ (1,526,962)
Public Safety	2,935,497	621,810	593,591	-	(1,720,096)	-	(1,720,096)
Education	20,747,739	462,089	3,845,535	-	(16,440,115)	-	(16,440,115)
Highways and Public Works	2,221,260	45,665	305,259	-	(1,870,336)	-	(1,870,336)
Human Services	284,148	89,251	63,892	-	(131,005)	-	(131,005)
Culture and Recreation	917,811	2,000	946,245	-	30,434	-	30,434
Debt Service	635,511	-	64,040	-	(571,471)	-	(571,471)
Employee Benefits	3,739,543	-	-	-	(3,739,543)	-	(3,739,543)
Total Governmental Activities	33,819,984	1,340,260	6,510,630	-	(25,969,094)	-	(25,969,094)
<i>Business-Type Activities:</i>							
Water	1,898,917	2,339,623	-	-	-	440,706	440,706
Total Business-Type Activities	1,898,917	2,339,623	-	-	-	440,706	440,706
Total	\$ 35,718,901	\$ 3,679,883	\$ 6,510,630	\$ -	(25,969,094)	440,706	(25,528,388)
<i>General Revenues:</i>							
Property Taxes					25,028,668	-	25,028,668
Motor Vehicle and Other Excise Taxes					1,232,555	-	1,232,555
Penalties and Interest on taxes					36,568	-	36,568
Other Taxes and Assessments					85,825	-	85,825
Intergovernmental - Unrestricted					791,874	-	791,874
Interest and Investment Income					128,335	-	128,335
Other Revenue					54,511	-	54,511
Contributions to Permanent Funds					13,700	-	13,700
Transfers In (Out)					155,082	(155,082)	-
Total General Revenues					27,527,118	(155,082)	27,372,036
Change in Net Position					1,558,024	285,624	1,843,648
<i>Net Position:</i>							
Beginning of the Year					13,583,785	7,455,445	21,039,230
End of the Year					\$ 15,141,809	\$ 7,741,069	\$ 22,882,878

Town of Topsfield, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2020

	<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	\$ 7,020,177	\$ 10,893,408	\$ 913	\$ (20,217)	\$ 3,332,860	\$ 21,227,141
Petty Cash	420	-	-	-	-	420
Receivables:						
Property Taxes	285,131	-	-	-	-	285,131
Tax Liens	274,103	-	-	-	-	274,103
Excises	87,785	-	-	-	-	87,785
User Charges	140,945	-	-	-	-	140,945
Other	-	-	-	-	45,574	45,574
Intergovernmental	-	-	-	-	96,271	96,271
Tax Foreclosures	33,939	-	-	-	-	33,939
Total Assets	<u>\$ 7,842,500</u>	<u>\$ 10,893,408</u>	<u>\$ 913</u>	<u>\$ (20,217)</u>	<u>\$ 3,474,705</u>	<u>\$ 22,191,309</u>
Liabilities:						
Warrants and Accounts Payable	\$ 238,516	\$ -	\$ -	\$ -	\$ 17,854	\$ 256,370
Accrued Salaries Payable	184,765	-	-	-	20,115	204,880
Employees' Withholding Payable	115,419	-	-	-	-	115,419
Intergovernmental	1,981	-	-	-	-	1,981
Unclaimed Checks	5,489	-	-	-	-	5,489
Other	-	-	-	-	2,917	2,917
Total Liabilities	<u>546,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,886</u>	<u>587,056</u>
Deferred Inflows of Resources:						
Unavailable Revenues	745,793	-	-	-	15,270	761,063
Total Deferred Inflows of Resources	<u>745,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,270</u>	<u>761,063</u>
Fund Equity:						
Fund Balances:						
Nonspendable	-	10,140,030	-	-	845,398	10,985,428
Restricted	-	753,378	913	-	2,418,088	3,172,379
Committed	1,389,134	-	-	-	155,063	1,544,197
Assigned	515,774	-	-	-	-	515,774
Unassigned	4,645,629	-	-	(20,217)	-	4,625,412
Total Fund Balances	<u>6,550,537</u>	<u>10,893,408</u>	<u>913</u>	<u>(20,217)</u>	<u>3,418,549</u>	<u>20,843,190</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,842,500</u>	<u>\$ 10,893,408</u>	<u>\$ 913</u>	<u>\$ (20,217)</u>	<u>\$ 3,474,705</u>	<u>\$ 22,191,309</u>

Town of Topsfield, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2020

	<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	\$ 24,834,004	\$ -	\$ -	\$ -	\$ -	\$ 24,834,004
Tax Liens	84,352	-	-	-	-	84,352
Excises	1,177,419	-	-	-	-	1,177,419
Penalties and Interest	36,568	-	-	-	-	36,568
Licenses and Permits	273,240	-	-	-	-	273,240
Intergovernmental	4,362,448	-	-	-	1,822,011	6,184,459
Charges for Services	505,386	-	-	-	526,144	1,031,530
Fines and Forfeits	24,730	-	-	-	-	24,730
Earnings on Investments	85,825	913,014	-	-	37,380	1,036,219
In Lieu of Taxes	128,335	-	-	-	-	128,335
Contributions	-	-	-	-	82,595	82,595
Miscellaneous	35,755	-	-	-	87,557	123,312
Total Revenues	<u>31,548,062</u>	<u>913,014</u>	<u>-</u>	<u>-</u>	<u>2,555,687</u>	<u>35,016,763</u>
<u>Expenditures:</u>						
General Government	1,581,366	-	42,651	-	337,207	1,961,224
Public Safety	2,577,202	-	-	-	442,324	3,019,526
Education	19,566,621	-	-	351,689	667,899	20,586,209
Highways and Public Works	1,753,391	-	-	-	497,865	2,251,256
Human Services	247,916	-	-	-	36,232	284,148
Culture and Recreation	630,908	136,117	-	-	40,253	807,278
Debt Service	1,347,143	-	-	-	60,056	1,407,199
Intergovernmental	207,416	-	-	-	-	207,416
Employee Benefits	3,862,021	-	-	-	-	3,862,021
Total Expenditures	<u>31,773,984</u>	<u>136,117</u>	<u>42,651</u>	<u>351,689</u>	<u>2,081,836</u>	<u>34,386,277</u>
Excess of Revenues Over (Under) Expenditures	<u>(225,922)</u>	<u>776,897</u>	<u>(42,651)</u>	<u>(351,689)</u>	<u>473,851</u>	<u>630,486</u>
<u>Other Financing Sources (Uses):</u>						
Transfers In	205,308	-	-	-	75,200	280,508
Transfers (Out)	(75,200)	-	-	-	(50,226)	(125,426)
Bond Premiums	-	-	79,680	94,063	-	173,743
Proceeds from Bonds	-	-	2,182,000	1,665,000	-	3,847,000
Total Other Financing Sources (Uses)	<u>130,108</u>	<u>-</u>	<u>2,261,680</u>	<u>1,759,063</u>	<u>24,974</u>	<u>4,175,825</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(95,814)</u>	<u>776,897</u>	<u>2,219,029</u>	<u>1,407,374</u>	<u>498,825</u>	<u>4,806,311</u>
Fund Balance, Beginning	<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>
Fund Balance, Ending	<u>\$ 6,550,537</u>	<u>\$ 10,893,408</u>	<u>\$ 913</u>	<u>\$ (20,217)</u>	<u>\$ 3,418,549</u>	<u>\$ 20,843,190</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, 2020

Total governmental fund balances	\$	20,843,190
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		38,524,479
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		703,475
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		1,604,868
Deferred Outflows of Resources - OPEB		33,922
Deferred Inflows of Resources - Pensions		(870,699)
Deferred Inflows of Resources - OPEB		(3,574,635)
Deferred Outflows of Resources - Debt Refundings		4,322
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds Payable		(16,641,555)
Accrued Interest on Bonds		(152,694)
Other Post Employment Benefit Obligations		(10,746,739)
Net Pension Liability		(13,604,797)
Landfill Liability		(676,944)
Compensated Absences		(304,384)
		(304,384)
Net position of governmental activities	\$	15,141,809

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, 2020

Net change in fund balances - total governmental funds \$ 4,806,311

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Assets Acquired	1,079,014	
Depreciation	(1,585,361)	
Gain (loss) on Sale of Asset	<u>18,756</u>	
Net Effect of Reporting Capital Assets		(487,591)

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.

187,407

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.

(3,247,072)

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.

(1,983)

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.

300,952

Change in net position of governmental activities

\$ 1,558,024

Town of Topsfield, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2020

	<u>Water Enterprise</u>
Assets	
Current:	
Cash and Cash Investments	\$ 1,955,448
Receivables, Net of Allowance for Uncollectibles:	
User Charges	726,127
Liens	1,356
Noncurrent:	
Assets Not Being Depreciated	323,038
Assets Being Depreciated, Net	17,345,612
Total Assets	20,351,581
Deferred Outflows of Resources	
Pension	89,371
Other Post Employment Benefit Obligations	347
Total Deferred Outflows of Resources	89,718
Liabilities	
Current:	
Warrants Payable	50,407
Accrued Wages Payable	14,379
Accrued Interest Payable	100,420
Compensated Absences	4,628
Bonds Payable	676,358
Noncurrent:	
Bonds Payable	10,907,741
Net Pension Liability	757,618
Compensated Absences	18,511
Other Post Employment Benefit Obligations	85,162
Total Liabilities	12,615,224
Deferred Inflows of Resources	
Pension	48,487
Other Post Employment Benefit Obligations	36,519
Total Deferred Outflows of Resources	85,006
Net Position	
Net Investment in Capital Assets	6,656,471
Unrestricted	1,084,598
Total Net Position	\$ 7,741,069

Town of Topsfield, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2020

	<u>Water Enterprise</u>
Operating Revenues:	
Charges for Services	\$ 2,339,623
Total Operating Revenues	<u>2,339,623</u>
Operating Expenditures:	
Personal Services	378,671
Nonpersonal Service	539,509
Depreciation	<u>568,636</u>
Total Operating Expenditures	<u>1,486,816</u>
Operating Income (Loss)	<u>852,807</u>
Nonoperating Revenues (Expenses):	
Interest Expense	<u>(412,101)</u>
Total Nonoperating Revenues (Expenses)	<u>(412,101)</u>
Income (Loss) Before Transfers	<u>440,706</u>
Transfers Out	<u>(155,082)</u>
Total Transfers	<u>(155,082)</u>
Change in Net Position	<u>285,624</u>
Total Net Position July 1, 2019	<u>7,455,445</u>
Total Net Position June 30, 2020	<u><u>\$ 7,741,069</u></u>

Town of Topsfield, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2020

	Water <u>Enterprise</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 2,109,873
Payments to Employees	(363,288)
Payments to Vendors	(644,974)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,101,611</u>
Cash Flows from Non Capital Related Financing Activities:	
Transfer from (to) Other Funds	<u>(155,082)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(155,082)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(407,032)
Payment of Bond Anticipation Note	(2,696,549)
Premium on Bond	148,549
Proceeds from Bonds	2,548,000
Principal Payments on Notes and Bonds	(529,000)
Interest Expense	<u>(421,161)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(1,357,193)</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>(410,664)</u>
Cash and Cash Equivalents, July 1, 2019	<u>2,366,112</u>
Cash and Cash Equivalents, June 30, 2020	<u>\$ 1,955,448</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 852,807
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	568,636
(Increase) Decrease in Assets/Deferred Outflows of Resources	
Accounts Receivable - Customer	(229,750)
Deferred Outflows of Resources - OPEB	(342)
Deferred Outflows of Resources - Pensions	(8,190)
Increase (Decrease) in Liabilities/Deferred Inflows of Resources	47,264
Warrants and Accounts Payable	(137,104)
Net Pension Liability	50,094
Other Post Employment Benefit Obligations	(41,804)
Net Cash Provided by Operating Activities	<u>\$ 1,101,611</u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Net Position
June 30, 2020

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Assets			
Cash and Cash Investments	\$ 656,679	\$ -	\$ 656,679
Investments:			
Domestic Equity - Large Cap	-	286,047	286,047
Domestic Equity - Small/Mid Cap	-	143,023	143,023
International Equity - Developed Market	-	143,023	143,023
International Equity - Emerging Market	-	71,512	71,512
Domestic Fixed Income	-	357,558	357,558
International Fixed Income	-	143,023	143,023
Alternatives	-	286,046	286,046
Total Assets	<u>656,679</u>	<u>1,430,232</u>	<u>2,086,911</u>
Liabilities			
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Restricted for:			
Other Post Employment Benefits	-	1,430,232	1,430,232
Other Purposes	<u>656,679</u>	<u>-</u>	<u>656,679</u>
Total Net Position	<u>\$ 656,679</u>	<u>\$ 1,430,232</u>	<u>\$ 2,086,911</u>

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30, 2020

	Private Purpose <u>Trust</u>	Other Postemployment Benefits <u>Trust</u>	Total Fiduciary <u>Funds</u>
Additions			
Contributions:			
Employer	\$ -	\$ 898,687	\$ 898,687
Gift	1,376	-	1,376
Total Contributions	<u>1,376</u>	<u>898,687</u>	<u>900,063</u>
Investment Earnings:			
Interest, Dividends, and Other	57,187	40,725	97,912
Total Investment Earnings	<u>57,187</u>	<u>40,725</u>	<u>97,912</u>
Total Additions	<u>58,563</u>	<u>939,412</u>	<u>997,975</u>
Deductions			
Education - Scholarships	600	-	600
Public Assistance	2,125	-	2,125
Benefit Payments	-	598,687	598,687
Total Deductions	<u>2,725</u>	<u>598,687</u>	<u>601,412</u>
Change in Net Position	<u>55,838</u>	<u>340,725</u>	<u>396,563</u>
Net Position:			
Beginning of the Year	<u>600,841</u>	<u>1,089,507</u>	<u>1,690,348</u>
Ending of the Year	<u><u>\$ 656,679</u></u>	<u><u>\$ 1,430,232</u></u>	<u><u>\$ 2,086,911</u></u>

Town of Topsfield, Massachusetts
Notes to the Financial Statements
June 30, 2020

I. Reporting Entity

The accompanying financial statements present the financial position of the Town of Topsfield as of June 30, 2020. 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, 2020, 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. 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. 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. 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 2020. The budget amounts include special Town meeting votes applicable to fiscal year 2020 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, 2020.

	<u>Revenues</u>
As Reported Budget Basis	\$ 29,268,232
Adjustments:	
Sixty Day Property Tax Accrual - Net	(102,241)
Stabilization Fund Interest Earnings - General Fund for GAAP	33,339
MTRS Pension Expense Subsidy Included in Intergovernmental Revenue - GAAP Basis	2,348,732
As Reported GAAP Statement	<u>\$ 31,548,062</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 29,044,349
Adjustments:	
July 1, 2019 Encumbrances	350,474
June 30, 2020 Encumbrances	(269,571)
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	2,348,732
As Reported GAAP Statement	<u>\$ 31,773,984</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. 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 debt refunding. 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 (i.e. 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	\$ -	\$ -	\$ -	\$ -	7,024	\$ 7,024
Education	-	-	-	-	3,463	3,463
Cemetery	-	-	-	-	647,106	647,106
Human Services	-	-	-	-	9,285	9,285
Culture and Recreation	-	-	-	-	178,520	178,520
Library	-	10,140,030	-	-	-	10,140,030
Total Nonspendable	-	10,140,030	-	-	845,398	10,985,428
Restricted for:						
General Government	-	-	913	-	809,348	810,261
Public Safety	-	-	-	-	57,998	57,998
Education	-	-	-	-	655,210	655,210
Public Works	-	-	-	-	659,010	659,010
Human Services	-	-	-	-	34,563	34,563
Culture and Recreation	-	753,378	-	-	41,132	794,510
Debt Services	-	-	-	-	160,827	160,827
Total Restricted	-	753,378	913	-	2,418,088	3,172,379
Committed to:						
General Government	79,361	-	-	-	91,949	171,310
Public Safety	88,900	-	-	-	-	88,900
Education	117,908	-	-	-	38,461	156,369
Public Works	16,175	-	-	-	-	16,175
Human Services	-	-	-	-	10,370	10,370
Culture and Recreation	4,452	-	-	-	14,283	18,735
Employee Benefits	420,000	-	-	-	-	420,000
Capital Outlay	662,338	-	-	-	-	662,338
Total Committed	1,389,134	-	-	-	155,063	1,544,197
Assigned to:						
General Government	15,612	-	-	-	-	15,612
Public Safety	12,522	-	-	-	-	12,522
Education	124,767	-	-	-	-	124,767
Public Works	2,873	-	-	-	-	2,873
Reduce the Tax Levy	360,000	-	-	-	-	360,000
Total Assigned	515,774	-	-	-	-	515,774
Unassigned	4,645,629	-	-	(20,217)	-	4,625,412
Total Fund Balances	\$ 6,550,537	\$ 10,893,408	\$ 913	\$ (20,217)	\$ 3,418,549	\$ 20,843,190

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 has a general stabilization fund and a capital stabilization fund. The balances in these funds on June 30, 2020, were \$1,330,480 and \$562,339, respectively. In accordance with GASB 54, the general stabilization fund is reported as a component of unassigned fund balance and the capital stabilization fund is reported as a component of committed fund balance in the general fund on the Town’s balance sheet.

(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, 2020 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
Total Capital Assets Not Being Depreciated	<u>5,691,577</u>	<u>-</u>	<u>-</u>	<u>5,691,577</u>
Assets Being Depreciated:				
Buildings	35,234,002	413,840	-	35,647,842
Improvements Other Than Buildings	266,947	49,933	-	316,880
Infrastructure	14,687,771	-	-	14,687,771
Equipment	2,207,821	571,340	(202,482)	2,576,679
Vehicles	4,075,346	91,901	-	4,167,247
Total Capital Assets Being Depreciated	<u>56,471,887</u>	<u>1,127,014</u>	<u>(202,482)</u>	<u>57,396,419</u>
Less Accumulated Depreciation for:				
Buildings	(9,972,101)	(1,006,518)	-	(10,978,619)
Improvements Other Than Buildings	(209,182)	(6,773)	-	(215,955)
Infrastructure	(9,286,312)	(165,605)	-	(9,451,917)
Equipment	(1,677,595)	(124,687)	173,238	(1,629,044)
Vehicles	(2,006,204)	(281,778)	-	(2,287,982)
Total Accumulated Depreciation	<u>(23,151,394)</u>	<u>(1,585,361)</u>	<u>173,238</u>	<u>(24,563,517)</u>
Capital Assets Being Depreciated, Net	<u>33,320,493</u>	<u>(458,347)</u>	<u>(29,244)</u>	<u>32,832,902</u>
Governmental Activities Capital Assets, Net	<u>\$ 39,012,070</u>	<u>\$ (458,347)</u>	<u>\$ (29,244)</u>	<u>\$ 38,524,479</u>

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 241,917
Public Safety	232,290
Education	671,880
Highways and Public Works	331,415
Culture and Recreation	107,859
Total Governmental Activities Depreciation Expense	<u>\$ 1,585,361</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	15,948	-	(15,948)	-
Total Capital Assets Not Being Depreciated	<u>338,986</u>	<u>-</u>	<u>(15,948)</u>	<u>323,038</u>
Assets Being Depreciated:				
Buildings	11,566,562	399,980	-	11,966,542
Improvements Other Than Buildings	10,400	-	-	10,400
Infrastructure	11,300,016	-	-	11,300,016
Equipment	106,342	23,000	-	129,342
Vehicles	132,418	-	-	132,418
Total Capital Assets Being Depreciated	<u>23,115,738</u>	<u>422,980</u>	<u>-</u>	<u>23,538,718</u>

(H) Capital Assets (Continued)

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Less Accumulated Depreciation for:				
Buildings	(220,809)	(299,522)	-	(520,331)
Improvements Other Than Buildings	(10,400)	-	-	(10,400)
Infrastructure	(5,197,126)	(247,091)	-	(5,444,217)
Equipment	(92,925)	(2,550)	-	(95,475)
Vehicles	(103,210)	(19,473)	-	(122,683)
Total Accumulated Depreciation	<u>(5,624,470)</u>	<u>(568,636)</u>	<u>-</u>	<u>(6,193,106)</u>
Capital Assets Being Depreciated, Net	<u>17,491,268</u>	<u>(145,656)</u>	<u>-</u>	<u>17,345,612</u>
Business-Type Activities Capital Assets, Net	<u>\$ 17,830,254</u>	<u>\$ (145,656)</u>	<u>\$ (15,948)</u>	<u>\$ 17,668,650</u>

Depreciation expense was charged to functions as follows:

Business-type Activities:	
Water	<u>\$ 568,636</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, 2020, \$3,486,892 of the Town's bank balance of \$8,644,648 was exposed to credit risk as follow:

Uninsured and Uncollateralized \$ 3,486,892

Investments

As of June 30, 2020, 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>≥ 5-10</u>
Debt Related Securities:				
U. S. Government Obligations	\$ 495,660	\$ 185,391	\$ 310,269	\$ -
Corporation Notes and Bonds	<u>3,732,382</u>	<u>918,240</u>	<u>1,958,133</u>	<u>856,009</u>
Total	<u>\$ 4,228,042</u>	<u>\$ 1,103,631</u>	<u>\$ 2,268,402</u>	<u>\$ 856,009</u>
Other Investments:				
Money Market Funds	\$ 1,003,222			
Mutual Funds	1,773,817			
Equities	8,470,415			
Mass. Municipal Depository Trust	<u>1,393,227</u>			
Total Other Investments	<u>12,640,681</u>			
Total Investments	<u>\$ 16,868,723</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, 2020:

		<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		Quoted Prices in Active Markets for <u>Identical Assets</u>	Significant Other Observable <u>Inputs</u>	Significant Unobservable <u>Inputs</u>
<u>Total</u>				
Investment by Fair Value Level:				
Government Agency	\$ 495,660	\$ 495,660	\$ -	\$ -
Corporate Bonds	3,732,382	-	3,732,382	-
Mutual Funds	1,773,817	1,773,817	-	-
Money Market Mutual Funds	1,003,222	1,003,222	-	-
Common Stock	8,470,415	8,470,415	-	-
Total Assets in the Fair Value Hierarchy	<u>15,475,496</u>	<u>\$ 11,743,114</u>	<u>\$ 3,732,382</u>	<u>\$ -</u>
Investment not Subject to Fair Value Hierarchy Reporting:				
Mass. Municipal Depository Trust	<u>1,393,227</u>			
Total Investments	<u>\$ 16,868,723</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	\$ 205,308	\$ (75,200)	\$ 130,108
Non-major Governmental	75,200	(50,226)	24,974
Enterprise - Business Type	-	(155,082)	(155,082)
Total	<u>\$ 280,508</u>	<u>\$ (280,508)</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

i) 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/g/files/vyhlif3121/f/uploads/essex_regional_retirement_system_financial_statements_12-31-2019_-_final.pdf or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

Benefits Provided

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

Retirement Benefits

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

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

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

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

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

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

Retirement Benefits - Superannuation

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

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

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

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

Ordinary Disability Benefits

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

Accidental Disability Benefit

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

Death Benefits

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

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

Contributions

Active members of the Essex Regional Retirement System contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The 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, 2020 was 25.34% 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 \$1,226,814 for the year ending June 30, 2020.

ii) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Town reported a liability of \$14,362,415 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. Accordingly, update procedures were utilized to roll back the liability to the measurement date. The 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, 2019, the Town's proportion was 3.408942%.

For the year ended June 30, 2020, the Town recognized pension expense of \$1,724,927. At June 30, 2020, 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	\$ 1,971.00	\$ (68,256)
Net differences between projected and actual earnings on pension plan investments	-	(535,499)
Change in assumptions	1,435,487	-
Changes in proportion and differences between contributions and proportionate share of contributions	256,781	(315,431)
Contributions subsequent to the measurement date	-	-
	<u>\$ 1,694,239</u>	<u>\$ (919,186)</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
2021	\$ 279,896
2022	152,014
2023	309,169
2023	33,974
Total	<u>\$ 775,053</u>

Actuarial Assumptions

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

Valuation Date	January 1, 2020
Actuarial Cost Method	Entry age normal cost method
Salary Increases	Based on years of service, ranging from 7.5% at 0 years of service decreasing to 3.75% after 5 years of service.
Investment Rate of Return/Discount Rate	7.3% net of pension plan investment expense, included inflation (7.5% in previous report)
Inflation Rate	2.75% (2.75% in previous report)
Cost of Living Adjustments	2% of first \$14,000 for fiscal year 2021 and 3% of the first \$14,000, thereafter
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates Were Based on the Tables Noted Below:	
Pre-Retirement	RP-2014 Employee Mortality Table projected generationally with Scale MP-2019
Healthy Retiree	RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2019
Disabled	RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally with Scale MP-2019

Changes in Actuarial Assumptions and Plan Provisions

Actuarial Assumptions

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

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

Plans Provisions

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

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

Rate of Return

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

Discount Rate

The discount rate used to measure the total pension liability was 7.3% (7.50% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for the current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service cost for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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 7.3%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.3%) or 1-percentage-point higher (8.3%) than the current rate:

	1% Decrease (6.3%)	Discount Rate (7.3%)	1% Increase (8.3%)
Town's proportionate share of the Net Pension Liability	\$18,061,620	\$14,362,415	\$11,253,002

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the Essex Regional Retirement System's financial report. The financial report is available on the internet at: https://www.essexregional.com/sites/g/files/vyhlf3121/f/uploads/essex_regional_retirement_system_financial_statements_12-31-2019_-_final.pdf

iii) 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, 2020, the Town's proportionate share of the collective pension expense was \$2,348,732. 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, 2020, or fund balance/net position at June 30, 2020.

The Commonwealth's proportionate share of net pension liability associated with the Town is \$19,368,216. 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-fy2019.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 and who have achieved 30 years of creditable service, will have their withholding rate reduced to 8% for those participating in RetirementPlus, otherwise the withholding are reduced to 6% plus 2% on earnings over \$30,000 per year.

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% investment rate of return (7.35% 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).
4. An Experience Study was performed as follows:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect post-retirement mortality through January 1, 2017.

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	39.0%	4.9%
Core fixed income	15.0%	1.3%
Private Equity	13.0%	8.2%
Portfolio Completion Strategies	11.0%	3.9%
Real Estate	10.0%	3.6%
Value Added Fixed Income	8.0%	4.7%
Timber/Natural Resources	4.0%	4.1%
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-fy2019.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, 2020, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	112
Active Plan Members	<u>186</u>
Total	<u>298</u>

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, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Total OPEB Liability	\$12,262,133
Plan Fiduciary Net Position	<u>(1,430,232)</u>
Net OPEB Liability	<u><u>\$10,831,901</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	11.66%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% as of June 30, 2020 and for future periods
Salary Increases	3.00% annually as of June 30, 2020 and for future periods
Investment Rate of Return	6.72%, net of OPEB plan investment expense, including inflation
Municipal Bond Rate	Municipal Bond Rate 2.66% as of June 30, 2020 (source: S&P Municipal Bond 20-Year High Grade Index – (SAPIHG))
Single Equivalent Discount Rate	6.75%, net of OPEB plan investment expense, including inflation (previously 5.25%)
Mortality Rates were based on the tables noted below:	
Pre-Retirement	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 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 and their most recent analysis of retiree mortality during 2015 and 2016.

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, 2020, are summarized in the table below:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity - Large Cap	20.00%	4.80%
Domestic Equity - Small/Mid Cap	10.00%	5.29%
International Equity - Developed Market	10.00%	5.45%
International Equity - Emerging Market	5.00%	6.42%
Domestic Fixed Income	25.00%	2.05%
International Fixed Income	10.00%	3.00%
Alternatives	20.00%	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, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 3.29% (5.60% 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 6.75% (5.25% 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

	Increase (Decrease)		
	Total OPEB Liability	Plan	
		(a)	Fidciary Net Position (b)
Balances 6/30/2019	\$ 15,233,636	\$ 1,089,507	\$ 14,144,129
Prior Period Adjustment	-	-	-
Adjusted Balance	15,233,636	1,089,507	14,144,129
Service cost	343,359	-	343,359
Interest	802,278	-	802,278
Changes of benefit terms	-	-	-
Changes in assumptions	(1,832,347)	-	(1,832,347)
Difference between expected and actual experience	(1,686,106)	-	(1,686,106)
Net investment income	-	40,725	(40,725)
Contributions - employer	-	898,687	(898,687)
Benefit payments	(598,687)	(598,687)	-
Net changes	<u>(2,971,503)</u>	<u>340,725</u>	<u>(3,312,228)</u>
Balances 6/30/20	<u>\$ 12,262,133</u>	<u>\$ 1,430,232</u>	<u>\$ 10,831,901</u>

Changes in Assumptions:

The discount rate has been changed from 5.25% to 6.75%

The mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females

The expected long-term medical trend has been updated to 4.50%

Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care was updated.

Benefit Changes:

None

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>5.75%</u>	Discount Rate <u>6.75%</u>	1% Increase <u>7.75%</u>
Net OPEB Liability (asset)	\$12,302,298	\$10,831,901	\$9,441,021

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

	1% Decrease	Healthcare Cost Trend	1% Increase
	<u>5.75%</u>	<u>6.75%</u>	<u>7.75%</u>
Net OPEB Liability (asset)	\$9,459,246	\$10,831,901	\$12,483,122

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$325,118. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (1,753,387)
Change in assumptions	-	(1,854,848)
Net differences between projected and actual earnings on OPEB plan investments	34,269	(2,919)
	<u>\$ 34,269</u>	<u>\$ (3,611,154)</u>

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

Year ended June 30:	Amount
2021	\$ (737,388)
2022	(737,387)
2023	(735,928)
2024	(631,855)
2025	(561,462)
Thereafter	<u>(172,865)</u>
Total	<u>\$ (3,576,885)</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

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

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes:

2020	\$ 277,396	
2019	4,204	
Total Real Estate Taxes	<u> </u>	\$ 281,600

Personal Property Taxes:

2020	1,543	
2019	855	
2018	379	
2017	316	
2016	384	
2015	54	
Total Personal Property Taxes	<u> </u>	3,531

Total Property Taxes Receivable \$ 285,131

Tax Liens \$ 274,103

Excise Taxes Receivable:

Motor Vehicle Excise Taxes:

2020	\$ 63,888	
2019	13,528	
2018	2,762	
2017	4,086	
2016	1,594	
2015	1,927	
Tax Excise Receivable	<u> </u>	\$ 87,785

User Charges

Ambulance \$ 140,945

Other:

Police and Fire Details \$ 45,574

Intergovernmental:

Commonwealth - Highway Funds \$ 96,271
Total Intergovernmental \$ 96,271

(A) Accounts Receivable (Continued)

Business Type Activities:

User Charges:

Water \$ 726,127

Liens:

Water Liens \$ 1,356

(B) Liabilities

i Bond Anticipation Notes Payable

The Town retired all of its bond anticipation notes during fiscal year 2020 by issuing long term debt.

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>
<u>Governmental Activities:</u>				
SCH - Roof	\$ 1,759,063	\$ -	\$ 1,759,063	\$ -
Town Hall Renovation	<u>2,261,680</u>	<u>-</u>	<u>2,261,680</u>	<u>-</u>
Total	<u><u>\$ 4,020,743</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,020,743</u></u>	<u><u>\$ -</u></u>
<u>Business-Type Activities:</u>				
Water Mains - River Road	\$ 970,000	\$ -	\$ 970,000	\$ -
Water Treatment Plant	<u>1,726,549</u>	<u>-</u>	<u>1,726,549</u>	<u>-</u>
Total	<u><u>\$ 2,696,549</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,696,549</u></u>	<u><u>\$ -</u></u>

(B) Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2020, 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, 2020:

<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, 2019</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2020</u>
Bridge Reconstruction	1/15/2011	\$ 400,000	2.0 - 4.0%	2021	\$ 80,000	\$ -	\$ (40,000)	\$ 40,000
Building Construction	1/15/2011	823,000	2.0 - 4.0%	2020	90,000	-	(90,000)	-
Landfill Area - Close	1/15/2011	765,000	2.0 - 4.0%	2021	165,000	-	(85,000)	80,000
Building - School	2/14/2012	66,000	2.0 - 4.0%	2022	25,000	-	(10,000)	15,000
Engineering - School	2/14/2012	267,000	2.0 - 4.0%	2022	85,000	-	(30,000)	55,000
School Project	2/14/2012	1,543,000	2.0 - 4.0%	2022	500,000	-	(170,000)	330,000
Fire Rescue Vehicle	10/20/2017	172,000	3.0 - 4.0%	2025	150,000	-	(25,000)	125,000
Town Hall Ext Window Repair	10/20/2017	172,300	3.0 - 4.0%	2038	165,000	-	(5,000)	160,000
Fire Ladder Truck	10/20/2017	947,000	3.0 - 4.0%	2036	910,000	-	(40,000)	870,000
HWY Catch Basin Cleaner	10/20/2017	108,000	3.0 - 4.0%	2025	98,000	-	(15,000)	83,000
School Ext Painting	10/20/2017	103,500	3.0 - 4.0%	2029	94,000	-	(10,000)	84,000
School Sidewalks	10/20/2017	19,700	3.0 - 4.0%	2022	15,000	-	(5,000)	10,000
School Roof Study	10/20/2017	46,000	3.0 - 4.0%	2028	43,000	-	(5,000)	38,000
School HVAC	10/20/2017	20,000	3.0 - 4.0%	2022	15,000	-	(5,000)	10,000
Town Hall Remodeling	10/20/2017	1,487,000	3.0 - 4.0%	2043	1,450,000	-	(40,000)	1,410,000
Town Hall Remodeling	3/1/2019	5,800,000	3.0 - 5.0%	2044	5,800,000	-	(135,000)	5,665,000
School Roof	3/1/2019	3,246,000	3.0 - 5.0%	2038	3,246,000	-	(56,000)	3,190,000
Town Hall	11/21/2019	2,182,000	2.0 - 5.0%	2045	-	2,182,000	-	2,182,000
School Roff	11/21/2019	1,665,000	2.0 - 5.0%	2038	-	1,665,000	-	1,665,000
					<u>\$ 12,931,000</u>	<u>\$ 3,847,000</u>	<u>\$ (766,000)</u>	<u>\$ 16,012,000</u>

<u>Business Type Activities:</u>	Sale Date	Original	True	Final Maturity	Balance			Balance
<u>General Obligation Bond</u>	<u>Fiscal Year</u>	<u>Borrowing</u>	<u>Interest Cost</u>	<u>Fiscal Year</u>	<u>July 1, 2019</u>	<u>Issued</u>	<u>Redeemed</u>	<u>June 30, 2020</u>
Washington Grove	1/15/2011	\$ 505,000	2.0 - 4.0%	2026	\$ 225,000	\$ -	\$ (35,000)	\$ 190,000
Water Mains Ipswich RD	1/15/2011	550,000	2.0 - 4.0%	2026	245,000	-	(35,000)	210,000
10% Public Works Bond	1/15/2011	40,000	2.0 - 4.0%	2021	10,000	-	(10,000)	-
Washington St Mains	10/20/2017	930,900	3.0 - 4.0%	2035	888,000	-	(50,000)	838,000
Water Treatment Plant	10/20/2017	626,600	3.0 - 4.0%	2035	597,000	-	(35,000)	562,000
Water Treatment Facility	10/15/2018	3,465,000	3.0 - 5.0%	2039	3,465,000	-	(175,000)	3,290,000
Water Treatment Facility Construction	3/1/2019	3,734,000	3.0 - 5.0%	2039	3,734,000	-	(189,000)	3,545,000
Water Treatment Plant	11/21/2019	1,630,000	2.0 - 5.0%	2040	-	1,630,000	-	1,630,000
Water Mains Project	11/21/2019	918,000	2.0 - 5.0%	2040	-	918,000	-	918,000
					<u>\$ 9,164,000</u>	<u>\$ 2,548,000</u>	<u>\$ (529,000)</u>	<u>\$ 11,183,000</u>

(B) Liabilities (Continued)

(b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$795,000	\$563,328	\$655,000	\$404,125
2022	775,000	534,563	655,000	374,335
2023	590,000	504,363	650,000	343,735
2024	620,000	476,063	650,000	314,647
2025	635,000	446,638	645,000	287,435
2026 - 2030	3,450,000	1,779,912	2,890,000	1,043,436
2031 - 2035	3,820,000	1,139,864	2,785,000	560,174
2036 - 2040	3,217,000	603,725	2,253,000	154,928
2041 - 2045	<u>2,110,000</u>	<u>171,031</u>	<u>0</u>	<u>0</u>
	<u>\$16,012,000</u>	<u>\$6,219,487</u>	<u>\$11,183,000</u>	<u>\$3,482,815</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>
2021	\$727,500	\$208,000
2022	<u>724,500</u>	<u>204,000</u>
	<u>\$1,452,000</u>	<u>\$412,000</u>

Economic Gain from Refunding Issue

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

(e) Bond Authorizations

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

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 2, 2017	School Roofs	<u>\$2,392,694</u>

(B) Liabilities (Continued)

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

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2020</u>	<u>Current Portion</u>
Governmental Activities:					
Bonds Payable	\$ 12,931,000	\$ 3,847,000	\$ (766,000)	\$ 16,012,000	\$ 795,000
Add: Unamortized Premium	<u>465,644</u>	<u>173,743</u>	<u>(9,832)</u>	<u>629,555</u>	<u>15,715</u>
Bonds Payable	13,396,644	4,020,743	(775,832)	16,641,555	810,715
Post-Closure Landfill Monitoring	710,994	-	(34,050)	676,944	40,000
Compensated Absences	448,809	169,741	(314,166)	304,384	60,877
Net Pension Liability	13,434,475	3,780,189	(3,609,867)	13,604,797	-
Other Post Employment Benefits	<u>14,017,163</u>	<u>1,186,189</u>	<u>(4,456,613)</u>	<u>10,746,739</u>	<u>-</u>
Total Governmental Activities	<u>\$ 42,008,085</u>	<u>\$ 9,156,862</u>	<u>\$ (9,190,528)</u>	<u>\$ 41,974,419</u>	<u>\$ 911,592</u>
Business Type Activities:					
Bonds Payable	\$ 9,164,000	\$ 2,548,000	\$ (529,000)	\$ 11,183,000	\$ 655,000
Add: Unamortized Premium	<u>266,000</u>	<u>148,549</u>	<u>(13,450)</u>	<u>401,099</u>	<u>21,358</u>
Total Bonds Payable	9,430,000	2,696,549	(542,450)	11,584,099	676,358
Compensated Absences	8,852	21,369	(7,082)	23,139	4,628
Net Pension Liability	707,524	208,873	(158,779)	757,618	-
Other Post Employment Benefits	<u>126,966</u>	<u>11,884</u>	<u>(53,688)</u>	<u>85,162</u>	<u>-</u>
Total Business Type Activities	<u>\$ 10,273,342</u>	<u>\$ 2,938,675</u>	<u>\$ (761,999)</u>	<u>\$ 12,450,018</u>	<u>\$ 680,986</u>

IV. Subsequent Year Authorizations

At the June 20, 2020, annual town meeting, the Town adopted a fiscal 2021 operating and capital budget of \$33,541,407. Fiscal 2021 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	\$ 29,810,907
Enterprise Fund Revenues and Retained Earnings	2,372,426
Committed Fund Balance	11,074
Restricted Fund Balance	49,000
General Fund - Committed Fund Balance	713,000
General Fund - Assigned Fund Balance	360,000
General Fund - Unassigned Fund Balance to Stabilization Fund Unassigned	225,000
Total	<u>\$ 33,541,407</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 \$155,774.

VI. Implementation of New GASB Pronouncements

During fiscal year 2020, the Town was not required to implement any new GASB pronouncements. The Town early implemented GASB Statement No. 84 in fiscal year 2019.

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Town of Topsfield, Massachusetts
Required Supplementary Information
Statement of Revenues and Expenditures - Budget and Actual
General Fund (Budgetary Basis)
Fiscal Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 24,975,438	\$ 24,975,438	\$ 24,859,179	\$ (116,259)
Tax Liens	-	-	84,352	84,352
Excises	1,030,000	1,030,000	1,254,485	224,485
Penalties and Interest	25,000	25,000	36,568	11,568
Licenses and Permits	200,000	200,000	273,240	73,240
Intergovernmental	2,031,051	2,031,051	2,013,716	(17,335)
Charges for Services	210,000	210,000	505,386	295,386
Fines and Forfeits	30,000	30,000	24,730	(5,270)
Earnings on Investments	18,000	18,000	94,996	76,996
In Lieu of Taxes	75,000	75,000	85,825	10,825
Miscellaneous	-	-	35,755	35,755
Total Revenues	<u>28,594,489</u>	<u>28,594,489</u>	<u>29,268,232</u>	<u>673,743</u>
<u>Expenditures</u>				
General Government	1,679,039	1,679,039	1,518,934	160,105
Public Safety	2,808,362	2,808,362	2,596,737	211,625
Education	17,323,863	17,323,863	17,205,672	118,191
Highway and Public Works	1,904,223	1,904,223	1,723,150	181,073
Health and Human Services	283,180	283,180	247,916	35,264
Culture and Recreation	648,658	648,658	635,360	13,298
Debt Service	1,435,597	1,435,597	1,347,143	88,454
Intergovernmental	207,416	207,416	207,416	-
Employee Benefits	4,086,770	4,086,770	3,562,021	524,749
Total Expenditures	<u>30,377,108</u>	<u>30,377,108</u>	<u>29,044,349</u>	<u>1,332,759</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,782,619)</u>	<u>(1,782,619)</u>	<u>223,883</u>	<u>2,006,502</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	205,308	205,308	205,308	-
Transfers Out	(505,400)	(505,400)	(500,200)	5,200
Other Available Funds	405,190	405,190	405,190	-
Free Cash	1,677,521	1,677,521	1,677,521	-
Total Other Financing Sources (Uses)	<u>1,782,619</u>	<u>1,782,619</u>	<u>1,787,819</u>	<u>5,200</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,011,702</u>	<u>\$ 2,011,702</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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of net pension liability (asset) (%)	3.408942%	3.347491%	3.392671%	3.528151%	3.443645%	3.383071%
Town's proportionate share of net pension liability (asset) (\$)	14,362,415	14,141,999	12,768,498	13,593,536	12,512,102	11,477,481
Town's covered payroll	4,841,572	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	296.65%	311.16%	292.43%	308.59%	278.86%	283.35%
Plan fiduciary net position as a percentage of the pension liability	55.46%	51.89%	55.40%	51.12%	51.01%	52.27%

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

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

See Notes to the Required Supplementary Information

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,224,339	\$ 1,118,667	\$ 1,056,547	\$ 1,022,265	\$ 946,077	\$ 867,685
Contributions in relation to the contractually required contribution	<u>(1,226,814)</u>	<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>\$ (2,475)</u>	<u>\$ (2,376)</u>	<u>\$ (2,512)</u>	<u>\$ (2,537)</u>	<u>\$ -</u>
Town's covered payroll	4,841,572	4,544,928	4,366,319	4,405,007	4,486,856	4,050,676
Contributions as a percentage of covered payroll	25.34%	24.67%	24.25%	23.26%	21.14%	21.42%

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

See Notes to the Required Supplementary Information

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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's proportionate share of collective net pension liability (asset) (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Town's proportionate share of collective net pension liability (asset) (\$)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of collective net pension liability (asset) associated with Town (\$)	<u>\$ 19,368,216</u>	<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>\$ 19,368,216</u>	<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	5,589,214	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%	0.00%
Plan fiduciary net position as a percentage of the pension liability	53.95%	54.84%	54.25%	52.73%	55.38%	61.64%
Town's expense and revenue recognized for Commonwealth support	<u>\$ 2,348,732</u>	<u>\$ 1,845,477</u>	<u>\$ 1,792,958</u>	<u>1,675,448</u>	<u>\$ 1,229,554</u>	<u>\$ 758,918</u>

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

See Notes to the Required Supplementary Information

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, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017
Total OPEB liability				
Service cost	\$ 343,359	\$ 524,237	\$ 525,119	\$ 597,061
Interest	802,278	795,773	719,231	708,300
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(1,686,106)	-	(2,132,648)	-
Changes in assumptions	(1,832,347)	(467,400)	-	-
Benefit payments including implicit cost	(598,687)	(498,275)	(443,713)	(468,827)
Net change in total OPEB liability	(2,971,503)	354,335	(1,332,011)	836,534
Total OPEB liability - beginning	15,233,636	14,879,301	16,211,312	15,374,778
Total OPEB liability - ending (a)	\$ 12,262,133	\$ 15,233,636	\$ 14,879,301	\$ 16,211,312
Plan Fiduciary net position				
Contributions - employer	\$ 898,687	\$ 798,275	\$ 543,713	\$ 568,827
Net investment income	40,725	56,410	34,450	40,148
Benefit payments	(598,687)	(498,275)	(443,713)	(468,827)
Administrative expense	-	-	-	-
Net change in plan fiduciary net position	340,725	356,410	134,450	140,148
Plan fiduciary net position - beginning	1,089,507	733,097	598,647	458,499
Plan fiduciary net position - ending (b)	\$ 1,430,232	\$ 1,089,507	\$ 733,097	\$ 598,647
Town's net OPEB liability - ending (a) - (b)	\$ 10,831,901	\$ 14,144,129	\$ 14,146,204	\$ 15,612,665
Plan fiduciary net position as a percentage of the total OPEB liability	11.66%	7.15%	4.93%	3.69%
Covered payroll	\$ 13,154,640	\$ 13,399,976	\$ 12,941,235	\$ 9,205,453
Town's net OPEB liability as a percentage of covered payroll	82.34%	105.55%	109.31%	169.60%

Changes in Assumptions:

The discount rate has been changed from 5.25% to 6.75%

The mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females

The expected long-term medical trend has been updated to 4.50%

Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care was updated.

Benefit Changes:

None

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

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
Required Supplementary Information
Schedule of Contributions (GASB 74 and GASB 75 Reporting)
June 30, 2020
Last 10 Fiscal Years

	2020	2019	2018	2017
Actuarial determined contribution	\$ 1,140,629	\$ 1,423,506	\$ 1,492,382	\$ 1,473,361
Contributions in relating to the actuarially determined contribution	898,687	798,275	543,713	568,827
Contribution deficiency (excess)	<u>\$ 241,942</u>	<u>\$ 625,231</u>	<u>\$ 948,669</u>	<u>\$ 904,534</u>
Covered payroll	\$ 13,154,640	\$ 13,399,976	\$ 12,941,235	\$ 9,205,453
Contributions as a percentage of covered payroll	6.83%	5.96%	4.20%	6.18%

Notes to Schedule

Valuation date: 7/1/2019 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 2.50%
Single Equivalent Discount Rate 6.75% (5.25% in prior report)
Salary increases 3.00% per annum

Mortality

Pre-Retirement General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females

Post-Retirement General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females

Disabled General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females

Other information:

Changes in Assumptions:

The discount rate has been changed from 5.25% to 6.75%
The mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females
The expected long-term medical trend has been updated to 4.50%
Based on recent research by the Society of Actuaries, the assumption for morbidity or age-related costs of medical care was updated.

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

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Schedule of Investment Returns (GASB 74 Plan Reporting)
 June 30, 2020
 Last 10 Fiscal Years

	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	3.29%	5.60%	5.32%	6.34%

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

See Notes to the Required Supplementary Information

Town of Topsfield, Massachusetts
Notes to the Required Supplementary Information
June 30, 2020

(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

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

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

Plans Provisions

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

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, 2020, the Town's proportionate share of the collective pension expense was \$2,348,732. 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, 2020, or fund balance/net position at June 30, 2020.

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-fy2019.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 and who have achieved 30 years of creditable service, will have their withholding rate reduced to 8% for those participating in RetirementPlus, otherwise the withholding are reduced to 6% plus 2% on earnings over \$30,000 per year.

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% investment rate of return (7.35% 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).
4. An Experience Study was performed as follows:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect post-retirement mortality through January 1, 2017.

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-fy2019.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, 2020, and the related notes to the financial statements, which collectively comprise the Town of Topsfield's basic financial statements, and have issued our report thereon dated March 25, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Topsfield's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

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

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts

March 25, 2021