

***TOWN OF TOPSFIELD, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***YEAR ENDED JUNE 30, 2021***

TOWN OF TOPSFIELD, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2021

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## **Independent Auditor's Report**

To the Honorable Select Board  
Town of Topsfield, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsfield, Massachusetts, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 opinions.

### **Opinions**

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsfield, Massachusetts, as of June 30, 2021, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity 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 and required supplementary information, as 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 June 23, 2022, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Topsfield's internal control over financial reporting.

*Powers & Sullivan LLC*

June 23, 2022

# ***Management's Discussion and Analysis***

# ***Management's Discussion and Analysis***

## ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. These basic financial statements comprise of three components: 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 finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, and interest. The Town's business-type activities relate to the water 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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*.

The Town adopts annual appropriated budget for its general fund. A budgetary comparison schedule has been provided as required supplementary information after the notes to the financial statements to demonstrate compliance with this budget.

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains an other postemployment benefits trust fund and a private-purpose trust fund within the fiduciary fund statements.

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town’s budgetary basis of accounting as well as pension and other postemployment benefits obligations.

## Government-wide Financial Analysis

### Governmental Activities

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town’s governmental assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$21.0 million at the close of 2021. Key components of the Town’s governmental financial position are listed below.

	2021	2020
<b>Assets:</b>		
Current assets..... \$	26,193,230	\$ 22,157,370
Capital assets, non depreciable.....	5,691,577	5,691,577
Capital assets, net of accumulated depreciation....	32,681,257	32,832,902
<b>Total assets.....</b>	<b>64,566,064</b>	<b>60,681,849</b>
<b>Deferred outflows of resources.....</b>	<b>1,705,526</b>	<b>1,643,112</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	881,774	840,627
Noncurrent liabilities (excluding debt).....	24,437,213	25,231,987
Current debt.....	823,202	810,715
Noncurrent debt.....	14,973,261	15,830,840
<b>Total liabilities.....</b>	<b>41,115,450</b>	<b>42,714,169</b>
<b>Deferred inflows of resources.....</b>	<b>4,182,732</b>	<b>4,468,983</b>
<b>Net position:</b>		
Net investment in capital assets.....	22,576,371	21,887,246
Restricted.....	15,524,038	14,311,957
Unrestricted.....	(17,127,001)	(21,057,394)
<b>Total net position..... \$</b>	<b>20,973,408</b>	<b>\$ 15,141,809</b>

Net position of \$22.6 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A restricted portion of the net position totaling \$15.5 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* has a year-end deficit of \$17.1 million as a result of recognizing the Town's net pension and OPEB liabilities of \$13.0 million and \$11.0 million, respectively.

The governmental activities of the Town are detailed below.

	2021	2020
<b>Program Revenues:</b>		
Charges for services.....	\$ 1,737,161	\$ 1,340,260
Operating grants and contributions.....	6,085,926	6,138,366
Capital grants and contributions.....	836,725	372,264
<b>General Revenues:</b>		
Real estate and personal property taxes, net of tax refunds payable.....	25,957,636	24,681,374
Tax and other liens.....	170,647	84,352
Motor vehicle and other excise taxes.....	1,303,634	1,177,422
Penalties and interest on taxes.....	50,198	36,555
Payments in lieu of taxes.....	88,288	85,825
Grants and contributions not restricted to specific programs.....	7,652	6,516
Unrestricted investment income.....	2,912,535	1,045,943
<b>Total revenues.....</b>	<b>39,150,402</b>	<b>34,968,877</b>
<b>Expenses:</b>		
General government.....	2,916,918	2,665,645
Public safety.....	4,773,351	5,012,159
Education.....	21,216,243	20,586,207
Public works.....	2,125,405	2,806,722
Health and human services.....	502,727	462,681
Culture and recreation.....	1,276,816	1,304,144
Interest.....	507,343	573,294
<b>Total expenses.....</b>	<b>33,318,803</b>	<b>33,410,853</b>
<b>Change in net position.....</b>	<b>5,831,599</b>	<b>1,558,024</b>
<b>Net position, beginning of year.....</b>	<b>15,141,809</b>	<b>13,583,785</b>
<b>Net position, end of year.....</b>	<b>\$ 20,973,408</b>	<b>\$ 15,141,809</b>

The governmental activities net position increased by \$5.8 million during the current year compared to an increase in net position of \$1.6 million in the prior year. This \$4.3 million change in the current year included a \$1.3 million increase in the Town's general fund, which includes a \$359,000 increase in the Town's stabilization fund and a \$2.5 million increase in the Gould Trust Fund major fund mainly through investment earnings of the trust.

Charges for services and operating grants and contributions remained consistent with prior year. Capital grant increases related to state street and highway grants. General revenues increased in all categories with real estate



and personal property taxes and investment income reporting the most significant increases. The Town reported capital grant revenue totaling \$837,000 from the state's chapter 90 program.

**Business-type Activities**

The Town's business-type activities reflect the operations of the Town's water enterprise fund. Business-type assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8.0 million at the close of 2021. The following table identifies key elements of the net position of the Town's business-type activities.

	<u>2021</u>	<u>2020</u>
<b>Assets:</b>		
Current assets.....	\$ 2,990,716	\$ 2,682,931
Capital assets, non depreciable.....	323,038	323,038
Capital assets, net of accumulated depreciation....	<u>16,868,111</u>	<u>17,345,612</u>
<b>Total assets.....</b>	<b><u>20,181,865</u></b>	<b><u>20,351,581</u></b>
<b>Deferred outflows of resources.....</b>	<b>116,511</b>	<b>89,718</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	155,635	169,834
Noncurrent liabilities (excluding debt).....	1,163,184	861,291
Current debt.....	659,300	676,358
Noncurrent debt.....	<u>10,222,447</u>	<u>10,907,741</u>
<b>Total liabilities.....</b>	<b><u>12,200,566</u></b>	<b><u>12,615,224</u></b>
<b>Deferred inflows of resources.....</b>	<b>140,287</b>	<b>85,006</b>
<b>Net position:</b>		
Net investment in capital assets.....	6,309,402	6,656,471
Unrestricted.....	<u>1,648,121</u>	<u>1,084,598</u>
<b>Total net position.....</b>	<b><u>\$ 7,957,523</u></b>	<b><u>\$ 7,741,069</u></b>

The Town's business-type activities net position increased by \$216,000 during the current year. The results reflect the Town's intention to recover its costs of operations through rates.

	<u>2021</u>	<u>2020</u>
<b>Program Revenues:</b>		
Charges for services.....	\$ 2,453,347	\$ 2,339,623
<b>Expenses:</b>		
Water.....	<u>2,236,893</u>	<u>2,053,999</u>
<b>Change in net position.....</b>	<b>216,454</b>	<b>285,624</b>
<b>Net position, beginning of year.....</b>	<b><u>7,741,069</u></b>	<b><u>7,455,445</u></b>
<b>Net position, end of year.....</b>	<b><u>\$ 7,957,523</u></b>	<b><u>\$ 7,741,069</u></b>

## ***Financial Analysis of the Government's Funds***

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

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

As of the end of the current year, governmental funds reported combined ending fund balances of \$24.6 million, a net increase of \$3.8 million from the prior year.

The general fund is the Town's chief operating fund. At the end of the current year, unassigned and total fund balance of the general fund totaled \$6.0 million and \$7.8 million, respectively. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent 18.8% and 24.4% of total general fund expenditures, respectively. The general fund total fund balance increased by \$1.3 million during 2021 mainly due to a surplus in actual revenue compared to the budget and an increase in the Town's stabilization funds, which are reported within the general fund. The stabilization funds reported year-end balances totaling \$2.25 million.

The Gould trust fund is used to account for the library trust activity. During the current year, the fund expended \$231,000, and reported investment income of \$2.7 million. The Gould trust fund reported an ending fund balance of \$13.4 million compared to a balance of \$10.9 million in the prior year.

There was a net \$18,800 increase in other nonmajor governmental funds, which reported \$2.83 million in revenues and \$2.85 million in expenditures and \$45,000 of net transfers in (out).

## ***Budgetary Highlights***

The Town of Topsfield adopts an annual appropriated budget for its general fund. The Town adopted a \$31.6 million operating budget in the current year. Actual revenues were higher than budgeted amounts by approximately \$797,000 or 2.6%. Actual expenditures, including carryovers, were less than the budgeted amount by approximately \$1.3 million.

## ***Capital Asset and Debt Administration***

Major capital additions during the year related to infrastructure, Town buildings, and equipment. Total additions for the Governmental and Business-Type Activities amounted to \$1.1 million and \$83,000, respectively.

Outstanding long-term debt of the general government, as of June 30, 2021, totaled \$15.8 million and water enterprise outstanding debt totaled \$10.9 million, respectively. No new debt was issued in the governmental funds. In the water enterprise fund, the Town issued \$332,400 of general obligation refunding bonds to refund \$330,000 of outstanding bonds with a total reduction in future debt service of \$26,078.

Please refer to the Notes to the Basic Financial Statements for further discussion of the debt and capital activity.

## ***Requests for Information***

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

# ***Basic Financial Statements***

**STATEMENT OF NET POSITION**

JUNE 30, 2021

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 9,972,150	\$ 2,265,883	\$ 12,238,033
Investments.....	15,139,562	-	15,139,562
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	169,691	-	169,691
Tax liens.....	406,348	-	406,348
Motor vehicle and other excise taxes.....	129,829	-	129,829
User charges.....	-	724,833	724,833
Departmental and other.....	135,504	-	135,504
Intergovernmental - other.....	206,207	-	206,207
Tax foreclosures.....	33,939	-	33,939
<b>Total current assets.....</b>	<b>26,193,230</b>	<b>2,990,716</b>	<b>29,183,946</b>
<b>NONCURRENT:</b>			
Capital assets, nondepreciable.....	5,691,577	323,038	6,014,615
Capital assets, net of accumulated depreciation.....	32,681,257	16,868,111	49,549,368
<b>Total noncurrent assets.....</b>	<b>38,372,834</b>	<b>17,191,149</b>	<b>55,563,983</b>
<b>TOTAL ASSETS.....</b>	<b>64,566,064</b>	<b>20,181,865</b>	<b>84,747,929</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions.....	1,379,119	113,176	1,492,295
Deferred outflows related to other postemployment benefits.....	326,407	3,335	329,742
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>1,705,526</b>	<b>116,511</b>	<b>1,822,037</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	264,876	38,066	302,942
Accrued payroll.....	242,088	17,141	259,229
Accrued interest.....	144,800	93,029	237,829
Other liabilities.....	141,593	-	141,593
Landfill closure.....	32,600	-	32,600
Compensated absences.....	55,817	7,399	63,216
Bonds payable.....	823,202	659,300	1,482,502
<b>Total current liabilities.....</b>	<b>1,704,976</b>	<b>814,935</b>	<b>2,519,911</b>
<b>NONCURRENT:</b>			
Landfill closure.....	332,228	-	332,228
Compensated absences.....	167,452	22,196	189,648
Net pension liability.....	12,970,403	1,064,400	14,034,803
Net other postemployment benefits liability.....	10,967,130	76,588	11,043,718
Bonds payable.....	14,973,261	10,222,447	25,195,708
<b>Total noncurrent liabilities.....</b>	<b>39,410,474</b>	<b>11,385,631</b>	<b>50,796,105</b>
<b>TOTAL LIABILITIES.....</b>	<b>41,115,450</b>	<b>12,200,566</b>	<b>53,316,016</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes paid in advance.....	10,055	-	10,055
Deferred inflows related to pensions.....	1,136,421	93,259	1,229,680
Deferred inflows related to other postemployment benefits.....	3,036,256	47,028	3,083,284
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>4,182,732</b>	<b>140,287</b>	<b>4,323,019</b>
<b>NET POSITION</b>			
Net investment in capital assets.....	22,576,371	6,309,402	28,885,773
Restricted for:			
Permanent funds:			
Expendable.....	1,388,424	-	1,388,424
Nonexpendable.....	13,474,652	-	13,474,652
Gifts and grants.....	660,962	-	660,962
Unrestricted.....	(17,127,001)	1,648,121	(15,478,880)
<b>TOTAL NET POSITION.....</b>	<b>\$ 20,973,408</b>	<b>\$ 7,957,523</b>	<b>\$ 28,930,931</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 2,916,919	\$ 343,028	\$ 1,161,086	\$ -	\$ (1,412,805)
Public safety.....	4,773,351	841,611	65,881	-	(3,865,859)
Education.....	21,216,243	110,209	4,716,503	-	(16,389,531)
Public works.....	2,125,405	384,234	40,580	836,725	(863,866)
Health and human services.....	502,727	5,200	64,046	-	(433,481)
Culture and recreation.....	1,276,816	52,879	37,830	-	(1,186,107)
Interest.....	507,343	-	-	-	(507,343)
Total Governmental Activities.....	<u>33,318,804</u>	<u>1,737,161</u>	<u>6,085,926</u>	<u>836,725</u>	<u>(24,658,992)</u>
<i>Business-Type Activities:</i>					
Water.....	<u>2,236,893</u>	<u>2,453,347</u>	<u>-</u>	<u>-</u>	<u>216,454</u>
Total Primary Government.....	<u>\$ 35,555,697</u>	<u>\$ 4,190,508</u>	<u>\$ 6,085,926</u>	<u>\$ 836,725</u>	<u>\$ (24,442,538)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page..... \$	(24,658,992)	216,454	(24,442,538)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	25,957,637	-	25,957,637
Tax and other liens.....	170,647	-	170,647
Motor vehicle and other excise taxes.....	1,303,634	-	1,303,634
Penalties and interest on taxes.....	50,198	-	50,198
Payments in lieu of taxes.....	88,288	-	88,288
Grants and contributions not restricted to specific programs.....	7,652	-	7,652
Unrestricted investment income.....	2,912,535	-	2,912,535
<b>Total general revenues.....</b>	<b>30,490,591</b>	<b>-</b>	<b>30,490,591</b>
Change in net position.....	5,831,599	216,454	6,048,053
<i>Net position:</i>			
Beginning of year.....	15,141,809	7,741,069	22,882,878
End of year..... \$	<u>20,973,408</u>	<u>7,957,523</u>	<u>28,930,931</u>

(Concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2021

	General	Gould Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 6,288,560	\$ 595,207	\$ 3,088,383	\$ 9,972,150
Investments.....	1,982,648	12,765,952	390,962	15,139,562
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	169,691	-	-	169,691
Tax liens.....	406,348	-	-	406,348
Motor vehicle and other excise taxes.....	129,829	-	-	129,829
Departmental and other.....	135,504	-	-	135,504
Intergovernmental - other.....	91,560	-	114,647	206,207
Tax foreclosures.....	33,939	-	-	33,939
<b>TOTAL ASSETS.....</b>	<b>\$ 9,238,079</b>	<b>\$ 13,361,159</b>	<b>\$ 3,593,992</b>	<b>\$ 26,193,230</b>
<b>LIABILITIES</b>				
Warrants payable.....	\$ 219,797	\$ -	\$ 45,079	\$ 264,876
Accrued payroll.....	225,887	-	16,201	242,088
Other liabilities.....	141,593	-	-	141,593
<b>TOTAL LIABILITIES.....</b>	<b>587,277</b>	<b>-</b>	<b>61,280</b>	<b>648,557</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes paid in advance.....	10,055	-	-	10,055
Unavailable revenue.....	807,068	-	114,647	921,715
<b>TOTAL DEFERRED INFLOWS OF RESOURCES.....</b>	<b>817,123</b>	<b>-</b>	<b>114,647</b>	<b>931,770</b>
<b>FUND BALANCES</b>				
Nonspendable.....	-	12,561,672	912,980	13,474,652
Restricted.....	-	799,487	2,525,302	3,324,789
Committed.....	197,889	-	-	197,889
Assigned.....	1,614,982	-	-	1,614,982
Unassigned.....	6,020,808	-	(20,217)	6,000,591
<b>TOTAL FUND BALANCES.....</b>	<b>7,833,679</b>	<b>13,361,159</b>	<b>3,418,065</b>	<b>24,612,903</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 9,238,079</b>	<b>\$ 13,361,159</b>	<b>\$ 3,593,992</b>	<b>\$ 26,193,230</b>

See notes to basic financial statements.



**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2021

Total governmental fund balances.....		\$ 24,612,903
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		38,372,834
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		921,715
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		(2,467,151)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(144,800)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(15,796,463)	
Net pension liability.....	(12,970,403)	
Net other postemployment benefits liability.....	(10,967,130)	
Landfill closure.....	(364,828)	
Compensated absences.....	<u>(223,269)</u>	
Net effect of reporting long-term liabilities.....		<u>(40,322,093)</u>
Net position of governmental activities.....		<u>\$ 20,973,408</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2021

	General	Gould Trust Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 26,110,247	\$ -	\$ -	\$ 26,110,247
Tax liens.....	4,032	-	-	4,032
Motor vehicle and other excise taxes.....	1,208,605	-	-	1,208,605
Charges for services.....	-	-	646,849	646,849
Penalties and interest on taxes.....	50,198	-	-	50,198
Payments in lieu of taxes.....	88,288	-	-	88,288
Licenses and permits.....	284,561	-	-	284,561
Fines and forfeitures.....	16,753	-	-	16,753
Intergovernmental - Teachers Retirement.....	2,763,892	-	-	2,763,892
Intergovernmental - other.....	2,142,255	-	1,892,064	4,034,319
Departmental and other.....	584,246	-	7,500	591,746
Contributions and donations.....	-	-	262,899	262,899
Investment income.....	61,113	2,698,827	9,443	2,769,383
Miscellaneous.....	91,864	-	8,527	100,391
<b>TOTAL REVENUES.....</b>	<b>33,406,054</b>	<b>2,698,827</b>	<b>2,827,282</b>	<b>38,932,163</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	1,369,459	-	656,508	2,025,967
Public safety.....	2,645,279	-	616,738	3,262,017
Education.....	17,355,429	-	699,574	18,055,003
Public works.....	1,582,266	-	758,607	2,340,873
Health and human services.....	233,042	-	48,540	281,582
Culture and recreation.....	588,890	231,076	73,446	893,412
Pension benefits.....	1,365,197	-	-	1,365,197
Pension benefits - Teachers Retirement.....	2,763,892	-	-	2,763,892
Employee benefits.....	2,604,872	-	-	2,604,872
State and county charges.....	209,306	-	-	209,306
Debt service:				
Principal.....	795,000	-	-	795,000
Interest.....	565,329	-	-	565,329
<b>TOTAL EXPENDITURES.....</b>	<b>32,077,961</b>	<b>231,076</b>	<b>2,853,413</b>	<b>35,162,450</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>1,328,093</b>	<b>2,467,751</b>	<b>(26,131)</b>	<b>3,769,713</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	70,049	-	313,700	383,749
Transfers out.....	(115,000)	-	(268,749)	(383,749)
<b>TOTAL OTHER FINANCING SOURCES (USES)...</b>	<b>(44,951)</b>	<b>-</b>	<b>44,951</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>1,283,142</b>	<b>2,467,751</b>	<b>18,820</b>	<b>3,769,713</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>6,550,537</b>	<b>10,893,408</b>	<b>3,399,245</b>	<b>20,843,190</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 7,833,679</b>	<b>\$ 13,361,159</b>	<b>\$ 3,418,065</b>	<b>\$ 24,612,903</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2021

Net change in fund balances - total governmental funds.....		\$ 3,769,713
<p>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.</p>		
Capital outlay.....	1,132,838	
Depreciation expense.....	<u>(1,284,483)</u>	
Net effect of reporting capital assets.....		(151,645)
<p>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 differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		184,301
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction 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 unavailable and amortized in the Statement of Activities.</p>		
Net amortization of premium from issuance of bonds.....	50,092	
Net change in deferred charge on refunding.....	(4,322)	
Debt service principal payments.....	<u>795,000</u>	
Net effect of reporting long-term debt.....		840,770
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	81,115	
Net change in accrued interest on long-term debt.....	7,894	
Net change in other assets.....	33,939	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(491,471)	
Net change in net pension liability.....	634,394	
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits...	830,864	
Net change in net other postemployment benefits liability.....	(220,391)	
Net change in landfill closure.....	<u>312,116</u>	
Net effect of recording long-term liabilities.....		<u>1,188,460</u>
Change in net position of governmental activities.....		<u>\$ 5,831,599</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET POSITION

JUNE 30, 2021

	Business-type Water Enterprise
<b>ASSETS</b>	
CURRENT:	
Cash and cash equivalents.....	\$ 2,265,883
Receivables, net of allowance for uncollectibles:	
User charges.....	724,833
Total current assets.....	2,990,716
NONCURRENT:	
Capital assets, non depreciable.....	323,038
Capital assets, net of accumulated depreciation.....	16,868,111
Total noncurrent assets.....	17,191,149
TOTAL ASSETS.....	20,181,865
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions.....	113,176
Deferred outflows related to other postemployment benefits.....	3,335
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	116,511
<b>LIABILITIES</b>	
CURRENT:	
Warrants payable.....	38,066
Accrued payroll.....	17,141
Accrued interest.....	93,029
Compensated absences.....	7,399
Bonds payable.....	659,300
Total current liabilities.....	814,935
NONCURRENT:	
Compensated absences.....	22,196
Net pension liability.....	1,064,400
Net other postemployment benefits liability.....	76,588
Bonds payable.....	10,222,447
Total noncurrent liabilities.....	11,385,631
TOTAL LIABILITIES.....	12,200,566
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions.....	93,259
Deferred inflows related to other postemployment benefits.....	47,028
TOTAL DEFERRED INFLOWS OF RESOURCES.....	140,287
<b>NET POSITION</b>	
Net investment in capital assets.....	6,309,402
Unrestricted.....	1,648,121
TOTAL NET POSITION.....	\$ 7,957,523

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

		Business-type Water Enterprise
<u>OPERATING REVENUES:</u>		
Charges for services.....	\$	2,453,347
<u>OPERATING EXPENSES:</u>		
Cost of services and administration.....		554,014
Salaries and wages.....		725,672
Depreciation.....		560,473
TOTAL OPERATING EXPENSES.....		1,840,159
OPERATING INCOME (LOSS).....		613,188
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Interest expense.....		(396,734)
CHANGE IN NET POSITION.....		216,454
NET POSITION AT BEGINNING OF YEAR.....		7,741,069
NET POSITION AT END OF YEAR.....	\$	7,957,523

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

	Business-type Water Enterprise
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 2,455,997
Payments to vendors.....	(247,180)
Payments to employees.....	<u>(708,933)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>1,499,884</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and construction of capital assets.....	(82,972)
Principal payments on bonds and notes.....	(655,000)
Interest expense.....	<u>(451,477)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(1,189,449)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	310,435
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>1,955,448</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 2,265,883</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>	
<u>FROM OPERATING ACTIVITIES:</u>	
Operating income (loss).....	\$ <u>613,188</u>
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation.....	560,473
Deferred (outflows)/inflows related to pensions.....	20,967
Deferred (outflows)/inflows related to other postemployment benefits.....	7,521
Changes in assets and liabilities:	
User charges.....	2,650
Warrants payable.....	(12,341)
Accrued payroll.....	2,762
Compensated absences.....	6,456
Net pension liability.....	306,782
Other postemployment benefits.....	<u>(8,574)</u>
Total adjustments.....	<u>886,696</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,499,884</u>
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>	
Issuance of refunding bonds.....	\$ 332,400
Long-term bonds refunded.....	(330,000)

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2021

	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents.....	\$ 10,387	\$ 28,711
Investments:		
Corporate bonds.....	-	82,944
Equity securities.....	527,105	538,080
Fixed income mutual funds.....	1,588,742	169,653
<b>TOTAL ASSETS.....</b>	<b>2,126,234</b>	<b>819,388</b>
<b>NET POSITION</b>		
Restricted for other postemployment benefits.....	2,126,234	-
Held in trust for other purposes.....	-	819,388
<b>TOTAL NET POSITION.....</b>	<b>\$ 2,126,234</b>	<b>\$ 819,388</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2021

	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer contributions.....	\$ 320,000	\$ -
Employer contributions for other postemployment benefit payments.....	640,197	-
Total contributions.....	960,197	-
Net investment income:		
Investment income.....	376,002	165,759
TOTAL ADDITIONS.....	1,336,199	165,759
<u>DEDUCTIONS:</u>		
Other postemployment benefit payments.....	640,197	-
Public assistance.....	-	3,050
TOTAL DEDUCTIONS.....	640,197	3,050
NET INCREASE (DECREASE) IN NET POSITION.....	696,002	162,709
NET POSITION AT BEGINNING OF YEAR.....	1,430,232	656,679
NET POSITION AT END OF YEAR.....	\$ 2,126,234	\$ 819,388

See notes to basic financial statements.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Topsfield, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The Town is a municipal corporation governed by an elected five member Select Board and an appointed Town Administrator.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town has determined that there are no component units.

***Joint Ventures***

The Town is a member of the Masconomet Regional School District that provides middle and high school education for the Town's students. The members share in the operations of the District and each member is responsible for its proportionate share of the operational and capital costs of the District, which are paid in the form of assessments. The Town does not have any equity interest in the District and the 2021 assessment was \$7,745,305. Please contact the finance office at 20 Endicott Road, Boxford, MA 01921, for audited financial statements.

The Town is a member of the Essex North Shore Agricultural & Technical School that serves the member students seeking an education in academic, technical and agriculture studies. The members share in the operations of the District and each member is responsible for its proportionate share of the operational and capital cost of the District, which are paid in the form of assessments. The Town does not have an equity interest in the District and the 2021 assessment was \$361,812. Please contact the finance office at 565 Maple Street, Hathorne, MA 01937, for audited financial statements.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

The government-wide financial statements (i.e., 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. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

***Fund Financial Statements***

The GASB requires separate financial statements be provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

*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 percent of the corresponding element 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 percent 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.

Fiduciary funds are reported by fund type.

C. 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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

*Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *gould trust fund* is used to account for the library trust fund. There are expendable and nonexpendable portions of the trust.

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

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 following proprietary fund type is reported:

The *water enterprise fund* is used to account for the Town's water activities.

**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 type is reported:

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

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Cash and Investments.

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

##### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

##### ***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

##### ***Water Fees***

Water user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water liens are processed after year-end and included as a lien on the property owner's tax bill.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables consist primarily of ambulance details and are recorded as receivables in the year accrued. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Inventories

*Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, buildings, improvements, equipment, vehicles, and infrastructure (e.g., roads, water mains, and similar items), are reported in the applicable governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Capital assets of the governmental activities column in the government-wide financial statements do not include construction period interest.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings.....	20-50
Improvements.....	20-50
Equipment.....	5-25
Vehicles.....	5-15
Infrastructure.....	40-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has recorded deferred outflows of resources related to pensions and other postemployment benefits in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town recorded a deferred inflow related to taxes paid in advance, pensions, and other postemployment benefits in this category.

*Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded taxes paid in advance and unavailable revenue as deferred inflows of resources in the governmental funds balance sheet. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

*Government Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position.

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the Statement of Activities as "Transfers, net".

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

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 capital assets.

Net position has been "restricted for" the following:

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings that support governmental programs.

"Permanent funds - nonexpendable" represents the endowment portion of donor restricted trusts that support governmental programs.

"Grants and gifts" represents restrictions placed on assets from outside parties and consist primarily of gifts and federal and state grants.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

*Fund Financial Statements (Fund Balances)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

"Nonspendable" fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.



“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision-making authority that can, by Town Meeting vote, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town’s by-laws authorize the Town Accountant to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

#### M. Long-term Debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### N. 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 Massachusetts Teachers Retirement System and additions to/deductions from the System’s fiduciary net position have been determined on the same basis as they are reported by the System. 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.

#### O. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

#### P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

#### Q. Use of Estimates

##### *Government-Wide and Fund Financial Statements*

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

#### R. 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.

#### S. Fund Deficits

At year-end, a fund deficit existed in the nonmajor governmental funds, which related to a capital project fund that will be funded with future Town resources.

### **NOTE 2 – CASH AND INVESTMENTS**

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

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's investment pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

#### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Topsfield's deposits may not be returned to it. The Town's policy related to custodial credit risk is to apply the guidelines established by Massachusetts General Law and to invest in institutions which are financially strong. At year-end, the carrying amount of deposits totaled \$10,624,272 and the bank balance totaled \$10,814,970. Of the bank balance, \$2,183,234 was covered by Federal Depository Insurance, \$562,349 was covered by Depositors Insurance Fund, \$2,903,541 was collateralized, and \$5,165,846 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### Investments

As of June 30, 2021, the Town had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>	
		<u>Under 1 Year</u>	<u>1-5 Years</u>
<u>Debt securities:</u>			
U.S. treasury notes.....	\$ 291,182	\$ 211,159	\$ 80,023
Government sponsored enterprises.....	193,561	-	193,561
Corporate bonds.....	844,250	180,112	664,138
Total debt securities.....	1,328,993	\$ 391,271	\$ 937,722
<u>Other investments:</u>			
Equity securities.....	11,382,040		
Fixed income.....	5,335,053		
Money market mutual funds.....	31,831		
MMDT - Cash portfolio.....	1,621,028		
Total investments.....	\$ 19,698,945		

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

#### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town's investments of \$291,182 in U.S. treasury notes, \$193,561 in government sponsored enterprises, \$844,250 in corporate bonds, and \$11,382,040 in equity securities all have custodial credit risk exposure because the related securities are uninsured, unregistered and are not held in the Town's name.

The Town has adopted a custodial credit risk policy requiring the Treasurer to review the financial statements of institutions that hold custody of Town deposits or securities, and the background of the sales representative. The intent of this qualification is to limit the Town's exposure to only those institutions with a proven financial strength, capital adequacy, and an overall affirmative reputation in the municipal industry. Furthermore, all securities not held directly by the Town be held in the Town's name and tax identification number by a third-party custodian

approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rates. The Town’s investment policy states that the Town will manage interest rate risk by managing the duration of investments that are held in an account.

Credit Risk

The Town’s policy for credit risk states the Town will manage credit risk several ways. There will be no limit to the amount of U.S. treasury and U.S. government agency obligations. In regard to other investments, the Town will only purchase investment grade securities. All other securities the Town purchases must be investment grade, a high concentration of which must be rated A or above. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

The Town’s investments at June 30, 2021, are rated as follows:

<u>Quality Rating</u>	<u>Government Sponsored Enterprises</u>	<u>Corporate Bonds</u>
AAA.....	\$ 74,243	\$ -
AA+.....	119,318	-
A+.....	-	134,861
A.....	-	83,673
A-.....	-	254,254
AA-.....	-	42,222
BBB+.....	-	137,890
BBB.....	-	191,350
Total.....	<u>\$ 193,561</u>	<u>\$ 844,250</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the 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 of Investments

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 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2021:

Investment Type	June 30, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>				
<u>Debt securities:</u>				
U.S. treasury notes.....	\$ 291,182	\$ 291,182	\$ -	\$ -
Government sponsored enterprises.....	193,561	193,561	-	-
Corporate bonds.....	844,250	-	844,250	-
Total debt securities.....	1,328,993	484,743	844,250	-
<u>Other investments:</u>				
Equity securities.....	11,382,040	11,382,040	-	-
Fixed income.....	5,335,053	5,335,053	-	-
Money market mutual funds.....	31,831	31,831	-	-
Total other investments.....	16,748,924	16,748,924	-	-
Total investments measured at fair value.....	18,077,917	\$ 17,233,667	\$ 844,250	\$ -
<b>Investments measured at amortized cost:</b>				
MMDT - Cash portfolio.....	1,621,028			
Total investments.....	\$ 19,698,945			

U.S. Treasury notes, government sponsored enterprises, equity securities, fixed income and money market mutual funds classified in Level 1 of the fair value hierarchy are 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.

The Town holds investments in MMDT Cash Portfolio which are valued at amortized cost. The total value of the portfolio as of June 30, 2021, is \$1,621,028. Under the amortized cost valuation method, an investment is valued initially at its cost and thereafter adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost of the investment and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by MMDT’s adviser.

**NOTE 3 – RECEIVABLES**

At June 30, 2021, receivables for the governmental funds, in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 169,691	\$ -	\$ 169,691
Tax liens.....	406,348	-	406,348
Motor vehicle and other excise taxes.....	129,829	-	129,829
Departmental and other.....	199,864	(64,360)	135,504
Intergovernmental - other.....	206,207	-	206,207
Total.....	<u>\$ 1,111,939</u>	<u>\$ (64,360)</u>	<u>\$ 1,047,579</u>

At June 30, 2021, receivables for the water enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user charges.....	\$ 724,833	\$ -	\$ 724,833

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 101,448	\$ -	\$ 101,448
Tax liens.....	406,348	-	406,348
Motor vehicle and other excise taxes.....	129,829	-	129,829
Departmental and other.....	135,504	-	135,504
Intergovernmental - other.....	-	114,647	114,647
Tax foreclosures.....	33,939	-	33,939
Total.....	<u>\$ 807,068</u>	<u>\$ 114,647</u>	<u>\$ 921,715</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,691,577	\$ -	\$ -	\$ 5,691,577
<u>Capital assets being depreciated:</u>				
Buildings.....	35,647,843	206,977	-	35,854,820
Improvements.....	316,880	-	-	316,880
Equipment.....	2,576,679	237,790	-	2,814,469
Vehicles.....	4,167,247	-	-	4,167,247
Infrastructure.....	14,687,771	688,071	-	15,375,842
Total capital assets being depreciated.....	57,396,419	1,132,838	-	58,529,257
<u>Less accumulated depreciation for:</u>				
Buildings.....	(10,978,619)	(683,534)	-	(11,662,153)
Improvements.....	(215,955)	(6,145)	-	(222,100)
Equipment.....	(1,629,044)	(163,675)	-	(1,792,719)
Vehicles.....	(2,287,983)	(256,160)	-	(2,544,143)
Infrastructure.....	(9,451,914)	(174,969)	-	(9,626,883)
Total accumulated depreciation.....	(24,563,517)	(1,284,483)	-	(25,848,000)
Total capital assets being depreciated, net.....	32,832,902	(151,645)	-	32,681,257
Total governmental activities capital assets, net....	\$ 38,524,479	\$ (151,645)	\$ -	\$ 38,372,834
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 323,038	\$ -	\$ -	\$ 323,038
<u>Capital assets being depreciated:</u>				
Buildings.....	11,966,542	82,972	-	12,049,514
Improvements.....	10,400	-	-	10,400
Equipment.....	129,342	-	-	129,342
Vehicles.....	132,418	-	-	132,418
Infrastructure.....	11,300,016	-	-	11,300,016
Total capital assets being depreciated.....	23,538,718	82,972	-	23,621,690
<u>Less accumulated depreciation for:</u>				
Buildings.....	(520,331)	(300,418)	-	(820,749)
Improvements.....	(10,400)	-	-	(10,400)
Equipment.....	(95,475)	(3,700)	-	(99,175)
Vehicles.....	(122,683)	(9,736)	-	(132,419)
Infrastructure.....	(5,444,217)	(246,619)	-	(5,690,836)
Total accumulated depreciation.....	(6,193,106)	(560,473)	-	(6,753,579)
Total capital assets being depreciated, net.....	17,345,612	(477,501)	-	16,868,111
Total business-type activities capital assets, net....	\$ 17,668,650	\$ (477,501)	\$ -	\$ 17,191,149

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government.....	\$ 240,871
Public safety.....	231,060
Education.....	397,716
Public works.....	325,521
Culture and recreation.....	<u>89,315</u>
Total depreciation expense - governmental activities.....	<u>\$ 1,284,483</u>
 <b>Business-Type Activities:</b>	
Water.....	<u>\$ 560,473</u>

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the end of year, are summarized as follows:

Transfers Out:	Transfers In:		
	General fund	Nonmajor governmental funds	Total
General fund.....	\$ -	\$ 115,000	\$ 115,000 (1)
Gould trust fund.....	-	198,700	198,700 (2)
Nonmajor governmental funds.....	<u>70,049</u>	<u>-</u>	<u>70,049 (3)</u>
Total.....	<u>\$ 70,049</u>	<u>\$ 313,700</u>	<u>\$ 383,749</u>

- (1) Transfer out of the general fund and into nonmajor funds for compensated absences and indemnity leave.
- (2) Transfer out of the Gould trust fund and into expendable permanent fund.
- (3) Transfer into the general fund from the revolving special revenue fund, the reserve from appropriation special revenue fund, and the cable advisory special revenue fund.

**NOTE 6 – SHORT-TERM FINANCING**

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

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the General Fund.

For the year ended June 30, 2021, the Town did not have any short-term debt activity.



**NOTE 7 – LONG-TERM DEBT**

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the Town's debt service requirements at June 30, 2021 are shown on the following page.

**Bonds Payable Schedule**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2021
Municipal Purpose Bonds of 2012.....	2022	\$ 66,000	2.00-4.00	\$ 5,000
Municipal Purpose Bonds of 2012.....	2022	267,000	2.00-4.00	30,000
Municipal Purpose Bonds of 2012.....	2022	1,543,000	2.00-4.00	165,000
Municipal Purpose Bonds of 2018.....	2025	172,000	3.00-4.00	100,000
Municipal Purpose Bonds of 2018.....	2038	172,300	3.00-4.00	155,000
Municipal Purpose Bonds of 2018.....	2036	947,000	3.00-4.00	825,000
Municipal Purpose Bonds of 2018.....	2025	108,000	3.00-4.00	68,000
Municipal Purpose Bonds of 2018.....	2029	103,500	3.00-4.00	74,000
Municipal Purpose Bonds of 2018.....	2022	19,700	3.00-4.00	5,000
Municipal Purpose Bonds of 2018.....	2028	46,000	3.00-4.00	33,000
Municipal Purpose Bonds of 2018.....	2022	20,000	3.00-4.00	5,000
Municipal Purpose Bonds of 2018.....	2043	1,487,000	3.00-4.00	1,370,000
Municipal Purpose Bonds of 2019.....	2044	5,800,000	3.00-5.00	5,525,000
Municipal Purpose Bonds of 2019.....	2038	3,246,000	3.00-5.00	3,130,000
Municipal Purpose Bonds of 2020.....	2045	2,182,000	2.00-5.00	2,127,000
Municipal Purpose Bonds of 2020.....	2038	1,665,000	2.00-5.00	1,600,000
Total Bonds Payable.....				15,217,000
Add: Unamortized premium on bonds.....				579,463
Total Bonds Payable, net.....				<u>\$ 15,796,463</u>

Debt service requirements for principal and interest for governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2022.....	\$ 775,000	\$ 534,416	\$ 1,309,416
2023.....	590,000	504,366	1,094,366
2024.....	620,000	476,066	1,096,066
2025.....	635,000	446,641	1,081,641
2026.....	630,000	416,916	1,046,916
2027.....	670,000	386,966	1,056,966
2028.....	700,000	355,941	1,055,941
2029.....	720,000	325,041	1,045,041
2030.....	730,000	295,066	1,025,066
2031.....	740,000	269,816	1,009,816
2032.....	750,000	249,417	999,417
2033.....	770,000	228,449	998,449
2034.....	775,000	206,381	981,381
2035.....	785,000	185,211	970,211
2036.....	775,000	162,977	937,977
2037.....	745,000	141,143	886,143
2038.....	755,000	118,895	873,895
2039.....	465,000	97,706	562,706
2040.....	477,000	83,007	560,007
2041.....	495,000	67,537	562,537
2042.....	510,000	50,862	560,862
2043.....	530,000	33,606	563,606
2044.....	455,000	17,225	472,225
2045.....	120,000	1,800	121,800
Total.....	\$ <u>15,217,000</u>	\$ <u>5,655,451</u>	\$ <u>20,872,451</u>

**Bonds Payable Schedule – Enterprise Fund**

Details related to the Water Enterprise Fund's debt service requirements at June 30, 2021 are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2021
Municipal Purpose Bonds of 2018.....	2035	\$ 930,900	3.00-4.00	\$ 788,000
Municipal Purpose Bonds of 2018.....	2035	626,600	3.00-4.00	527,000
Municipal Purpose Bonds of 2019 .....	2039	3,465,000	3.00-5.00	3,115,000
Municipal Purpose Bonds of 2019 .....	2039	3,734,000	3.00-5.00	3,355,000
Municipal Purpose Bonds of 2020.....	2040	1,630,000	2.00-5.00	1,545,000
Municipal Purpose Bonds of 2020.....	2040	918,000	2.00-5.00	868,000
Municipal Purpose Refunding Bonds of 2021...	2026	176,300	0.86%	176,300
Municipal Purpose Refunding Bonds of 2021...	2026	156,100	0.86%	156,100
Total Bonds Payable.....				10,530,400
Add: Unamortized premium on bonds.....				351,347
Total Bonds Payable, net.....				\$ <u>10,881,747</u>

Debt service requirements for principal and interest for Water Enterprise Fund bonds payable in future years are as follows:

Year	Principal	Interest	Total
2022.....	\$ 659,300	\$ 374,337	\$ 1,033,637
2023.....	652,300	336,792	989,092
2024.....	650,500	309,558	960,058
2025.....	643,600	284,203	927,803
2026.....	636,700	259,091	895,791
2027.....	570,000	232,835	802,835
2028.....	560,000	206,388	766,388
2029.....	560,000	182,888	742,888
2030.....	560,000	161,513	721,513
2031.....	560,000	143,488	703,488
2032.....	560,000	127,907	687,907
2033.....	555,000	112,231	667,231
2034.....	555,000	96,356	651,356
2035.....	555,000	80,207	635,207
2036.....	555,000	63,549	618,549
2037.....	555,000	46,676	601,676
2038.....	545,000	29,620	574,620
2039.....	480,000	13,640	493,640
2040.....	118,000	1,446	119,446
Total.....	\$ <u>10,530,400</u>	\$ <u>3,062,725</u>	\$ <u>13,593,125</u>

In order to take advantage of favorable interest rates, the Town issued \$332,400 of General Obligation Refunding Bonds on January 22, 2021, in the water enterprise fund. \$330,000 of General Obligation Bonds were refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This refunding was undertaken to reduce total debt service payments of the next 5 years by \$26,078 and resulted in an economic gain of \$25,404.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2021, the Town had authorized and unissued debt of \$2,392,694 for the school roof projects.

Changes in Long-Term Liabilities

During the year ended June 30, 2021, the following changes occurred in long-term liabilities:

	Beginning Balance	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>							
Long-term bonds payable.....	\$ 16,012,000	\$ -	\$ (795,000)	\$ -	\$ -	\$ 15,217,000	\$ 775,000
Add: Unamortized premium on bonds.....	629,555	-	-	-	(50,092)	579,463	48,202
Total bonds payable.....	16,641,555	-	(795,000)	-	(50,092)	15,796,463	823,202
Landfill closure.....	676,944	-	-	32,600	(344,716)	364,828	32,600
Compensated absences.....	304,384	-	-	88,626	(169,741)	223,269	55,817
Net pension liability.....	13,604,797	-	-	800,362	(1,434,756)	12,970,403	-
Net other postemployment benefits liability..	10,746,739	-	-	565,787	(345,396)	10,967,130	-
Total governmental activity long-term liabilities.....	\$ 41,974,419	\$ -	\$ (795,000)	\$ 1,487,375	\$ (2,344,701)	\$ 40,322,093	\$ 911,619
<b>Business-Type Activities:</b>							
Long-term bonds payable.....	\$ 11,183,000	\$ 332,400	\$ (985,000)	\$ -	\$ -	\$ 10,530,400	\$ 613,529
Add: Unamortized premium on bonds.....	401,099	-	-	-	(49,752)	351,347	45,771
Total bonds payable.....	11,584,099	332,400	(985,000)	-	(49,752)	10,881,747	659,300
Compensated absences.....	23,139	-	-	27,825	(21,369)	29,595	7,399
Net pension liability.....	757,618	-	-	738,156	(431,374)	1,064,400	-
Net other postemployment benefits liability..	85,162	-	-	426	(9,000)	76,588	-
Total business-type activity long-term liabilities.....	\$ 12,450,018	\$ 332,400	\$ (985,000)	\$ 766,407	\$ (511,495)	\$ 12,052,330	\$ 666,699

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town classifies fund balance according to the constraints imposed on the uses of the resources. There are two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, accounting standards have provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The Town has classified its fund balances with the following hierarchy:

	<u>General</u>	<u>Gould Trust Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ 12,561,672	\$ 912,980	\$ 13,474,652
Restricted for:				
Gould trust fund.....	-	799,487	-	799,487
School lunch fund.....	-	-	98,132	98,132
Federal grant fund.....	-	-	288,126	288,126
School special revenue fund.....	-	-	349,484	349,484
School federal grant fund.....	-	-	164,210	164,210
Gifts and grants.....	-	-	146,591	146,591
Revolving fund.....	-	-	42,887	42,887
State grant fund.....	-	-	62,035	62,035
Other special revenue.....	-	-	449,518	449,518
Cemetery.....	-	-	326,875	326,875
Town hall renovation fund.....	-	-	913	913
Other capital project fund.....	-	-	7,594	7,594
Expendable permanent trust fund.....	-	-	505,882	505,882
Other permanent fund.....	-	-	83,055	83,055
Committed to:				
Articles and continuing appropriations:				
General government.....	51,035	-	-	51,035
Public safety.....	57,299	-	-	57,299
Education.....	75,804	-	-	75,804
Public works.....	9,298	-	-	9,298
Culture and recreation.....	4,453	-	-	4,453
Assigned to:				
Encumbrances:				
Public safety.....	2,903	-	-	2,903
Education.....	103,826	-	-	103,826
Public works.....	9,753	-	-	9,753
Free cash used for subsequent year budget.....	1,498,500	-	-	1,498,500
Unassigned.....	<u>6,020,808</u>	<u>-</u>	<u>(20,217)</u>	<u>6,000,591</u>
Total Fund Balances.....	<u>\$ 7,833,679</u>	<u>\$ 13,361,159</u>	<u>\$ 3,418,065</u>	<u>\$ 24,612,903</u>

Massachusetts General Law Ch.40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At year end the balances for the general stabilization fund and capital stabilization fund totaled \$1.6 million and \$693,000, respectively, and are reported as unassigned fund balance within the general fund.

**NOTE 9 – RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium-based health care plans for its employees and retirees. The Town participates in a premium-based workers' compensation insurance plan for its employees.

The Town provides health insurance through the Massachusetts Interlocal Insurance Association (MIIA). MIIA is a partner with Blue Cross Blue Shield of Massachusetts. This partnership allows the Town to offer a variety of competitive health plans for employees. The Town pays between 60% -70% of the premium.

## **NOTE 10 – PENSION PLAN**

### *Plan Description*

The Town is a member of the Essex Regional Retirement System (ERRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 47 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System issues a publicly available, audited financial report that may be obtained by contacting the System located at 491 Maple Street, Suite 202, Danvers, MA 01923 or by visiting [www.essexregional.com](http://www.essexregional.com).

### *Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2020. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$2,763,892 is reported in the general fund as intergovernmental revenue and pension expense in the current year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$22,377,096 as of the measurement date.

### *Benefits Provided*

The System provides retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

There were no changes in benefit terms that affect the measurement of the total pension liability this year.

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the ERRS a legislatively mandated actuarially determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution was \$1,365,197 which exceeded its actual contribution of \$1,367,672 by \$2,475 for the year ended December 31, 2020, and was 26.90% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

*Pension Liabilities*

At June 30, 2021, the Town reported a liability of \$14,034,803 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. 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. At December 31, 2020, the Town's proportion was 3.54%, which increased from 3.41% its proportion measured at December 31, 2019.

*Pension Expense*

For the year ended June 30, 2021, the Town recognized pension expense of \$1,552,498. At June 30, 2021, the Town reported deferred outflows and inflows of resources related to pensions of \$1,492,295 and \$1,229,680, respectively, from the net difference between expected and actual experience, between projected and actual investment earnings on pension plan investments, on changes in assumptions, and on changes in proportion.

The balances of deferred outflows and inflows at June 30, 2021 consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 1,533	\$ (12,034)	\$ (10,501)
Difference between projected and actual earnings, net.....	-	(1,044,197)	(1,044,197)
Changes in assumptions.....	938,905	-	938,905
Changes in proportion and proportionate share of contributions...	551,857	(173,449)	378,408
Total deferred outflows/(inflows) of resources.....	\$ 1,492,295	\$ (1,229,680)	\$ 262,615

The Town’s deferred outflows/ (inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2022.....	\$ 97,688
2023.....	257,360
2024.....	(29,447)
2025.....	<u>(62,986)</u>
Total deferred outflows/(inflows) of resources.....	\$ <u>262,615</u>

*Actuarial Assumptions*

The total pension liability in the January 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2020:

Valuation date.....	January 1, 2020
Salary increases.....	Based on years of service, ranging from 7.50% at 0 years of service decreasing to 3.75% after 5 years of service.
Net investment return/Discount rate.....	7.30%
Wage inflation rate.....	2.75%
Cost of living adjustments.....	2% of first \$14,000 for fiscal 2021 and 3% of first \$14,000 thereafter.
Mortality Rates:	
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 Retiree.....	RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally with Scale MP-2019.

*Investment Policy*

The pension plan’s policy in regard to the allocation of invested assets is established by PRIT. 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.

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. Best estimates of geometric real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2020, are summarized on the following page.



Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	23.10%	6.40%
International developed markets equity.....	14.40%	6.60%
International emerging markets equity.....	5.80%	8.40%
Core fixed income.....	15.80%	2.70%
Value added fixed income.....	7.40%	6.20%
Private equity.....	12.40%	10.20%
Real estate.....	8.30%	6.00%
Timberland.....	3.30%	6.60%
Hedge fund, PCS.....	8.80%	5.20%
Liquidating portfolios.....	0.10%	0.00%
Overlay.....	0.60%	0.00%
Total.....	100.00%	

*Rate of Return*

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 12.14%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amount actually invested.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.30%. 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 contributions will be made at rates equal to the actuarially determined contribution rate. 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 Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability, calculated using the discount rate of 7.30%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate:

	1% Decrease (6.30%)	Current Discount (7.30%)	1% Increase (8.30%)
The Town’s proportionate share of the net pension liability.....	\$ 17,970,987	\$ 14,034,803	\$ 10,726,404

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Essex Regional Retirement System financial report.

*Changes in Assumptions*

None.

*Changes in Plan Provisions*

None.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description*

The Town of Topsfield administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides healthcare, dental, and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy*

The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 70 percent of the cost of current-year premiums for health and life insurance for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 30 percent of their premium costs for health and life insurance and all of the premiums related to dental insurance. During 2021, the Town contributed approximately \$960,197 to the plan.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust fund for the purpose of accumulating assets to pre-fund its OPEB liabilities. The Town Treasurer is the custodian and Trustee of the OPEB Fund. The Trustee has the authority to employ an Executive Director, outside investment managers, custodians, consultants, and others as it deems necessary to formulate policies and procedures and to take such other actions as necessary and appropriate to manage the assets.

During 2021, the Town pre-funded future OPEB liabilities totaling approximately \$320,000 by contributing funds to the Other Postemployment Benefit Fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Funds financial statements. As of June 30, 2021, the balance of this fund totaled \$2,126,234. The Town has adopted a long-term policy of pre-funding future OPEB liabilities. The policy may be amended at any time by the Town’s Select Board.

*Employees Covered by Benefit Terms*

The following table represents the Plan’s membership at June 30, 2021:

Active members.....	186
Inactive members currently receiving benefits.....	112
	<hr/>
Total.....	298
	<hr/> <hr/>

*Components of OPEB Liability*

The following table represents the components of the Plan’s OPEB liability as of June 30, 2021:

Total OPEB liability.....	\$	13,169,952
Less: OPEB plan's fiduciary net position.....		<u>(2,126,234)</u>
Net OPEB liability.....	\$	<u>11,043,718</u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....		16.14%

*Significant Actuarial Methods and Assumptions*

The total OPEB liability in the July 1, 2019 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods including the measurement date that was updated to June 30, 2021.

Valuation date.....	Actuarially Determined Contribution was calculated as of July 1, 2019.
Actuarial cost method.....	Individual Entry Age Normal.
Asset valuation method.....	Market Value of Assets as of the Measurement Date, June 30, 2021.
Investment rate of return.....	6.51%, net of OPEB plan investment expense, including inflation.
Municipal bond rate.....	2.18% as of June 30, 2021 (source: S&P Municipal Bond 20-Year High Grade Index - SAPIHG).
Single equivalent discount rate.....	6.50%, net of OPEB plan investment expense, including inflation.
Inflation.....	2.50% as of June 30, 2021 and for future periods.
Salary increases.....	3.00% annually as of June 30, 2021 and for future periods.
Pre-retirement mortality.....	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 mortality.....	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 mortality.....	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.

*Rate of Return*

For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 24.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 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 Plan’s expected future real rate of return of 4.26% is added to the expected inflation of 2.50% to produce the long-term expected nominal rate of return of 6.76%. Best estimates of geometric real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of June 30, 2021 are summarized in the following table.

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity - large cap.....	26.75%	4.90%
Domestic equity - small/mid cap.....	19.50%	5.40%
International equity - developed market.....	12.50%	5.32%
International equity - emerging market.....	6.25%	6.26%
Domestic fixed income.....	22.50%	1.40%
International fixed income.....	4.75%	1.30%
Alternatives.....	7.25%	6.32%
Real estate.....	0.00%	6.25%
Cash & cash equivalents.....	0.50%	0.00%
Total.....	100.00%	

*Discount Rate*

The discount rate used to measure the total OPEB liability was 6.50% as of June 30, 2021 and 6.75% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan’s funding policy. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be sufficient to make all projected benefit payments to current plan members. Therefore the long-term expected rate of return on the OPEB plan assets was applied to all periods of projected future benefits payments as of June 30, 2021.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 6.50%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate.

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net OPEB liability..... \$	12,662,474	\$ 11,043,718	\$ 9,702,837

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate*

The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate of, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease	Current Trend	1% Increase
Net OPEB liability.....	\$ 9,542,223	\$ 11,043,718	\$ 12,857,258

*Summary of Significant Accounting Policies*

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 Plan and additions to/deductions from the 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 (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

*Changes in the Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2020.....	\$ 12,262,133	\$ 1,430,232	\$ 10,831,901
Changes for the year:			
Service cost.....	356,201	-	356,201
Interest.....	830,484	-	830,484
Changes in assumptions and other inputs.....	361,331	-	361,331
Net investment income.....	-	376,002	(376,002)
Employer contributions to Trust.....	-	960,197	(960,197)
Benefit Payments.....	(640,197)	(640,197)	-
Net change.....	907,819	696,002	211,817
Balances at June 30, 2021.....	\$ 13,169,952	\$ 2,126,234	\$ 11,043,718

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

For the year ended June 30, 2021 the Town recognized OPEB expense of \$348,672. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 25,674	\$ (1,376,506)	\$ (1,350,832)
Difference between projected and actual earnings, net.....	-	(219,573)	(219,573)
Changes in assumptions.....	304,068	(1,487,205)	(1,183,137)
Total deferred outflows/(inflows) of resources.....	\$ <u>329,742</u>	\$ <u>(3,083,284)</u>	\$ <u>(2,753,542)</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:

2022.....	\$ (734,652)
2023.....	(733,193)
2024.....	(629,120)
2025.....	(558,729)
2026.....	(115,602)
Thereafter.....	<u>17,754</u>
Total deferred outflows/(inflows) of resources.....	\$ <u>(2,753,542)</u>

*Changes of Assumptions:*

The discount rate has been changed from 6.75% to 6.50%.

*Changes in Plan Provisions*

None.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Town participates in a number of federal award programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2021, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2021.

The general fund has various commitments for goods and services related to articles and encumbrances totaling \$314,000.

#### **NOTE 13 – COVID-19**

On March 10, 2020, the Massachusetts Governor declared a state of emergency in response to the coronavirus outbreak. The World Health Organization officially declared the novel Coronavirus (COVID-19) a pandemic the following day. In an attempt to slow the spread of COVID-19, governments issued various stay at home orders that caused global economic shutdowns and substantial financial market impact. Starting in March 2020, the Governor continued to issue orders allowing governments to operate and carry out essential functions safely. These included modifying the state's Open Meeting Law, issuing a stay-at-home order, and introducing a phased approach to reopening State businesses. The Town is considered an essential business and although it was closed to the public for a period of time, departments remained operational and most employees continued to perform their daily duties.

A number of businesses have been forced to stop or significantly reduce operations decreasing, the Town's portion of certain revenue. The Town has also incurred unanticipated costs specifically related to the pandemic.

On March 27, 2020, the United States Federal Government established the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the economic downfall caused by the COVID-19 pandemic. This Act requires that the payment from these funds be used only to cover expenses that; are necessary expenditures incurred due to the public health emergency with respect COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. The Commonwealth and communities throughout the Commonwealth were awarded a portion of this federal funding. In addition to funding from the CARES Act, there are several other federal and state grants available.

On March 11, 2021, the United States Federal Government established the American Rescue Plan Act (ARPA) to enhance the United States' recovery from the economic and health effects of the COVID-19 pandemic. This Act requires that the payment from these funds be used to cover costs related to; public health; negative economic impacts; services to disproportionately impacted communities; premium pay; infrastructure; revenue replacement; or administration. These funds can only be used to cover costs incurred between March 3, 2021, and December 31, 2024. The Commonwealth and communities throughout the Commonwealth were awarded a portion of this federal funding.

In addition to funding from the CARES Act and the ARPA Act, there are several other federal and state grants available related to the COVID-19 pandemic.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 23, 2022, which is the date the financial statements were available to be issued.

#### **NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2021, the following GASB pronouncements were implemented:

- GASB Statement #84, *Fiduciary Activities*. This pronouncement did not impact the basic financial statements.

- GASB Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*. This pronouncement did not impact the basic financial statements.
- GASB Statement #98, *The Annual Comprehensive Financial Report*. This pronouncement did not impact the basic financial statements.
- The GASB issued Statement #99, *Omnibus 2022*. This pronouncement was implemented with the exception of the clarification of the provisions in Statement No. 87, which will be implemented with Statement No. 87 in fiscal year 2022.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2022.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2022.
- The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in 2023.
- The GASB issued Statement #92, *Omnibus 2020*, which is required to be implemented in 2022.
- The GASB issued Statement #93, *Replacement of Interbank Offered Rates*, which is required to be implemented in 2022.
- The GASB issued Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #96, *Subscription-Based Information Technology Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which is required to be implemented in 2022.
- The GASB issued Statement #100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, which is required to be implemented in fiscal year 2024.
- The GASB issued Statement #101, *Compensated Absences*, which is required to be implemented in fiscal year 2025.

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



## ***Required Supplementary Information***

# ***Budgetary Comparison Schedule***

The General Fund is the general operating fund of the Town. It is used to account for all of the Town's financial resources, except those required to be accounted for in another fund.

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 26,086,238	\$ 26,086,238	\$ 26,141,763	\$ -	\$ 55,525
Tax liens.....	-	-	4,032	-	4,032
Motor vehicle and other excise taxes.....	1,030,000	1,030,000	1,208,605	-	178,605
Penalties and interest on taxes.....	25,000	25,000	50,198	-	25,198
Payments in lieu of taxes.....	85,000	85,000	88,288	-	3,288
Licenses and permits.....	101,000	101,000	284,561	-	183,561
Fines and forfeitures.....	25,000	25,000	16,753	-	(8,247)
Intergovernmental - other.....	2,049,152	2,049,152	2,059,570	-	10,418
Departmental and other.....	334,000	334,000	584,246	-	250,246
Investment income.....	20,000	20,000	27,611	-	7,611
Miscellaneous.....	5,000	5,000	91,864	-	86,864
<b>TOTAL REVENUES.....</b>	<b>29,760,390</b>	<b>29,760,390</b>	<b>30,557,491</b>	<b>-</b>	<b>797,101</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	1,845,477	1,816,690	1,530,750	51,035	234,905
Public safety.....	2,972,610	3,003,397	2,645,279	60,202	297,916
Education.....	17,548,521	17,548,521	17,355,429	179,630	13,462
Public works.....	1,745,468	1,745,468	1,582,266	19,051	144,151
Health and human services.....	278,744	278,744	233,042	-	45,702
Culture and recreation.....	669,788	669,788	588,890	4,453	76,445
Pension benefits.....	1,365,197	1,365,197	1,365,197	-	-
Employee benefits.....	3,104,486	3,102,486	2,604,872	-	497,614
State and county charges.....	209,306	209,306	209,306	-	-
Debt service:					
Principal.....	795,000	795,000	795,000	-	-
Interest.....	575,828	575,828	565,329	-	10,499
<b>TOTAL EXPENDITURES.....</b>	<b>31,110,425</b>	<b>31,110,425</b>	<b>29,475,360</b>	<b>314,371</b>	<b>1,320,694</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,350,035)</b>	<b>(1,350,035)</b>	<b>1,082,131</b>	<b>(314,371)</b>	<b>2,117,795</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Use of prior year reserves.....	271,744	271,744	-	-	(271,744)
Use of free cash.....	1,198,000	1,198,000	-	-	(1,198,000)
Use of overlay.....	100,000	100,000	-	-	(100,000)
Transfers in.....	220,291	220,291	222,465	-	2,174
Transfers out.....	(440,000)	(440,000)	(440,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,350,035</b>	<b>1,350,035</b>	<b>(217,535)</b>	<b>-</b>	<b>(1,567,570)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>-</b>	<b>-</b>	<b>864,596</b>	<b>(314,371)</b>	<b>550,225</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>4,557,959</b>	<b>4,557,959</b>	<b>4,557,959</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 4,557,959</b>	<b>\$ 4,557,959</b>	<b>\$ 5,422,555</b>	<b>\$ (314,371)</b>	<b>\$ 550,225</b>

See notes to required supplementary information.

# ***Pension Plan Schedules***

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
ESSEX REGIONAL RETIREMENT SYSTEM**

Year	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered payroll	Net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
December 31, 2020.....	3.54%	\$ 14,034,803	\$ 5,033,054	278.85%	59.73%
December 31, 2019.....	3.41%	14,362,415	4,841,572	296.65%	55.46%
December 31, 2018.....	3.35%	14,141,999	4,544,928	311.16%	51.89%
December 31, 2017.....	3.39%	12,768,498	4,366,319	292.43%	55.40%
December 31, 2016.....	3.53%	13,593,536	4,405,007	308.59%	51.12%
December 31, 2015.....	3.44%	12,512,102	4,486,856	278.86%	51.01%
December 31, 2014.....	3.38%	11,477,481	4,050,676	283.35%	52.27%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS  
ESSEX REGIONAL RETIREMENT SYSTEM**

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2021.....	\$ 1,365,197	\$ (1,367,672)	\$ (2,475)	\$ 5,083,385	26.90%
June 30, 2020.....	1,224,339	(1,226,814)	(2,475)	4,889,988	25.09%
June 30, 2019.....	1,118,667	(1,121,142)	(2,475)	4,590,377	24.42%
June 30, 2018.....	1,056,547	(1,058,923)	(2,376)	4,409,982	24.01%
June 30, 2017.....	1,022,265	(1,024,777)	(2,512)	4,449,057	23.03%
June 30, 2016.....	946,077	(948,614)	(2,537)	4,531,725	20.93%
June 30, 2015.....	867,685	(867,685)	-	4,091,183	21.21%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

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The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Associated Net Pension Liability	Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2021.....	\$ 22,377,096	\$ 2,763,892	50.67%
2020.....	19,368,216	2,348,732	53.95%
2019.....	18,211,552	1,845,477	54.84%
2018.....	17,178,385	1,792,958	54.25%
2017.....	16,424,903	1,675,448	52.73%
2016.....	15,159,297	1,229,554	55.38%
2015.....	10,923,645	758,918	61.64%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered-employee payroll.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.



**SCHEDULE OF CHANGES IN THE  
TOWN'S NET OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
<b>Total OPEB Liability</b>					
Service Cost.....	\$ 597,061	\$ 525,119	\$ 524,237	\$ 343,359	\$ 356,201
Interest.....	708,300	719,231	795,773	802,278	830,484
Differences between expected and actual experience.....	-	(2,132,648)	-	(1,686,106)	-
Changes of assumptions.....	-	-	(467,400)	(1,832,347)	361,331
Benefit payments.....	(468,827)	(443,713)	(498,275)	(598,687)	(640,197)
Net change in total OPEB liability.....	836,534	(1,332,011)	354,335	(2,971,503)	907,819
Total OPEB liability - beginning.....	15,374,778	16,211,312	14,879,301	15,233,636	12,262,133
Total OPEB liability - ending (a).....	<u>\$ 16,211,312</u>	<u>\$ 14,879,301</u>	<u>\$ 15,233,636</u>	<u>\$ 12,262,133</u>	<u>\$ 13,169,952</u>
<b>Plan fiduciary net position</b>					
Employer contributions.....	\$ 100,000	\$ 100,000	\$ 300,000	\$ 300,000	\$ 320,000
Employer contributions for OPEB payments.....	468,827	443,713	498,275	598,687	640,197
Net investment income.....	40,148	34,450	56,410	40,725	376,002
Benefit payments.....	(468,827)	(443,713)	(498,275)	(598,687)	(640,197)
Net change in plan fiduciary net position.....	140,148	134,450	356,410	340,725	696,002
Plan fiduciary net position - beginning of year.....	458,499	598,647	733,097	1,089,507	1,430,232
Plan fiduciary net position - end of year (b).....	<u>\$ 598,647</u>	<u>\$ 733,097</u>	<u>\$ 1,089,507</u>	<u>\$ 1,430,232</u>	<u>\$ 2,126,234</u>
<b>Net OPEB liability - ending (a)-(b).....</b>	<u>\$ 15,612,665</u>	<u>\$ 14,146,204</u>	<u>\$ 14,144,129</u>	<u>\$ 10,831,901</u>	<u>\$ 11,043,718</u>
Plan fiduciary net position as a percentage of the total OPEB liability.....	3.69%	4.93%	7.15%	11.66%	16.14%
Covered-employee payroll.....	\$ 9,205,453	\$ 12,941,235	\$ 13,399,976	\$ 13,154,640	\$ 13,549,279
Net OPEB liability as a percentage of covered-employee payroll.....	169.60%	109.31%	105.55%	82.34%	81.51%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered- employee payroll</u>	<u>Contributions as a percentage of covered- employee payroll</u>
June 30, 2021.....	\$ 929,536	\$ (960,197)	\$ (30,661)	\$ 13,549,279	7.09%
June 30, 2020.....	1,140,629	(898,687)	241,942	13,154,640	6.83%
June 30, 2019.....	1,423,506	(798,275)	625,231	13,399,976	5.96%
June 30, 2018.....	1,492,382	(543,713)	948,669	12,941,235	4.20%
June 30, 2017.....	1,473,361	(568,827)	904,534	9,205,453	6.18%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**

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<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
June 30, 2021.....	24.08%
June 30, 2020.....	3.29%
June 30, 2019.....	5.60%
June 30, 2018.....	5.32%
June 30, 2017.....	6.34%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**A. Budgetary Information

Municipal Law requires the Town to adopt a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the Open Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any individual line item, adopts the expenditure budget by majority vote. Increases or decreases subsequent to the approval of the annual budget require a vote at a Special Town Meeting.

The majority of the Town's appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at Town Meeting.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original 2021 budget for the General Fund includes current year appropriations and other amounts to be raised of \$31.3 million.

The Town Accountant has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth of Massachusetts (Commonwealth)) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary basis to GAAP basis results for the General Fund for the year ended June 30, 2021, is presented below:

Net change in fund balance - budgetary basis.....	\$	864,596
<u>Perspective differences:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		358,502
<u>Basis of accounting differences:</u>		
Net change in recording 60 day receipts.....		(31,516)
Net change in recording accrued expenditures.....		91,560
Recognition of revenue for on-behalf payments.....		2,763,892
Recognition of expenditures for on-behalf payments.....		<u>(2,763,892)</u>
Net change in fund balance - GAAP basis.....	\$	<u>1,283,142</u>

**NOTE B – PENSION PLAN**Schedule of the Town's Proportionate Share of the Net Pension Liability

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of Town's Contributions

Governmental employees are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contribution may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

Schedule of the Special Funding Amounts of the Net Pension Liability

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contribution on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Changes in Assumptions

None.

Changes in Plan Provisions

None.

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members.

**The Other Postemployment Benefit Plan**The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered-employee payroll.

Schedule of the Town’s Contributions

The Schedule of the Town’s Contributions includes the Town’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered-employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered-employee payroll. Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are as follows:

Valuation date.....	Actuarially Determined Contribution was calculated as of July 1, 2019.
Actuarial cost method.....	Individual Entry Age Normal.
Asset valuation method.....	Market Value of Assets as of the Measurement Date, June 30, 2021.
Investment rate of return.....	6.51%, net of OPEB plan investment expense, including inflation.
Municipal bond rate.....	2.18% as of June 30, 2021 (source: S&P Municipal Bond 20-Year High Grade Index - SAPIHG).
Single equivalent discount rate.....	6.50%, net of OPEB plan investment expense, including inflation.
Inflation.....	2.50% as of June 30, 2021 and for future periods.
Salary increases.....	3.00% annually as of June 30, 2021 and for future periods.
Pre-retirement mortality.....	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 mortality.....	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 mortality.....	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.

Schedule of Investment Returns

The Schedule of Investment Returns includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

Changes of Assumptions:

The discount rate has been changed from 6.75% to 6.50%.

Changes in Plan Provisions:

None.