

FINAL OFFICIAL STATEMENT DATED JANUARY 25, 2012

NEW ISSUE

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. The Bonds will be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “Tax Exemption” herein.

\$1,946,000

TOWN OF TOPSFIELD, MASSACHUSETTS
General Obligation Refunding Bonds

Dated: Date of Delivery

Due: (As shown below)

MATURITY DATES, PRINCIPAL AMOUNTS, RATES, YIELDS AND CUSIP NUMBERS

| Due: | Principal | | | Cusip | Due: | Principal | | | Cusip |
|--------------------|---------------|-------------|--------------|---------------|--------------------|---------------|-------------|--------------|---------------|
| <u>February 15</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | <u>890788</u> | <u>February 15</u> | <u>Amount</u> | <u>Rate</u> | <u>Yield</u> | <u>890788</u> |
| 2013 | \$176,000 | 2.000% | 0.250% | EV0 | 2018 | \$200,000 | 3.000% | 1.100% | FA5 |
| 2014 | 180,000 | 3.000 | 0.500 | EW8 | 2019 | 210,000 | 4.000 | 1.350 | FB3 |
| 2015 | 185,000 | 3.000 | 0.650 | EX6 | 2020 | 210,000 | 2.000 | 1.550 | FC1 |
| 2016 | 190,000 | 3.000 | 0.800 | EY4 | 2021 | 200,000 | 2.000 | 1.750 | FD9 |
| 2017 | 195,000 | 3.000 | 0.900 | EZ1 | 2022 | 200,000 | 2.000 | 1.900 | FE7 |

Principal of the Bonds will be payable on February 15 of the years in which the Bonds mature. Interest will be payable on August 15, 2012 and semi-annually thereafter on each February 15 and August 15. The Bonds are not subject to redemption prior to their stated dates of maturity.

The Bonds will be issued by means of a book-entry system, evidencing ownership of the Bonds in principal amounts of \$5,000 (except for one principal amount of \$1,000 payable in 2013) or integral multiples thereof, with transfers of ownership effected on the records of The Depository Trust Company, New York, New York, (“DTC”), and its participants pursuant to rules and procedures adopted by DTC participants. No physical distribution of the Bonds will be made to the public. One certificate for each maturity of the Bonds will be issued to DTC, and immobilized in its custody. The winning bidder, as a condition of delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co.

The Bonds will be approved by Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel to the Town. It is expected that the Bonds, in definitive form, will be delivered to The Depository Trust Company, or its custodial agent, on or about February 14, 2012 against payment in federal reserve funds.

JANNEY MONTGOMERY SCOTT LLC

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The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

TOWN OF TOPSFIELD, MASSACHUSETTS

\$2,105,000*

GENERAL OBLIGATION REFUNDING BONDS

Book-Entry-Only

NOTICE OF SALE

The Town of Topsfield, Massachusetts, will receive proposals until 11:00 A.M. (local time) on Wednesday, January 25, 2012, at Eastern Bank, Boston, Massachusetts, for the purchase of the following described Bonds:

\$2,105,000* General Obligation Refunding Bonds payable as follows:

| <u>Due</u> <u>February 15</u> | <u>Principal</u> <u>Amount*</u> | <u>Due</u> <u>February 15</u> | <u>Principal</u> <u>Amount*</u> |
|----------------------------------|------------------------------------|----------------------------------|------------------------------------|
| 2013 | \$210,000 | 2018 | \$210,000 |
| 2014 | 210,000 | 2019 | 220,000 |
| 2015 | 210,000 | 2020 | 210,000 |
| 2016 | 210,000 | 2021 | 210,000 |
| 2017 | 205,000 | 2022 | 210,000 |

** Preliminary, subject to change*

The Bonds will be dated as of the date of delivery, February 14, 2012. Principal of the Bonds will be payable on February 15 of the years in which the Bonds mature. Interest will be payable on August 15, 2012 and semi-annually thereafter on each February 15 and August 15. The Bonds are not subject to redemption prior to their stated dates of maturity.

The Bonds will be issued by means of a book-entry system, evidencing ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of The Depository Trust Company, New York, New York, (“DTC”), and its participants pursuant to rules and procedures adopted by DTC participants. No physical distribution of the Bonds will be made to the public. One certificate for each maturity of the Bonds will be issued to DTC, and immobilized in its custody. The winning bidder, as a condition of delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co.

The original Bonds to be immobilized at DTC will be prepared and their legality approved by Edwards Wildman Palmer LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge.

Bidder(s) shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/8th or 1/20th of 1%, but shall not state: (a) more than one interest rate for any Bonds having a like maturity; (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3%. No bid of less than par and accrued interest to date of delivery will be considered.

As between proposals that comply with this Notice of Sale, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of January 25, 2012, discounts semi-annually all future payments on account of principal and interest on the Bonds to the price bid, not including interest accrued to the date of delivery, which accrued interest shall be paid by the successful bidder.

The Town reserves the right to change the aggregate principal amount of the bonds and the maturity schedule after the determination of the winning bid by increasing or decreasing the aggregate principal amount and the principal amount of each maturity by such amounts as may be necessary to (a) produce sufficient funds to effect the refunding for which the bonds are being issued after taking into account any premium to be received by the Town, and (b) to account for any changes in the bonds to be refunded with the proceeds of the Bonds based on the actual debt service savings to be realized by the Town. In such event, the aggregate principal amount of the Bonds will be increased or decreased by not more than ten percent (10%) of the aggregate principal amount of the Bonds stated in this Notice of

Sale. The dollar amount bid for the Bonds by the winning bidder will be adjusted, if applicable, to reflect changes in the dollar amount of the amortization schedule. Any price that is adjusted will reflect changes in the dollar amount of the underwriter's discount and original issue premium, if any, but will not change the per bond underwriter's discount (net of insurance premium, if any) provided in such bid. Nor will it change the interest rate specified for each maturity. Any such adjustments will be communicated to the winning bidder by 5 P.M. on the day of the sale.

Electronic proposals will be submitted through **PARITY/i-Deal™**. If any provisions in this Notice of Sale conflict with information provided by **PARITY/i-Deal™** this Notice of Sale shall control. Further information about **PARITY**, including any fees charged, may be obtained from **i-Deal** at (212) 404-8102. The Town assumes no responsibility or liability for bids submitted in this manner.

An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town.

Other bids, including bids delivered by telegram, should be sealed, marked "Proposal for Bonds" and addressed to Barbara B. Michalowski, Treasurer, Town of Topsfield, Massachusetts, c/o Eastern Bank, Municipal Finance Department, Second Floor, 265 Franklin Street, Boston, Massachusetts 02110. Proposals delivered as specified will be accepted. Blank bid forms with signature may be faxed to Eastern Bank prior to submitting bids at (617) 235-8110, with actual bids telephoned to (617) 235-8106 or 235-8104, at least one half hour prior to the 11:00 AM (local time) sale and after receipt of the faxed bid form by Eastern Bank which will act as agent for the bidder(s) in submitting the final sealed bids. Neither the Town nor Eastern Bank shall be responsible for bids submitted in this manner. Any bidder who submits a winning bid by telephone in accordance with this Notice of Sale shall be required to provide written confirmation of the terms of the bid by faxing or e-mailing a completed, signed bid form to Eastern Bank by not later than 11:30 a.m. on the date of sale. A good faith deposit is not required.

The award of the Bonds to the winning bidder will not be effective until the bid has been approved by the Treasurer and the Board of Selectmen.

The Town has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefore, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of their contractual obligations arising from the acceptance of their proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel generally to the effect that (i) as of January 25, 2012 (the "Sale Date"), the successful bidder had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices shown set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

It shall be a condition of the obligation of the successful bidder to accept delivery of and pay for the Bonds that it shall be furnished, without cost, with (a) the approving opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, substantially in the form presented in Appendix C to the Preliminary Official Statement, included herein, (b) a certificate in form satisfactory to said firm dated as of the date of delivery of the Bonds and receipt of payment therefore to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened

affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that to the best of the signer's knowledge and belief, both as of the date of sale and as of the date of delivery of the Bonds, the Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made herein, in the light of the circumstances under which they were made, not misleading and (d) a Continuing Disclosure Certificate in the form described in the Preliminary Official Statement.

In order to assist bidders in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement and in the proposed form of Continuing Disclosure Certificate, which is provided in Appendix D.

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town; provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such numbers.

The Bonds will be designated as "Qualified Tax-Exempt Obligations" for purposes of Section 265(b)(3) of the Code.

The Bonds, in definitive form, will be delivered to the purchaser at DTC, or its custodial agent, on or about the delivery date, February 14, 2012, against payment in federal reserve funds.

Additional information concerning the Town and the Bonds is contained in the Preliminary Official Statement dated January 18, 2012, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not deemed a part of this Notice of Sale. Copies of the Preliminary Official Statement and a suggested form of the proposal for the Bonds may be obtained from Eastern Bank, Municipal Finance Department, Second Floor, 265 Franklin Street, Boston, Massachusetts 02110, telephone: (617) 235-8106. The Preliminary Official Statement is deemed final by the Town as of its date for purposes of SEC Rule 15c2-12(b)1 except for the omission of the reoffering prices, interest rates and any other terms of the Bonds depending on such matters and the identity of the purchasers. Within seven (7) business days following the award of the Bonds in accordance herewith, no more than 100 copies of the Final Official Statement will be furnished to the successful bidder. Additional copies may be obtained at the purchaser's expense.

The right is reserved to reject all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal for the Bonds.

Town of Topsfield, Massachusetts

By: /s/ Barbara B. Michalowski, Treasurer

Dated: January 18, 2012

CONTACT INFORMATION:

ISSUER

Town of Topsfield, MA
8 West Common Street, Town Hall
Topsfield, MA 01983

Barbara Michalowski, Treasurer

Tel: 978-887-1511
Fax: 978-887-1507
Email: bmichalowski@topsfield-ma.gov

BOND COUNSEL

Edwards Wildman Palmer LLP
111 Huntington Avenue
Boston, MA 02199-7613

Richard A. Manley, Jr.

Tel: 617-239-0384
Fax: 617-227-4420
E-Mail: rmanley@edwardswildman.com

FINANCIAL ADVISOR

Eastern Bank
Municipal Finance – 2nd Floor
265 Franklin Street
Boston, MA 02110

Lori E. Lombard

Tel: 617-235-8106
Fax: 617-235-8110
E-Mail: l.lombard@easternbank.com

PAYING AGENT

U.S. Bank National Association
One Federal Street
Boston, MA 02110

Todd Dinezza

Tel: 617-603-6573
Fax: 617-603-6668
Email: todd.dinezza@usbank.com

OFFICIAL STATEMENT

TOWN OF TOPSFIELD, MASSACHUSETTS

\$1,946,000 GENERAL OBLIGATION REFUNDING BONDS

INTRODUCTION

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Topsfield, Massachusetts (the "Town") in connection with the sale of \$1,946,000 General Obligation Refunding Bonds of the Town (the "Bonds").

The Bonds will be general obligations of the Town for which its full faith and credit are pledged. They are not guaranteed by The Commonwealth of Massachusetts (the "Commonwealth") or any other entity. The principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property located in the Town, without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws. The security for the Bonds is more fully described under the caption "THE BONDS - *Security and Remedies*" below. See also "*Proposed Form of Legal Opinion*" in Appendix C.

Questions regarding information contained in this Official Statement or other matters should be directed to Lori E. Lombard, Vice President, Eastern Bank, (617) 235-8106. The information contained herein has been obtained from the sources indicated or from the Town.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the delivery date, February 14, 2012, and will bear interest payable on August 15, 2012 and semi-annually thereafter on each February 15 and August 15. Interest will be calculated on the basis of a 30-day month and a 360-day year. Principal on the Bonds will be payable on February 15 of the years and in the amounts shown on the cover of this Official Statement.

Principal and semi-annual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent (the "Paying Agent"). So long as The Depository Trust Company, New York, New York, ("DTC"), or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds will be issued by means of a book-entry system, evidencing ownership of the Bonds in principal amounts of \$5,000 (*except for one principal amount of \$1,000 payable in 2013*) or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC participants. No physical distribution of the Bonds will be made to the public. One certificate for each maturity of the Bonds will be issued to DTC, and immobilized in its custody.

Record Date

The record date for each payment of interest on the Bonds is the last business day of the month preceding the interest payment date provided that, with respect to overdue interest, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondholders at least ten (10) days before the special record date.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of securities deposited with DTC must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in securities deposited with DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in securities deposited with DTC except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with it; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer of such securities or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the

responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

DTC Practices

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

Redemption Status

The Bonds are not subject to redemption prior to their stated dates of maturity.

Authorization and Use of Proceeds

\$1,946,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, Section 21A and a vote of the Town's Board of Selectmen duly adopted on January 5, 2012 to currently refund the Town's \$9,374,000 General Obligation Municipal Purpose Loan of 2002 Bonds dated March 15, 2002 (the "2002 Bonds"), maturing in the years 2013 through 2022, in the aggregate principal amount of \$5,740,000 (the "Refunded Bonds") including payment of the underwriter's discount, principal, interest, redemption premium and other costs of issuance. The Town will also use a grant in the amount of \$3,772,390 from the Massachusetts School Building Authority to retire a portion of the Refunded Bonds allocable to the school projects. *The Town voted to exempt debt service on the Refunded Bonds, and thus the Bonds to be used to refund the Refunded Bonds, from the limit imposed by Chapter 59, Section 21C of the Massachusetts General Laws (Proposition 2 ½).*

Tax Exemption

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel to the Town ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the opinion of Bond Counsel, the Bonds are "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Town has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion

regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for “qualified bonds” as described above (see “*Serial Bonds and Notes*” under “INDEBTEDNESS - TYPES OF OBLIGATIONS” below) and setoffs of state distributions as described below (see “*State Distributions*” below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year “all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments”. Specific provision is also made for including in the next tax levy payments of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See “*Tax Limitations*” Under “PROPERTY TAXATION” below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit. The Town has voted to exempt the Refunded Bonds (and thus the Bonds issued to refund them) from the tax limitation of Proposition 2 ½.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See “INDEBTEDNESS - DEBT LIMITS” below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See “*Tax Limitations*” under “PROPERTY TAXATION” below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear

decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on “qualified bonds” (See “*Serial Bonds and Notes*” under “TYPES OF OBLIGATIONS” below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority if the city or town is within the territory served by the Authority, for any debt service due on obligations issued to the Massachusetts School Building Authority, or for charges necessary to meet obligations under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not generally authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth’s oversight of the financially distressed city, town or regional school district. To date, no such filings had been approved or made.

Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “Rule”), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to Town by not later than 270 days after the end of each fiscal year ending June 30 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The Town has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of significant events in accordance with the Rule.

The Town Treasurer, or such official's designee from time to time, shall be the contact person on behalf of the Town from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is: Barbara Michalowski, Treasurer, Town of Topsfield, Town Hall, 8 West Common Street, Topsfield, MA 01983; (978) 887-1511.

Bank Eligibility

The Bonds will be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Rating

Moody’s Investors Service has assigned their municipal bond rating of Aa2 on the Bonds. The rating reflects only the rating agency’s views and will be subject to revision or withdrawal, which could affect the market price of the Bonds.

Plan of Refunding

The proceeds of the Bonds, together with a grant in the amount of \$3,772,390 from the Massachusetts School Building Authority, will be used to currently refund a portion of the Town's General Obligation Municipal Purpose Loan of 2002 Bonds dated March 15, 2002 maturing in the years 2013 through 2022 in the aggregate principal amount of \$5,740,000 (the “Refunded Bonds”), and to pay costs of issuance in connection therewith. The Town voted to exempt the debt service on the Refunded Bonds from the limits of Proposition 2 ½, and therefore, the Bonds offered herein, from the limits of Proposition 2 1/2.

Sources and Uses of Funds

The proceeds of the sale of the Bonds are expected to be applied as follows:

| <u>Sources</u> | | <u>Uses</u> | |
|--------------------------------------|------------------------------|-------------------------------------|------------------------------|
| Par Amount of Bonds | \$1,946,000.00 | Deposit to Refund Outstanding Bonds | \$5,797,400.00 |
| MSBA Lump Sum Payment | 3,772,390.00 | Underwriter’s Discount | 10,700.69 |
| Original Issue Premium | 133,487.36 | Costs of Issuance | 38,931.25 |
| | | Additional Proceeds | 4,845.42 |
| <i>Total Sources of Funds</i> | <u><u>\$5,851,877.36</u></u> | <i>Total Uses of Funds</i> | <u><u>\$5,851,877.36</u></u> |

Financial Advisor

The services performed by Eastern Bank, Boston, Massachusetts and its affiliates with respect to the issuance of the Bonds may cause Eastern Bank to be considered to have a Financial Advisory relationship with the Town under Rule G-23 of the Municipal Securities Rulemaking Board.

Opinion of Bond Counsel

The unqualified approving opinion as to the validity of the Bonds will be rendered by Edwards Wildman Palmer LLP of Boston, Massachusetts, Bond Counsel. The opinion will be dated as of the date of original delivery of the Bonds and will speak only as of such date. The proposed form of legal opinion is set forth in Appendix C hereto.

The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statements made in this Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

THE TOWN

The Town of Topsfield, located in Essex County, was incorporated as a Town in 1650 and is located in Essex County in northeastern Massachusetts. The Town is bordered by the Towns of Ipswich on the north, Hamilton and Wenham on the east, Middleton and Danvers to the south and Boxford on the west. It is located 25 miles north of Boston and is within one mile of Interstate Route 95 and US Route 1. The Town has a population of 6,344 according to the local census and covers an area of approximately 13 square miles and includes 60 miles of roadways and 25 miles of sidewalks and bike paths. In addition to a local village shopping center, there are various small businesses located principally along Route 1; however, the Town remains primarily a residential community.

Services

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, curbside pickup of trash and recycling, composting and recycling drop off, water, street maintenance, parks and recreational facilities, services and programs for the elderly and public education in pre-school through grade six. Middle and high school education (grades 7-12) is provided through participation in the Masconomet Regional School District. North Shore Regional Vocational High School provides academic and vocational education for grades 9-12. The Topsfield Housing Authority provides public housing for the elderly, as well as the handicapped.

Public transportation is available through The Coach Company, which operates daily bus service from Topsfield to Boston, as well as through MBTA commuter rail service from Hamilton, Ipswich, Beverly and Salem.

Governing Bodies and Officers

Local legislative decisions are made by an open town meeting consisting of all the registered voters in the Town. Subject to the legislative decisions made by the town meeting, the affairs of the Town are generally administered by a five-member board of selectmen. The Town departments are managed and operated by Town employees who are responsible for the day-to-day operations including finance, public safety, public works and other services. Local school affairs are administered by a five-member elected school committee. Local taxes are assessed by a board of three assessors elected for staggered three-year terms. The Water Department is supervised by the Board of Water Commissioners.

Principal Executive Officers

The following is a list of the principal executive officers within the Town.

| <u>Title</u> | <u>Name</u> | <u>Manner of Selection</u> | <u>Length of Term</u> | <u>Expiration of Term</u> |
|--------------------------------------|----------------------|----------------------------|-----------------------|---------------------------|
| Chairman, Board of Selectmen | Laura Powers | Elected | 3 Years | 2012 |
| Selectman, Clerk | Eldon Goodhue | Elected | 3 Years | 2013 |
| Selectman | Kenneth G. Vogel | Elected | 3 Years | 2014 |
| Selectman | Martha A. Morrison | Elected | 3 Years | 2014 |
| Selectman | A. Richard Gandt | Elected | 3 Years | 2012 |
| Town Administrator | Virginia L. Wilder | Appointed | 3 Years | 2012 |
| Treasurer/Collector | Barbara Michalowski | Appointed | 3 Years | 2014 |
| Town Accountant | Pamela Wood | Appointed | 3 Years | 2012 |
| Assessor | John W. Minnehan | Elected | 3 Years | 2014 |
| Assessor | Eldon D. Goodhue | Elected | 3 Years | 2012 |
| Assessor, Chairman | Lynn A. Conant | Elected | 3 Years | 2013 |
| Principal Assessor | Pauline M. Evans | Appointed | 1 Year | 2012 |
| Superintendent of Elementary Schools | Bernard F. Creeden | Appointed | NA | NA |
| Superintendent of Masconomet | Dr. Darrell Lockwood | Appointed | NA | NA |
| Superintendent of Water | Gregory Krom | Appointed | 1 Year | 2012 |
| Superintendent of Highways | David M. Bond | Appointed | 1 Year | 2012 |
| Town Clerk | Paula Burke | Elected | 3 Year | 2013 |
| Town Counsel | Kopelman & Paige LLC | Appointed | 1 Year | 2012 |

Collective Bargaining

City and town employees (other than managerial or confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours, and other terms and or conditions of employment. The Town has approximately 225 full and part-time employees of whom approximately 54% belong to unions or other collective bargaining groups. The following table sets forth the collective bargaining groups.

| <u>Union</u> | <u>Department</u> | <u>Members</u> | <u>Contract Expires</u> |
|---|-----------------------------|----------------|-------------------------|
| AFSCME Council 93 Local 2905 IAFF..... | Highway/Water/Park&Cemetery | 9 | 6/30/2011(1) |
| Topsfield Teachers Association..... | School | 55 | 8/31/2013 |
| Teamsters..... | Police | 9 | 6/30/2013 |
| Teamsters..... | Dispatchers | 3 | 6/30/2010(1) |
| Police Reserve Association..... | Police | 13 | 6/30/2012 |
| Call Fire Association..... | Call Fire | 28 | 6/30/2011(1) |
| Topsfield FireFighters Local #3250..... | Fire | 4 | 6/30/2011(1) |
| Total: | | <u>121</u> | |

(1) This contract is currently under negotiation.

Principal Municipal Facilities

The following is a list of the principal municipal facilities within the Town and the 2011 assessed valuations.

| <u>Facility</u> | <u>Date Built (Remodeled)</u> | <u>Assessed Valuation</u> |
|-----------------------|-------------------------------|---------------------------|
| Steward School | 1963/1968/1987/1999 | \$3,538,900 |
| Proctor School | 1932/1952/1955/1974/1987/1999 | 3,237,800 |
| Library | 1935/1998 | 2,066,100 |
| Water Department | 1950 | 935,000 |
| Water Department | 1960 | 1,158,400 |
| Fire Station/Highway | 1939/1969 | 970,500 |
| Town Hall | 1873 | 785,100 |
| Police Station | 1930/1987 | 973,400 |
| Public Works Facility | 2000 | 1,481,700 |
| Cemetery | 1978 | 404,600 |

Other Data

The following tables set forth, age characteristics, income levels, housing characteristics, population trends, and employment figures for the Town of Topsfield, Essex County, and the Commonwealth of Massachusetts.

Median Age

| <u>Age</u> | <u>Topsfield</u> | | <u>Essex County</u> | | <u>Massachusetts</u> | |
|----------------------|------------------|----------------|---------------------|----------------|----------------------|----------------|
| | <u>Number</u> | <u>Percent</u> | <u>Number</u> | <u>Percent</u> | <u>Number</u> | <u>Percent</u> |
| Under 5 Years | 395 | 6.4% | 48,254 | 6.7% | 397,268 | 6.3% |
| 5 Years to 19 Years | 1,448 | 23.6 | 151,038 | 20.9 | 1,277,845 | 20.1 |
| 20 Years to 64 Years | 3,351 | 54.6 | 423,821 | 58.6 | 3,813,822 | 60.1 |
| 65 Years and Over | 947 | 15.4 | 100,306 | 13.9 | 860,162 | 13.5 |
| Total | <u>6,141</u> | <u>100.0%</u> | <u>723,419</u> | <u>100.0%</u> | <u>6,349,097</u> | <u>100.0%</u> |
| Median Age | 41 | | 38 | | 37 | |
| Median Age (1990) | 39.2 | | 34.5 | | 33.6 | |

Source: U.S. Department of Commerce 2000

Per Capita Income

| <u>Year</u> | <u>Topsfield</u> | | <u>Essex County</u> | | <u>Massachusetts</u> | |
|------------------------------|------------------|-----------------|---------------------|-----------------|----------------------|-----------------|
| | <u>Amount</u> | <u>% Change</u> | <u>Amount</u> | <u>% Change</u> | <u>Amount</u> | <u>% Change</u> |
| 1999 | \$37,770 | 38.0% | \$26,358 | 49.9% | \$25,952 | 50.7% |
| 1989 | 27,375 | 155.1 | 17,586 | 129.2 | 17,224 | 131.0 |
| 1979 | 10,733 | 0.0 | 7,673 | 0.0 | 7,457 | 0.0 |
| % Below Poverty Level (1999) | 1.7% | | 8.9% | | 9.3% | |

Source: U.S. Department of Commerce 2000

Median Family Income

| <u>Income for Families</u> | <u>Topsfield</u> | | <u>Essex County</u> | | <u>Massachusetts</u> | |
|----------------------------|------------------|----------------|---------------------|----------------|----------------------|----------------|
| | <u>Families</u> | <u>Percent</u> | <u>Families</u> | <u>Percent</u> | <u>Families</u> | <u>Percent</u> |
| Less than \$10,000 | 7 | 0.4% | 8,075 | 4.3% | 71,198 | 4.5% |
| 10,000 - 24,999 | 58 | 3.4 | 20,022 | 10.8 | 175,120 | 11.0 |
| 25,000 - 49,999 | 170 | 9.9 | 41,277 | 22.2 | 368,418 | 23.2 |
| 50,000 - 74,999 | 304 | 17.7 | 40,776 | 21.9 | 359,202 | 22.6 |
| 75,000 - 99,999 | 241 | 14.0 | 30,224 | 16.2 | 251,231 | 15.8 |
| 100,000 - 149,999 | 533 | 31.0 | 27,479 | 14.8 | 222,234 | 14.0 |
| 150,000 or more | <u>405</u> | <u>23.6</u> | <u>18,190</u> | <u>9.8</u> | <u>140,134</u> | <u>8.8</u> |
| Total | <u>1,718</u> | <u>100.0%</u> | <u>186,043</u> | <u>100.0%</u> | <u>1,587,537</u> | <u>100.0%</u> |
| Median Income | \$104,475 | | \$63,746 | | \$61,664 | |

Source: U.S. Department of Commerce 2000

Household Income

| <u>Income for Households</u> | <u>Topsfield</u> | | <u>Essex County</u> | | <u>Massachusetts</u> | |
|------------------------------|-------------------|----------------|---------------------|----------------|----------------------|----------------|
| | <u>Households</u> | <u>Percent</u> | <u>Households</u> | <u>Percent</u> | <u>Households</u> | <u>Percent</u> |
| Less than \$10,000 | 66 | 3.1% | 24,033 | 8.7% | 214,700 | 8.8% |
| 10,000 - 24,999 | 154 | 7.3 | 42,354 | 15.4 | 385,395 | 15.8 |
| 25,000 - 49,999 | 263 | 12.5 | 66,519 | 24.2 | 608,320 | 24.9 |
| 50,000 - 74,999 | 347 | 16.5 | 54,048 | 19.6 | 490,998 | 20.1 |
| 75,000 - 99,999 | 252 | 12.0 | 36,066 | 13.1 | 312,741 | 12.8 |
| 100,000 - 149,999 | 573 | 27.3 | 32,016 | 11.6 | 267,300 | 10.9 |
| 150,000 or more | <u>446</u> | <u>21.2</u> | <u>20,374</u> | <u>7.4</u> | <u>165,134</u> | <u>6.8</u> |
| Total | <u>2,101</u> | <u>100.0%</u> | <u>275,410</u> | <u>100.0%</u> | <u>2,444,588</u> | <u>100.0%</u> |
| Median Income | \$96,430 | | \$51,576 | | \$50,502 | |

Source: U.S. Department of Commerce 2000

Median Value Owner – Occupied Housing Units

| Units | Topsfield | | Essex County | | Massachusetts | |
|---------------------|--------------|---------------|----------------|---------------|------------------|---------------|
| | Number | Percent | Number | Percent | Number | Percent |
| Less than \$100,000 | -0- | 0.0% | 6,159 | 4.4% | 113,263 | 9.5% |
| 100,000 - 149,999 | 27 | 1.6 | 22,028 | 15.7 | 277,571 | 23.4 |
| 150,000 - 199,999 | 89 | 5.3 | 32,305 | 23.1 | 273,542 | 23.0 |
| 200,000 - 299,999 | 476 | 28.5 | 42,625 | 30.5 | 286,599 | 24.1 |
| 300,000 - 499,999 | 952 | 56.9 | 28,043 | 20.0 | 170,536 | 14.4 |
| 500,000 or more | <u>128</u> | <u>7.7</u> | <u>8,771</u> | <u>6.3</u> | <u>66,360</u> | <u>5.6</u> |
| Total | <u>1,672</u> | <u>100.0%</u> | <u>139,931</u> | <u>100.0%</u> | <u>1,187,871</u> | <u>100.0%</u> |
| Median Value | \$333,500 | | \$220,000 | | \$185,700 | |

Source: U.S. Department of Commerce 2000

Age of Housing Units

| Year Built | Topsfield | | Essex County | | Massachusetts | |
|--------------------|--------------|---------------|----------------|---------------|------------------|---------------|
| | Number | Percent | Number | Percent | Number | Percent |
| 1990 to March 2000 | 245 | 11.4% | 21,706 | 7.6% | 218,407 | 8.3% |
| 1980 to 1989 | 132 | 6.2 | 31,301 | 10.9 | 292,701 | 11.2 |
| 1940 to 1979 | 1,346 | 62.8 | 124,424 | 43.3 | 1,205,183 | 46.0 |
| 1939 or Earlier | <u>421</u> | <u>19.6</u> | <u>109,713</u> | <u>38.2</u> | <u>905,698</u> | <u>34.5</u> |
| Total | <u>2,144</u> | <u>100.0%</u> | <u>287,144</u> | <u>100.0%</u> | <u>2,621,989</u> | <u>100.0%</u> |

Source: U.S. Department of Commerce 2000

Population

| Year | Topsfield | | Essex County | | Massachusetts | |
|------------------|-----------|----------|--------------|----------|---------------|----------|
| | Number | % Change | Number | % Change | Number | % Change |
| 2010 Preliminary | 6,085 | -0.9% | 743,159 | 2.7% | 6,547,629 | 3.1 |
| 2000 | 6,141 | 6.7 | 723,419 | 8.0 | 6,349,097 | 5.5 |
| 1990 | 5,754 | 0.8 | 670,080 | 5.8 | 6,016,425 | 4.9 |
| 1980 | 5,709 | 9.3 | 633,632 | -0.7 | 5,737,037 | 0.8 |
| 1970 | 5,225 | | 637,887 | 0.0 | 5,689,170 | |

Unemployment

| Calendar Year(1) | Labor Force | Employment | Unemployment Rate | | | |
|------------------|-------------|------------|-------------------|--------|-------|------|
| | | | Town | County | State | US |
| 2011 (November) | 3,001 | 2,865 | 4.5% | 6.8% | 6.4% | 8.2% |
| 2010 | 2,990 | 2,792 | 6.6 | 8.9 | 8.5 | 9.6 |
| 2009 | 2,975 | 2,780 | 6.6 | 8.8 | 8.2 | 9.3 |
| 2008 | 2,989 | 2,871 | 3.9 | 5.6 | 5.3 | 5.8 |
| 2007 | 2,963 | 2,865 | 3.3 | 4.7 | 4.5 | 4.6 |

Source: Massachusetts Department of Employment & Training

(1) Full year averages except for 2011 which is for the month indicated.

Employment and Payrolls

| <u>Employment by Industry</u> | Calendar Year Average | | | | |
|-----------------------------------|-----------------------|--------------|--------------|--------------|--------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Construction & Natural Resources | 252 | 216 | 247 | 269 | 259 |
| Manufacturing | 153 | 139 | 156 | 163 | 175 |
| Trade, Transportation & Utilities | 317 | 363 | 374 | 407 | 496 |
| Financial Activities | 85 | 79 | 80 | 93 | 98 |
| Professional & Business Services | 300 | 267 | 257 | 253 | 278 |
| Education & Health Services | 885 | 721 | 720 | 710 | 707 |
| Leisure & Hospitality | 179 | 128 | 88 | 82 | 85 |
| Information & Other Services | 153 | 150 | 132 | 141 | 107 |
| Public Administration | -0- | -0- | -0- | -0- | -0- |
| Total Employment | <u>2,437</u> | <u>2,176</u> | <u>2,164</u> | <u>2,248</u> | <u>2,332</u> |
| Number of Establishments | 300 | 282 | 284 | 290 | 290 |
| Total Annual Wage (000) | \$116,407 | \$107,958 | \$107,007 | \$109,992 | \$112,233 |
| Average Weekly Wage | 919 | 954 | 951 | 941 | 926 |

Source: Massachusetts Department of Employment & Training

Principal Employers

The following table lists the largest employers in the Town of Topsfield and the approximate number of employees of each, exclusive of the Town itself.

| <u>Company</u> | <u>Nature of Business</u> | Approximate # of <u>Employees</u> |
|---|-------------------------------|---|
| Essex Agricultural Society (Topsfield Fair) | Topsfield Fair | 500 |
| Masconomet Health Care | Nursing Care Facility | 174 |
| Fairview Machine Co. | Machine Shop Precisions Parts | 100 |
| Harmony Health Care | Assisting nursing homes | 100 |
| Keller Williams Realty | Real Estate | 100 |
| Lawton Welding | Manufacturing | 50 |
| Evans Industries | Manufacturing | 50 |
| Atlantic Semiconductor | Manufacturing | 50 |
| Essex County Co-op | Retail | 50 |
| Trireme Manufacturing | Manufacturing | 50 |

Building Permits

Below is a list of the building permits issued and their estimated values for the following calendar years.

| | For Calendar Year | | | | |
|------------------|-------------------|--------------|--------------|-------------|--------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Residential: | | | | | |
| Number..... | 24 | 22 | 4 | 1 | 4 |
| Value..... | \$ 8,122,805 | \$ 7,075,370 | \$ 1,260,470 | \$ 300,000 | \$ 2,094,360 |
| Non-Residential: | | | | | |
| Number..... | -0- | 1 | 1 | -0- | 2 |
| Value..... | \$ -0- | \$ 248,000 | \$ 350,000 | \$ -0- | \$ 2,170,000 |

Public School Facilities

The Town presently operates two elementary schools for grades kindergarten through six and is a member of the Masconomet Regional School District which provides education in grades seven through twelve. The following tables list the public school facilities and current and projected enrollment figures for the Town and the District.

| <u>Name</u> | <u>Grade</u> | <u>Date Built</u> | <u>Added to (Remodeled)</u> | <u>Capacity</u> | <u>Current Enrollment(1)</u> |
|--|--------------|-------------------|-----------------------------|---------------------|------------------------------|
| Elementary: | | | | | |
| Steward..... | K-3 | 1962 | 1968/1987/1999 | 530 | 362 |
| Proctor..... | 4-6 | 1932 | 1952/55/74/87/99 | 700 | 257 |
| Junior/Senior High: | | | | | |
| Masconomet Regional School District..... | 7-12 | 1967 | 1975/2003 | <u>2,400</u> | <u>622(2)</u> |
| Totals: | | | | <u><u>3,630</u></u> | <u><u>1,241</u></u> |

(1) Enrollments as of October 1, 2011.

(2) Represents Topsfield students only. Total enrollment of the school is 2,121. The District consists of the Towns of Topsfield, Boxford and Middleton.

Public School Enrollment

| | <u>Actual(1)</u> | | | | | <u>Projected</u> | | |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> |
| Elementary..... | 713 | 694 | 695 | 664 | 660 | 647 | 619 | 590 |
| Junior/Senior(2)..... | <u>584</u> | <u>620</u> | <u>627</u> | <u>625</u> | <u>646</u> | <u>621</u> | <u>622</u> | <u>624</u> |
| Totals: | <u><u>1,297</u></u> | <u><u>1,314</u></u> | <u><u>1,322</u></u> | <u><u>1,289</u></u> | <u><u>1,306</u></u> | <u><u>1,268</u></u> | <u><u>1,241</u></u> | <u><u>1,214</u></u> |

(1) Source: Massachusetts Department of Education - As of October 1, each school year.

(2) Topsfield students attending Masconomet Regional School District.

Educational Attainment

| <u>Years of School Completed</u> | <u>Topsfield</u> | | <u>Essex County</u> | | <u>Massachusetts</u> | |
|----------------------------------|---------------------|----------------------|-----------------------|----------------------|-------------------------|----------------------|
| | <u>Number</u> | <u>Percent</u> | <u>Number</u> | <u>Percent</u> | <u>Number</u> | <u>Percent</u> |
| Less than 9th Grade | 11 | 0.3% | 28,862 | 5.9% | 247,556 | 5.8% |
| 9th to 12th Grade, No Diploma | 120 | 2.9 | 46,105 | 9.5 | 403,537 | 9.4 |
| High School Graduate | 776 | 18.8 | 136,744 | 28.1 | 1,165,489 | 27.3 |
| Some College, No Degree | 673 | 16.3 | 86,102 | 17.7 | 730,135 | 17.1 |
| Associate's Degree | 406 | 9.8 | 37,065 | 7.6 | 308,263 | 7.2 |
| Bachelor's Degree | 1,281 | 31.0 | 95,184 | 19.5 | 834,554 | 19.5 |
| Graduate or Professional Degree | <u>868</u> | <u>21.0</u> | <u>57,041</u> | <u>11.7</u> | <u>583,741</u> | <u>13.7</u> |
| Total | <u><u>4,135</u></u> | <u><u>100.0%</u></u> | <u><u>487,103</u></u> | <u><u>100.0%</u></u> | <u><u>4,273,275</u></u> | <u><u>100.0%</u></u> |
| High School Graduate or Higher | 4,004 | 96.8% | 412,136 | 84.6% | 3,622,182 | 84.8% |
| Bachelor's Degree or Higher | 2,149 | 52.0 | 152,225 | 31.3 | 1,418,295 | 33.2 |

Source: U.S. Department of Commerce 2000

INDEBTEDNESS

Debt Limits

The general debt limit of the Town of Topsfield consists of a normal debt limit and a double debt limit. The normal debt limit is 5.0 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize up to \$63,778,110 without state approval and up to twice this amount (\$127,556,220 – double debt limit) with the approval of the Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

As of January 15, 2012, the Town of Topsfield had total outstanding and authorized unissued general obligation debt of \$9,790,000 of which \$7,415,000 was outside, and \$2,375,000 was subject to its general debt limit. The additional debt which could be authorized within the normal 5.0 percent debt limit was \$61,403,110. The additional debt which could be authorized within the double debt limit was \$125,181,220.

Authorization of General Obligation Bonds and Notes

Serial bonds and notes are authorized by vote of two-thirds of the town meeting. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the treasurer with the approval of the selectmen.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue (“DOR”). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the

amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as “tax credit bonds” to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue. The Town has not issued revenue anticipation notes in the last five fiscal years.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally, they must mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Debt Summary

Below is a summary of the Town’s outstanding bonds as of January 15, 2012. Presently, the Town has no bond anticipation notes outstanding and does not have any authorized unissued debt.

| | Outstanding <u>1/15/2012</u> |
|--|---------------------------------|
| Long-Term Indebtedness (1)(2)(3)(4) | |
| Within the General Debt Limit: | |
| Schools | \$ 368,000 |
| Other Building | 1,387,000 |
| Streets Sidewalks & Parking | 360,000 |
| Departmental Equipment | <u>260,000</u> |
| Total Within the General Debt Limit | <u>\$ 2,375,000</u> |
| Outside the General Debt Limit: | |
| Schools | \$ 5,735,000(6) |
| Other Outside General | 700,000 |
| Water (5) | <u>980,000</u> |
| Total Outside the General Debt Limit | <u>\$ 7,415,000</u> |
| Total Long-Term Indebtedness | <u>\$ 9,790,000</u> |

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) At the present time the normal General Debt Limit is \$63,778,110 and the Double General Debt Limit is \$127,556,220.

(3) \$8,625,000 has been exempted from the provisions of Proposition 2 1/2.

(4) Includes the Refunded Bonds, but not the Bonds.

(5) \$980,000 is self-supporting.

(6) After the issuance of the Refunding Bonds it is expected that the principal amount of school bonds outstanding will be reduced by approximately \$3,700,000.

Bonded Debt vs. Population, Valuations and Income

| | As of June 30 | | | | |
|--|---------------|--------------|--------------|---------------|---------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Amount (1) | \$ 10,225,000 | \$ 9,180,000 | \$ 9,805,000 | \$ 10,400,000 | \$ 10,965,000 |
| Per Capita (2) | 1,680.36 | 1,508.63 | 1,595.87 | 1,702.41 | 1,807.02 |
| Percent of Assessed Valuation (3) | 0.88% | 0.77% | 0.78% | 0.81% | 0.86% |
| Percent of Equalized Valuation (4) | 0.80 | 0.67 | 0.71 | 0.80 | 0.84 |
| Per Capita as a percent of Personal Income (2) per capita | 4.45 | 3.99 | 4.23 | 4.51 | 4.78 |

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Source: U.S. Department of Commerce, Bureau of the Census - Latest applicable actuals or estimates.

(3) Source: Board of Assessors - Assessed valuation as of the prior January 1.

(4) Source: Massachusetts Department of Revenue - Equalized valuation in effect for that fiscal year
(equalized valuations are established for January 1 of each even-numbered year).

Five Years Outstanding Debt

| | As of June 30 | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Long-Term Indebtedness(1) | | | | | |
| Within the General Debt Limit: | | | | | |
| Schools | \$ 368,000 | \$ 393,000 | \$ 418,000 | \$ 443,000 | \$ 468,000 |
| Other Building | 1,554,000 | 1,712,000 | 1,862,000 | 2,002,000 | 2,132,000 |
| Streets Sidewalks & Parking | 400,000 | -0- | -0- | -0- | -0- |
| Departmental Equipment | 348,000 | 125,000 | 145,000 | 165,000 | 185,000 |
| Total Within the General Debt Limit | <u>\$ 2,670,000</u> | <u>\$ 2,230,000</u> | <u>\$ 2,425,000</u> | <u>\$ 2,610,000</u> | <u>\$ 2,785,000</u> |
| Outside the General Debt Limit: | | | | | |
| Schools | \$ 5,735,000 | \$ 6,125,000 | \$ 6,500,000 | \$ 6,855,000 | \$ 7,195,000 |
| Other Outside General | 765,000 | 825,000 | 880,000 | 935,000 | 985,000 |
| Water | 1,055,000 | -0- | -0- | -0- | -0- |
| Total Outside the General Debt Limit | <u>\$ 7,555,000</u> | <u>\$ 6,950,000</u> | <u>\$ 7,380,000</u> | <u>\$ 7,790,000</u> | <u>\$ 8,180,000</u> |
| Total Long-Term Indebtedness | <u>\$ 10,225,000</u> | <u>\$ 9,180,000</u> | <u>\$ 9,805,000</u> | <u>\$ 10,400,000</u> | <u>\$ 10,965,000</u> |
| Short-Term Indebtedness | | | | | |
| Revenue Anticipation Notes | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Grant Anticipation Notes | -0- | -0- | -0- | -0- | -0- |
| Bond Anticipation Notes | -0- | 1,470,000 | 935,000 | 550,000 | 550,000 |
| Total Short-Term Indebtedness | <u>\$ -0-</u> | <u>\$ 1,470,000</u> | <u>\$ 935,000</u> | <u>\$ 550,000</u> | <u>\$ 550,000</u> |
| Total Outstanding Indebtedness | <u>\$ 10,225,000</u> | <u>\$ 10,650,000</u> | <u>\$ 10,740,000</u> | <u>\$ 10,950,000</u> | <u>\$ 11,515,000</u> |

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

Principal Repayment Schedule

| Fiscal Year | Outstanding as of 01/15/12(1)(2)(3)(4)(5) | | Total Debt Service | Less MSBA Grants | Net Debt Service | Cumulative % Principal Retired |
|----------------|--|---------------------|-----------------------|----------------------|---------------------|--------------------------------------|
| | Principal | Interest | | | | |
| 2012 | \$ 445,000 | \$ 150,139 | \$ 595,139 | \$ -419,170 | \$ 175,969 | 4.5% |
| 2013 | 910,000 | 391,783 | 1,301,783 | -419,170 | 882,613 | 13.8 |
| 2014 | 945,000 | 357,508 | 1,302,508 | -419,170 | 883,338 | 23.5 |
| 2015 | 965,000 | 316,033 | 1,281,033 | -419,170 | 861,863 | 33.4 |
| 2016 | 915,000 | 273,608 | 1,188,608 | -419,170 | 769,438 | 42.7 |
| 2017 | 935,000 | 240,595 | 1,175,595 | -419,170 | 756,425 | 52.2 |
| 2018 | 970,000 | 204,295 | 1,174,295 | -419,170 | 755,125 | 62.2 |
| 2019 | 905,000 | 166,005 | 1,071,005 | -419,170 | 651,835 | 71.4 |
| 2020 | 930,000 | 126,555 | 1,056,555 | -419,170 | 637,385 | 80.9 |
| 2021 | 850,000 | 85,955 | 935,955 | -419,170 | 516,785 | 89.6 |
| 2022 | 760,000 | 46,875 | 806,875 | -419,174 | 387,701 | 97.3 |
| 2023 | 65,000 | 9,750 | 74,750 | -0- | 74,750 | 98.0 |
| 2024 | 65,000 | 7,313 | 72,313 | -0- | 72,313 | 98.7 |
| 2025 | 65,000 | 4,875 | 69,875 | -0- | 69,875 | 99.9 |
| 2026 | 65,000 | 2,438 | 67,438 | -0- | 67,438 | 100.0 |
| Total | \$ 9,790,000 | \$ 2,383,724 | \$ 12,173,724 | \$ -4,610,874 | \$ 7,562,850 | |

(1) Excludes revenue anticipation notes, grant anticipation notes, bond anticipation notes, lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Principal totaling \$8,625,000 and interest totaling \$2,128,364 has been exempted from the provisions of Proposition 2 1/2.

(3) Principal totaling \$980,000 and interest totaling \$241,410 is self-supporting.

(4) This table includes the Refunded Bonds and excludes the Bonds.

(5) After the issuance of the Bonds it is expected that the principal amount of school bonds outstanding will be reduced by approximately \$3,700,000.

Capital Improvement Program

The Town has a capital improvement program providing for annual financing of capital requests that is updated annually. The following is a list of capital outlay projects by department proposed and committed over the current and next four fiscal years.

| Department | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| Town Hall..... | \$ -0- | \$ 70,000 | \$ -0- | \$ 20,000 | \$ -0- |
| Police..... | 29,124 | 76,997 | 37,000 | 38,000 | 39,000 |
| Fire..... | -0- | 50,000 | 200,000 | 50,000 | 900,000 |
| DPW - Highway..... | -0- | 28,000 | 36,500 | -0- | -0- |
| Park & Cemetery..... | -0- | -0- | -0- | -0- | -0- |
| Library..... | -0- | -0- | -0- | -0- | -0- |
| School..... | -0- | 600,000 | 100,000 | 46,250 | 50,000 |
| Water..... | 175,000 | 1,150,000(1) | 200,000 | -0- | 150,000 |
| Totals: | \$ 204,124 | \$ 1,974,997 | \$ 573,500 | \$ 154,250 | \$ 1,139,000 |

(1) This project consists of \$800,000 for large water replacement pipes, \$25,000 for the North Street Station repairs of roof and doors, \$175,000 for storage tank repairs and \$150,000 for the design of the water treatment plant.

Overlapping Debt and Assessments

In addition to direct debt, the Town is indirectly liable for a portion of the debt and other expenses incurred by various overlapping governmental authorities and agencies(1). The following table sets forth the outstanding and authorized but unissued bonded debt of each authority or agency, Topsfield's percentage of this outstanding debt and the Town's fiscal year dollar assessment.

| | Outstanding <u>1/1/2012</u> | Authorized Unissued <u>1/1/2012</u> | Assessment for Operations & Debt Service <u>FY 2012</u> |
|--|--------------------------------|---|--|
| Masconomet Regional School District(2)..... | \$ 19,685,000 | \$ -0- | \$6,121,408 |
| Essex North Shore Agricultural and Technical School District(3)..... | (3) | 133,770,000(3) | 75,400 |

(1) Excludes temporary loans in anticipation of revenue. Omits debt of the Commonwealth.

(2) Source: Masconomet Regional School District. Debt is as of January 1, 2012. The operating expenses and debt service of the regional school district are apportioned among the member municipalities. The shares of the member municipalities vary from year to year according to pupil enrollment. The other District members are the Towns of Middleton and Boxford.

(3) Source: Essex North Shore Agricultural and Technical School District. Debt is as of January 1, 2012. Topsfield's apportioned share of operations and debt service for fiscal year 2012 is 1.00%. The North Shore Regional Vocational Technical High School will merge with Essex Agricultural and Technical School in Danvers/Middleton and construct a \$125 million facility on the agricultural school site in Danvers, MA and commence operations in the fall of 2013. The District has issued \$9,000,000 bond anticipation notes maturing August 2012 to finance the project. The operating expenses and debt service of the regional school district are apportioned among the member municipalities. The shares of the member municipalities vary from year to year according to pupil enrollment. The other District member communities are Beverly, Boxford, Danvers, Essex, Gloucester, Hamilton, Lynnfield, Manchester-by-the-Sea, Marblehead, Middleton, Nahant, Peabody, Rockport, Salem, Swampscott and Wenham.

Revenue Anticipation Borrowing

Revenue anticipation notes are issued to meet current expenses in anticipation of taxes and other revenues. The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See "Taxation to Meet Deficits" under "PROPERTY TAXATION" below.) In any event, the period from an original borrowing to its final maturity cannot exceed one year. The Town has not issued revenue anticipation notes in the last five fiscal years.

PROPERTY TAXATION

The principal revenue source of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see “*Property Tax Limitation*” below. As to the inclusion of debt service and judgments, see “THE BONDS – *Securities and Remedies*” above. The estimated receipts for a fiscal year from other sources may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deducting for appropriations voted from available funds for a fiscal year cannot exceed the “free cash” as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months’ collections and receipts on account of earlier years’ taxes after the date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see “*Abatements and Overlay*” below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see “*Taxations to Meet Deficits*”) below.

Tax Levy Computation

The following table reflects the calculation of tax levies for the following fiscal years.

| | For Fiscal Year | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Gross Amount to be Raised: | | | | | |
| Appropriations | \$ 23,031,378 | \$ 22,114,819 | \$ 22,346,791 | \$ 21,906,576 | \$ 21,343,161 |
| Other Local Expenditures | 55,358 | 12,881 | 149,448 | 48,093 | 15,659 |
| State & County Charges | 215,973 | 196,937 | 179,472 | 168,364 | 183,228 |
| Overlay Reserve | <u>154,809</u> | <u>151,782</u> | <u>136,571</u> | <u>234,007</u> | <u>114,971</u> |
| Total Gross Amount to be Raised | 23,457,518 | 22,476,419 | 22,812,282 | 22,357,040 | 21,657,019 |
| Less Estimated Receipts & Other Revenue: | | | | | |
| Estimated Receipts from State... | 2,092,141 | 2,131,633 | 2,219,525 | 2,507,109 | 2,575,373 |
| Estimated Receipts - Local | 2,305,312 | 2,195,681 | 2,676,676 | 2,231,797 | 2,375,216 |
| Available Funds Appropriated: | | | | | |
| Free Cash | 270,664 | 203,115 | 170,069 | 230,648 | 340,567 |
| Revenue Sharing | -0- | -0- | -0- | -0- | -0- |
| Other Available Funds | 639,964 | 477,929 | 641,999 | 609,433 | 453,150 |
| Free Cash & Other Revenue Used to Reduce the Tax Rate | <u>346,997</u> | <u>221,329</u> | <u>468,128</u> | <u>656,590</u> | <u>416,534</u> |
| Total Estimated Receipts & Revenue | <u>5,655,078</u> | <u>5,229,687</u> | <u>6,176,397</u> | <u>6,235,577</u> | <u>6,160,840</u> |
| Net Amount to be Raised (Tax Levy) | <u>\$ 17,802,440</u> | <u>\$ 17,246,732</u> | <u>\$ 16,635,885</u> | <u>\$ 16,121,463</u> | <u>\$ 15,496,179</u> |
| Property Valuation | <u>\$ 1,152,261,489</u> | <u>\$ 1,162,962,400</u> | <u>\$ 1,199,414,915</u> | <u>\$ 1,251,666,371</u> | <u>\$ 1,289,199,574</u> |

Source: Massachusetts Department of Revenue.

Taxation to Meet Deficits

Overlay deficits, i.e., tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e., those resulting from non-property tax revenues being less than anticipated, are also required to be added to the next tax levy (at least to the extent not covered by surplus revenue). Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, established utility rates and certain established salaries, e.g., civil service, must legally be paid, for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, subject to any overall limits on tax levies, to cover deficits arising from other causes, such as “free cash” deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Property Tax Limitation

Chapter 59, Section 21C of the General Laws, known as “Proposition 2 ½”, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year’s valuation.

This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit “to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year”.

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town’s apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality’s sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year’s assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option”. Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district’s governing body and either

approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Analysis of Property Tax Levies and Levy Limits

The following table reflects the calculation of levy limits for the following fiscal years.

| | For Fiscal Year | | | | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Primary Levy Limit (1) | \$ 28,806,537 | \$ 29,074,060 | \$ 29,985,373 | \$ 31,291,659 | \$ 32,229,989 |
| Prior Fiscal Year Levy Limit | \$ 16,555,383 | \$ 15,936,241 | \$ 15,313,090 | \$ 14,723,544 | \$ 14,184,855 |
| 2.5% Levy Growth | 413,885 | 398,406 | 382,827 | 368,089 | 354,621 |
| New Growth (2) | 120,986 | 116,429 | 110,265 | 221,457 | 184,068 |
| Overrides | 115,348 | 104,307 | 130,059 | -0- | -0- |
| Growth Levy Limit | 17,205,602 | 16,555,383 | 15,936,241 | 15,313,090 | 14,723,544 |
| Debt Exclusions | 930,047 | 897,000 | 880,022 | 934,621 | 782,155 |
| Capital Expenditure Exclusions ... | -0- | -0- | -0- | -0- | -0- |
| Other Adjustments | -0- | -0- | -0- | -0- | -0- |
| Tax Levy Limit | <u>\$ 18,135,649</u> | <u>\$ 17,452,383</u> | <u>\$ 16,816,263</u> | <u>\$ 16,247,711</u> | <u>\$ 15,505,699</u> |
| Tax Levy | 17,802,440 | 17,246,732 | 16,635,885 | 16,121,463 | 15,496,179 |
| Unused Levy Capacity (3) | <u>\$ 333,209</u> | <u>\$ 205,651</u> | <u>\$ 180,378</u> | <u>\$ 126,248</u> | <u>\$ 9,520</u> |
| Unused Primary Levy Capacity (4) | \$ 11,600,935 | \$ 12,518,677 | \$ 14,049,132 | \$ 15,978,569 | \$ 17,506,445 |

Source: Massachusetts Department of Revenue.

(1) 2.5% of assessed valuation.

(2) Allowed increase for new valuations (or required reduction) - certified by the Department of Revenue.

(3) Tax Levy Limit less Tax Levy.

(4) Primary Levy Limit less Growth Levy Limit.

Pledged Taxes

Taxes on certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes (see "TAX INCREMENT FINANCING FOR DEVELOPMENT DISTRICTS" below).

Initiative Petitions

Various proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

Tax Rates and Valuations

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation. The effective rate for open space must be at least 75 per cent of the effective rate for residential real property and the share of commercial, industrial and personal property was limited to not more than 175 per

cent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

The following table reflects the breakdown of assessed valuation by classification for the following fiscal years.

| Type of Property | Fiscal 2012 | % of Total | Fiscal 2011 | % of Total | Fiscal 2010 | % of Total |
|-------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | Assessed Valuation | Assessed Valuation | Assessed Valuation | Assessed Valuation | Assessed Valuation | Assessed Valuation |
| Residential | \$ 1,052,232,020 | 91.3% | \$ 1,062,463,312 | 91.4% | \$ 1,099,109,837 | 91.6% |
| Open Space | -0- | 0.0 | -0- | 0.0 | -0- | 0.0 |
| Commercial | 60,445,750 | 5.2 | 61,241,558 | 5.3 | 61,687,913 | 5.1 |
| Industrial | 18,496,700 | 1.6 | 18,792,500 | 1.6 | 18,888,500 | 1.6 |
| Personal | 21,087,019 | 1.8 | 20,465,030 | 1.8 | 19,728,665 | 1.6 |
| Total | <u>\$ 1,152,261,489</u> | <u>100.0%</u> | <u>\$ 1,162,962,400</u> | <u>100.0%</u> | <u>\$ 1,199,414,915</u> | <u>100.0%</u> |

Source: Massachusetts Department of Revenue.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value".

The following table reflects the trend in assessed valuations, equalized valuations and percentage of total assessed valuation to equalized for the following fiscal years.

| | For Fiscal Year | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Real Property(1) | \$ 1,131,174,470 | \$ 1,142,497,370 | \$ 1,179,686,250 | \$ 1,231,471,730 | \$ 1,276,135,700 |
| Personal Property(1) | 21,087,019 | 20,465,030 | 19,728,665 | 20,194,641 | 13,063,874 |
| Total | <u>\$ 1,152,261,489</u> | <u>\$ 1,162,962,400</u> | <u>\$ 1,199,414,915</u> | <u>\$ 1,251,666,371</u> | <u>\$ 1,289,199,574</u> |
| Equalized Value(2) | \$ 1,275,562,200 | \$ 1,275,562,200 | \$ 1,373,883,400 | \$ 1,373,883,400 | \$ 1,300,988,600 |
| Percent of Total Assessed to Equalized Valuation | 90.3% | 91.2% | 87.3% | 91.1% | 99.1% |

Source: Massachusetts Department of Revenue.

(1) As of the prior January 1st.

(2) Based on the equalized valuation in effect for each year.

The following shows the actual rates per \$1,000 of assessed valuation, and the full value rate as follows:

| Type of Property | For Fiscal Year | | | | |
|--------------------------------------|-----------------|----------------|----------------|----------------|----------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Residential, Open Space and Personal | \$15.45 | \$14.83 | \$13.87 | \$12.88 | \$12.02 |
| Commercial and Industrial | 15.45 | 14.83 | 13.87 | 12.88 | 12.02 |
| Average Tax Rate | <u>\$15.45</u> | <u>\$14.83</u> | <u>\$13.87</u> | <u>\$12.88</u> | <u>\$12.02</u> |
| Full Value Tax Rate(1) | \$13.96 | \$12.55 | \$12.11 | \$11.73 | \$11.91 |

Source: Massachusetts Department of Revenue.

(1) Based on the equalized valuation in effect for each year.

Tax Levies and Collections

The taxes for each fiscal year generally are due in two installments on November 1 (subject to deferral if tax bills are sent out late) and May 1. The Town has accepted a statute, providing for quarterly tax payments; under that statute, preliminary tax payments are to be due on August 1, and November 1, with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 1 and May 1 if actual tax bills are mailed by December 31. Interest accrues on delinquent taxes currently at the rate of 14 percent per annum from the due date. Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). If the property has been transferred an unenforced lien expires on the fourth December 31, after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The following table reflects the total tax levy, the reserve for abatements, the net tax levy, the amount of levy collected during the fiscal year payable and the amount of levy collected as of January 10, 2012.

| | For Fiscal Year | | | | |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Total Tax Levy | \$ 17,802,440 | \$ 17,246,732 | \$ 16,635,885 | \$ 16,121,463 | \$ 15,496,179 |
| Overlay Reserve for Abatements | <u>154,809</u> | <u>151,782</u> | <u>136,571</u> | <u>234,007</u> | <u>114,971</u> |
| Net Tax Levy(1) | <u><u>17,647,631</u></u> | <u><u>17,094,950</u></u> | <u><u>16,499,314</u></u> | <u><u>15,887,456</u></u> | <u><u>15,381,208</u></u> |
| Amount Collected | | | | | |
| During Fiscal Year Payable(2) ... | \$ NA | \$ 17,011,636 | \$ 16,305,363 | \$ 15,707,513 | \$ 15,254,007 |
| Percent of Net Tax Levy | NA% | 99.5% | 98.8% | 98.9% | 99.2% |
| Amount Collected Through 01/10/12 | 8,789,473 | 17,149,469 | 16,305,502 | 15,932,145 | 15,417,960 |
| Percent of Net Tax Levy | 49.8% | 100.3% | 98.8% | 100.3% | 100.2% |

(1) Net after deductions of overlay reserve for abatements.

(2) Actual collections of levy less refunds and amounts refundable but including proceeds of tax titles and tax possessions attributed to such levy but not including abatements or other credits.

Taking and Sale

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the land court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of like any land held for municipal purposes. Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Taxes Outstanding

The following table sets forth the amount of overdue property taxes, tax titles and possessions outstanding at the end of the last five fiscal years.

| | For Fiscal Year | | | | |
|------------------------------------|-----------------|-------------|-------------|-------------|-------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Aggregate | \$ 125,750 | \$ 204,894 | \$ 190,023 | \$ 136,624 | \$ 201,667 |
| For Current Year | 125,750 | 193,951 | 179,943 | 127,201 | 186,473 |
| Tax Titles | 243,670 | 76,590 | 75,939 | 75,921 | 54,832 |
| Tax Possessions | 14,511 | 13,389 | 13,389 | 13,389 | 13,389 |
| Tax Anticipation Notes Outstanding | -0- | -0- | -0- | -0- | -0- |

Abatements and Overlay

The Town is authorized by law to increase each tax levy by an amount approved as reasonable by the State Commissioner of Revenue for an “overlay” to provide for tax abatements. If abatements are granted in excess of the applicable overlay reserve, the resultant “overlay deficit” is required to be added to the next tax levy. Abatements are granted where real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles (either by purchase at the public sale or by taking), at which time the tax is written off in full by reserving the amount of tax and charging surplus. The following table reflects the total tax levy, the reserve for abatements, the amount of abatements granted during the fiscal year of the levy and the amount of abatements granted as of December 15, 2011.

| | For Fiscal Year | | | | |
|-----------------------------------|-----------------|---------------|---------------|---------------|---------------|
| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Tax Levy(1) | \$ 17,802,440 | \$ 17,246,732 | \$ 16,635,885 | \$ 16,121,436 | \$ 15,496,179 |
| Overlay Reserve for Abatements(1) | 154,809 | 151,782 | 136,571 | 234,007 | 114,971 |
| Percent of Tax Levy | 0.9% | 0.9% | 0.8% | 1.5% | 0.7% |
| Abatements Granted: | | | | | |
| During Fiscal Year of Levy | \$ NA | \$ 73,048 | \$ 89,659 | \$ 71,740 | \$ 92,696 |
| Through 12/15/11..... | 5,913 | 73,048 | 100,780 | 82,959 | 92,064 |

(1) Source: Massachusetts Department of Revenue.

Largest Taxpayers

The following is a list of the ten largest taxpayers for fiscal year 2012.

| <u>Name</u> | <u>Nature of Business</u> | <u>2012 Assessed Valuation</u> | <u>% of Total Assessed Valuation</u> |
|-----------------------------------|---------------------------|--------------------------------|--------------------------------------|
| Great Hill Cooperative | Cooperatives | \$ 29,107,800 | 2.53 % |
| Verizon New England | Utility | 8,564,000 | 0.74 |
| Kahn, Elizabeth | Residential Properties | 5,873,400 | 0.51 |
| Essex Agricultural Society | Fairgrounds | 5,494,480 | 0.48 |
| Ferncroft Holdings LLC | Golf Course | 5,364,700 | 0.47 |
| Massachusetts Electric Co. | Utility | 5,005,087 | 0.43 |
| Coughlin, John, Trustee | Industrial Condos | 4,254,300 | 0.37 |
| Jeffrey, Robert W. | Residential Properties | 4,247,200 | 0.37 |
| Meetingway Corporation | Developer | 4,229,600 | 0.37 |
| Coughlin, John, T & Priscilla Trs | Commercial Condos | 3,964,300 | 0.34 |
| Total: | | <u>\$ 76,104,867</u> | <u>6.60 %</u> |

Community Preservation Act

The Massachusetts Community Preservation Act (the “CPA”) permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under

Proposition 2½ (see “*PropertyTax Limitations*” under “PROPERTY TAXATION” above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The Town has not accepted the provisions of the CPA.

TOWN FINANCES

Budget and Appropriation Process

The annual appropriations of a town are ordinarily made at the annual meeting which takes place in February, March, April, May or June. Appropriations may also be voted at special meetings. Every town must have an appropriation, advisory or finance committee. The committee (or the board of selectmen if authorized by by-law) is required to submit a budget of proposed expenditures at the annual town meeting.

Water and sewer department expenditures are generally included in the budgets adopted by city councils and town meetings but electric and gas department funds may be appropriated by the municipal light boards. Under certain legislation any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts.

The school budget is limited to the total amount appropriated by the city council or town meeting, but the school committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. (See "State Distributions" below.)

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "PROPERTY TAXATION" above.)

Operating Budget Trends

The following table sets forth the operating budgets for the following fiscal years as voted by the Town. As such, said budgets reflect neither revenues nor state and county assessments and other mandatory items nor supplemental budget appropriations. See "*Budget and Appropriation Process*" above. The budgets summarized below include expenditures for "non-operating" or capital outlay items authorized under "special" warrant articles at town meetings which are not funded by debt. Water operations are included in the budgets adopted by the town meeting.

| | Appropriated <u>Fiscal Year</u> <u>2012</u> | Appropriated <u>Fiscal Year</u> <u>2011</u> | Appropriated <u>Fiscal Year</u> <u>2010</u> | Appropriated <u>Fiscal Year</u> <u>2009</u> |
|-----------------------------------|---|---|---|---|
| General Government..... | \$ 1,006,005 | \$ 993,857 | \$ 999,386 | \$ 1,041,980 |
| Public Safety..... | 2,063,925 | 2,077,627 | 2,056,994 | 2,100,331 |
| Education (1)..... | 5,974,481 | 5,781,593 | 5,784,941 | 6,107,838 |
| Public Works & Facilities..... | 727,623 | 752,713 | 756,485 | 800,241 |
| Human Services..... | 571,667 | 550,046 | 534,542 | 568,124 |
| Culture & Recreation..... | 714,094 | 705,871 | 699,158 | 710,980 |
| Debt Service..... | 1,187,483 | 1,141,042 | 1,117,578 | 1,112,580 |
| Pension/Insurance Retirement..... | 2,179,518 | 2,654,823 | 2,453,559 | 2,270,133 |
| Water Enterprise Fund..... | 728,611 | 700,642 | 691,916 | 751,367 |
| Solid Waste Enterprise Fund..... | 36,700 | 36,760 | 37,000 | 10,000 |
| Stabilization Fund..... | 1,000 | 1,000 | - | 44,540 |
| Totals: | <u>\$ 15,191,107</u> | <u>\$ 15,395,974</u> | <u>\$ 15,131,559</u> | <u>\$ 15,518,114</u> |

(1) Excludes the assessments from Masconomet Regional School District in all years and \$6,121,408 for fiscal year 2012.

Water Rates and Services

The Town uses an enterprise fund to account for its water enterprise activities. All revenues and expenditures are accounted for in the fund and any fund balance remains within the fund. Eighty percent of the Town is served by municipal wells and twenty percent of the population is served by private wells. Operating expenses of the water

department are fully supported by user charges. Unrestricted net assets of the water operation at June 30, 2011 were \$1,677,084.

Charges for water are based on actual metered consumption using an increasing block rate structure. The majority of residents are billed quarterly and larger users are billed monthly for which the flat fee and tier volumes are divided by three. Each account is billed \$60 per year plus water usage fees based on the following structure:

| | | |
|----------|-------------------|-----------------------------|
| Tier I | 1,000 to 12,000 | \$5.40 per thousand gallons |
| Tier II | 12,001 to 24,000 | \$6.50 per thousand gallons |
| Tier III | 24,001 or greater | \$9.20 per thousand gallons |

Retirement Plan

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems

participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

Recent legislation provides that upon local acceptance and subject to certain conditions and limitations, a municipality may establish and implement an early retirement incentive program. Any plan for such program must have been submitted to PERAC by September 27, 2010.

The Town provides pension benefits to employees by contributing to the Essex Regional Retirement System (the "System"), a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits to plan members and beneficiaries. Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth's Teachers Contributory Retirement System to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. The Essex Regional Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System County Office Building, 36 Federal Street, Room 210, Salem, Massachusetts 01970-3483.

Plan members of the System are required to contribute at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll.

The Town's contributions to the System for the current and last four fiscal years are set forth below.

| | For Fiscal Year | | | | |
|-------------------|------------------------|-------------|-------------|-------------|-------------|
| | <u>2012(1)</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Contributory..... | \$ 733,579 | \$ 667,094 | \$ 630,612 | \$ 576,103 | \$ 618,800 |

(1) Budgeted.

The foregoing data does not include the retirement system costs or liabilities attributable to employees of the County or the retirement system costs or liabilities of any other entity of which the Town is a constituent part.

As of January 1, 2011, Topsfield's total estimated past service liability in the contributory retirement system was \$17,691,813, and its assets were \$9,184,956, leaving an estimated unfunded past service liability of \$8,506,857.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis. The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

Using the services of an actuary, the Town finalized its current obligation/liability for other post-employment benefits for active and retired employees following the GASB Statements 43 and 45 (including health care and life insurance) as of January 1, 2009 in the amount of \$15,246,807. Within this study, an annual required contribution (ARC) of \$1,930,137 was developed based on actuarial assumptions of 4.5 percent investment rate of return and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. As of June 30, 2011, the Town's net OPEB obligation was \$4,554,632. Following is the Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan and the net OPEB obligation in recent years:

| <u>FY ended</u> <u>30-Jun</u> | <u>Annual</u> <u>OPEB Cost</u> | <u>Percentage</u> <u>Annual Cost</u> <u>Contributed</u> | <u>Net OPEB</u> <u>Obligation</u> |
|----------------------------------|-----------------------------------|---|--------------------------------------|
| 2009 | \$ 1,885,230 | \$ 18.0% | \$ 1,536,796 |
| 2010 | 1,904,947 | 15.9% | 3,138,397 |
| 2011 | 1,878,694 | 24.6% | 4,554,632 |

Although there is not a current requirement to fund the ARC, a component of the study was a discussion of various funding strategies that move to reduce future benefit costs. The Town is reviewing funding options and these discussions will be ongoing as requirements and liabilities change.

Contractual Obligations

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town of Topsfield is obligated under the following agreements:

- Solid Waste Collection Agreement – The Town is in the fourth year of a five year agreement with JRM Hauling & Recycling of Lynnfield, MA for the collection and disposal of solid waste and recyclables collection at the current annual price of \$402,313.
- School Bus Transportation – The Town has a five year contract (July 1, 2010 – June 30, 2015) with North Reading Transportation of Methuen, MA, at an annual cost of \$168,840.

Motor Vehicle Excise

An excise is imposed on the registration of motor vehicles (subject to exemptions) at the rate of \$25 per \$1,000 of valuation. The excise is collected by and for the benefit of the municipality in which the motor vehicle is customarily kept.

Valuations are determined by a statutory formula based on manufacturers' list price and year of manufacture. Bills not paid when due bear interest at 12 percent per annum. Provision is also made, after notice to the owner, for suspension of the owner's operating license or registration by the registrar of motor vehicles.

The Town collects the motor vehicle excise tax from bills prepared by the Massachusetts Registry of Motor Vehicles. The following table reflects motor vehicle excise receipts for each of the last five fiscal years.

| | For Fiscal Year Ending June 30 | | | | |
|----------------------------------|--------------------------------|-------------|-------------|-------------|-------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Motor Vehicle Excise Taxes | \$852,856 | \$839,439 | \$860,072 | \$976,911 | \$851,685 |

Source: Massachusetts Department of Revenue - Net after refunds. Includes receipts for prior years.

State Aid

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute, repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities that chose to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule.

The following table represents state aid estimated receipts, net of estimated charges, for the following fiscal years:

| | For Fiscal Year | | | | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2012(1)</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| School operating aid..... | \$ 1,025,939 | \$ 1,020,461 | \$ 1,083,775 | \$ 1,105,893 | \$ 1,069,469 |
| Other school aid..... | 14,397 | 2,857 | 3,578 | 3,195 | 3,648 |
| General government aid..... | 632,635 | 678,258 | 702,116 | 967,965 | 959,634 |
| Total Estimated aid..... | <u>1,672,971</u> | <u>1,701,576</u> | <u>1,789,469</u> | <u>2,077,053</u> | <u>2,032,751</u> |
| Less Estimated charges..... | 215,973 | 196,937 | 179,472 | 168,364 | 183,228 |
| FY 2009 9C cuts..... | - | - | - | 74,390 | - |
| Net State aid..... | <u>\$ 1,456,998</u> | <u>\$ 1,504,639</u> | <u>\$ 1,609,997</u> | <u>\$ 1,834,299</u> | <u>\$ 1,849,523</u> |

(1) Estimated.

State School Building Assistance Program

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts

ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the “Authority”) to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority’s share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality, eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority’s share of the project costs in most cases.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Federal Aid

The Town does not receive federal aid annually but has received federal grants in the following amounts in the last four fiscal years and the amount anticipated for fiscal year 2012:

| | <u>For Fiscal Year</u> | | | | |
|---------------------------|------------------------|-------------|-------------|-------------|-------------|
| | <u>2012(1)</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Total Federal Grants..... | \$ 229,931 | \$ 279,245 | \$ 231,533 | \$ 274,305 | \$ 186,133 |

(1) Estimated.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town’s development program for the district. This includes pledging such “tax increments” for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2½ (see “Tax Limitations” under “PROPERTY TAXATION” above).

Investments

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, §55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust (“MMDT”), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm under the supervision of the State Treasurer’s office. According to the State Treasurer the Trust’s investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with §54 of Chapter 44, which permits a broader range of investments than §55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by §§54 and 55 do not apply to city and town retirement systems.

Undesignated General Fund Balance and Stabilization Fund Balance

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may for the purpose of creating a stabilization fund, appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a town at a town meeting and also at a special town meeting by a two-thirds vote for any lawful purpose.

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) which establishes criteria for classifying fund balances into specifically defined classifications effective for fiscal year 2011. Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent. The fund balance categories are as follows: Nonspendable; Restricted; Committed; Assigned, and Unassigned. The Town has not formally adopted a policy for its use of unrestricted fund balance, therefore it is considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

The following table reflects the Undesignated General Fund Balance and the Stabilization Fund Balance for the following fiscal years.

| | For Fiscal Year Ending June 30 | | | | |
|---------------------------------------|--------------------------------|-------------|-------------|-------------|-------------|
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Undesignated General Fund Balance.... | \$2,342,955(1) | \$1,567,101 | \$1,362,185 | \$1,364,873 | \$1,568,835 |
| Stabilization Fund Balance | 758,655 | 755,346 | 951,621 | 922,551 | 833,898 |

(1) Unassigned Fund Balance.

Free Cash

Under Massachusetts law, an amount known as “free cash” is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years. Free cash as of the beginning of the fiscal year, together with collections of prior years’ taxes through March 31, is available under current law for appropriation to reduce the following fiscal years’ tax levy.

The following table reflects the certified free cash for the following fiscal years.

| | For Fiscal Year | | | | |
|----------------|------------------------|-------------|-------------|-------------|-------------|
| | <u>2011(1)</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Free Cash..... | \$1,220,632 | \$1,217,661 | \$1,023,444 | \$1,188,197 | \$1,379,523 |

(1) Estimated.

Source: Massachusetts Department of Revenue – Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years.

Financial Statements

Comparative balance sheets and revenues and expenditures have been extracted from the Town’s financial statements for the fiscal years ending June 30, 2007 through 2011 prepared by Giusti, Hingston and Company, Certified Public Accountants and are included as Appendix A. The Town’s financial statements for the fiscal year ended June 30, 2011 are included as Appendix B.

Litigation

In the opinion of the Town’s management, based on facts currently known to it, there is no litigation pending which, either individually or in the aggregate, is likely to result in final judgments against the Town which would materially affect the Town’s financial position or its ability to pay its obligations.

TOWN OF TOPSFIELD,
MASSACHUSETTS

By: /s/ Barbara B. Michalowski
Treasurer

Dated: January 18, 2012

APPENDIX A

Comparative Balance Sheets - General Accounts

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|
| Assets: | | | | | |
| Cash/Investments | \$ 3,642,338 | \$ 2,948,313 | \$ 2,785,333 | \$ 3,409,229 | \$ 3,145,394 |
| Petty Cash | - | 971 | 836 | 399 | 616 |
| Receivables: | | | | | |
| Property Taxes | 125,750 | 204,894 | 190,023 | 136,624 | 201,667 |
| Tax Liens | 243,670 | 76,590 | 76,620 | 75,921 | 54,832 |
| Excises | 72,518 | 71,861 | 76,610 | 90,527 | 90,356 |
| Intergovernmental | 4,611,664 | 5,051,109 | 5,470,987 | 5,901,043 | 8,019,594 |
| Other | 2,803 | - | - | - | - |
| Tax Foreclosures | 14,511 | 13,389 | 13,389 | 13,389 | 13,389 |
| Total Assets | <u>\$ 8,713,254</u> | <u>\$ 8,367,127</u> | <u>\$ 8,613,798</u> | <u>\$ 9,627,132</u> | <u>\$ 11,525,848</u> |
| Liabilities: | | | | | |
| Warrants Payable | \$ 80,501 | \$ 55,811 | \$ 164,067 | \$ 319,646 | \$ 239,222 |
| Accrued Payroll Payable | 121,948 | 206,525 | 209,344 | - | - |
| Employee's Withholding Payable | 145,526 | 129,950 | 131,366 | 125,337 | 106,585 |
| Unclaimed Checks | 4,382 | 4,382 | 4,302 | 4,149 | 4,149 |
| Guaranteed Deposits | 24,021 | 66,004 | 71,267 | 241,759 | 5,938 |
| Other Liabilities | - | - | - | - | 12 |
| Landfill Closure Costs | - | 145 | - | - | - |
| Deferred Revenue: | | | | | |
| Property Taxes | 88,377 | 146,363 | 101,693 | 96,288 | 165,919 |
| Property Taxes Paid in Advance | 14,659 | 229,851 | 36,562 | 47,223 | 9,471 |
| Deferred Property Taxes | - | - | - | - | - |
| Tax Liens | 243,670 | 76,590 | 76,620 | 75,921 | 54,832 |
| Excises | 72,518 | 71,860 | 76,610 | 90,527 | 90,356 |
| Tax Foreclosures | 14,511 | 13,389 | 13,389 | 13,389 | 13,389 |
| Intergovernmental | 4,610,874 | 5,040,931 | 5,470,987 | 5,901,043 | 8,019,594 |
| Total Liabilities | <u>5,420,987</u> | <u>6,041,801</u> | <u>6,356,207</u> | <u>6,915,282</u> | <u>8,709,467</u> |
| Fund Balances(1): | | | | | |
| Committed | 200,139 | - | - | - | - |
| Assigned | 749,173 | - | - | - | - |
| Unassigned | 2,342,955 | - | - | - | - |
| Reserved For Encumbrances | - | 244,632 | 318,052 | 433,564 | 410,029 |
| Reserved for Petty Cash | - | 971 | 836 | 399 | 616 |
| Reserved for Subsequent Year's Expenditures | - | 512,621 | 712,539 | 945,571 | 836,901 |
| Designated for Appropriation Deficit | - | - | (136,021) | (32,557) | - |
| Unreserved: | | | | | |
| Undesignated | - | 1,567,101 | 1,362,185 | 1,364,873 | 1,568,835 |
| Total Fund Balances: | <u>3,292,267</u> | <u>2,325,325</u> | <u>2,257,591</u> | <u>2,711,850</u> | <u>2,816,381</u> |
| Total Liabilities and Fund Equity | <u>\$ 8,713,254</u> | <u>\$ 8,367,126</u> | <u>\$ 8,613,798</u> | <u>\$ 9,627,132</u> | <u>\$ 11,525,848</u> |

(1) The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement, effective for fiscal year 2011, establishes accounting and financial reporting standards for all governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications. Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent. The fund balance categories are as follows: Nonspendable; Restricted; Committed; Assigned, and Unassigned. The Town has not formally adopted a policy for its use of unrestricted fund balance, therefore it is considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

Comparative Statement of Revenues and Expenditures General Accounts

| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | | |
| Property Taxes | \$ 16,990,399 | \$ 16,456,661 | \$ 15,980,140 | \$15,426,744 | \$14,685,635 |
| Tax Liens | 62,374 | 63,845 | 70,753 | 38,529 | 23,818 |
| Excises | 853,259 | 840,615 | 860,072 | 976,911 | 851,685 |
| Penalties and Interest | 27,071 | 39,090 | 29,699 | 36,056 | 27,584 |
| Licenses and Permits | 413,815 | 380,756 | 295,381 | 316,161 | 315,053 |
| Intergovernmental | 3,012,533 | 3,099,445 | 3,008,130 | 3,204,803 | 2,981,328 |
| Charges for Services | 115,499 | 92,112 | 66,606 | 79,399 | 63,760 |
| Fines and Forfeits | 45,535 | 64,957 | 53,823 | 54,720 | 57,625 |
| Earnings on Investments | 24,043 | 22,444 | 56,315 | 146,344 | 172,864 |
| In Lieu of Taxes | 59,875 | 65,104 | 60,457 | 56,799 | 48,233 |
| Miscellaneous | 63,177 | 96,051 | 34,986 | 24,037 | 58,211 |
| Total Revenues | <u>21,667,580</u> | <u>21,221,080</u> | <u>20,516,362</u> | <u>20,360,503</u> | <u>19,285,796</u> |
| Expenditures: | | | | | |
| General Government | 990,547 | 1,000,300 | 1,059,118 | 999,381 | 1,015,020 |
| Public Safety | 2,098,708 | 2,337,162 | 2,158,520 | 2,019,136 | 1,989,143 |
| Education | 12,706,878 | 12,551,403 | 12,399,372 | 12,046,845 | 11,253,184 |
| Highways and Public Works | 837,426 | 778,745 | 986,862 | 866,608 | 803,350 |
| Human Services | 564,612 | 549,759 | 542,385 | 568,504 | 493,566 |
| Culture and Recreation | 717,545 | 776,217 | 722,667 | 725,016 | 745,309 |
| Intergovernmental | 203,177 | 185,847 | 166,764 | 181,796 | 155,422 |
| Employee Benefits | 2,485,309 | 2,348,036 | 2,181,983 | 2,127,679 | 1,936,612 |
| Debt Service | | | | | |
| Principal | 643,000 | 618,000 | 588,500 | 559,000 | 539,000 |
| Interest | 446,004 | 478,369 | 498,218 | 515,439 | 536,124 |
| Total Expenditures | <u>21,693,206</u> | <u>21,623,838</u> | <u>21,304,389</u> | <u>20,609,404</u> | <u>19,466,730</u> |
| Excess of Revenues Over (Under) | | | | | |
| Expenditures | (25,626) | (402,758) | (788,027) | (248,901) | (180,934) |
| Other Financing Sources (Uses): | | | | | |
| Operating Transfers In | 279,422 | 470,492 | 343,768 | 194,370 | 244,324 |
| Operating Transfers (Out) | (42,200) | - | (10,000) | (50,000) | - |
| Total Other Financing Sources | <u>237,222</u> | <u>470,492</u> | <u>333,768</u> | <u>144,370</u> | <u>244,324</u> |
| Excess of Revenues And Other | | | | | |
| Sources Over (Under)Expenditures | | | | | |
| and Other Uses | 211,596 | 67,734 | (454,259) | (104,531) | 63,390 |
| Fund Balance (Deficit), Beginning of Year | <u>2,325,325</u> | <u>2,257,591</u> | <u>2,711,850</u> | <u>2,816,381</u> | <u>2,752,991</u> |
| Prior Period Adjustment | 755,346 | - | - | - | - |
| Fund Balance, July 1, 2010, as Restated | <u>3,080,671</u> | - | - | - | - |
| Fund Balance (Deficit), End of Year | <u>\$ 3,292,267</u> | <u>\$ 2,325,325</u> | <u>\$ 2,257,591</u> | <u>\$ 2,711,850</u> | <u>\$ 2,816,381</u> |

APPENDIX B

TOWN OF TOPSFIELD, MASSACHUSETTS

Financial Statements

June 30, 2011

(With Accountants' Report Thereon)

36 Jackman St., Unit 1 * *Giusti, Hingston and Company*
Certified Public Accountants
* *Georgetown, MA 01833* * *(Tel) 978-352-7470*

Town of Topsfield, Massachusetts
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS - TOWN OF
TOPSFIELD

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

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Topsfield, Massachusetts' management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Topsfield, Massachusetts as of June 30, 2011 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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 21, 2011 on our consideration of the Town of Topsfield, Massachusetts' internal control over financial reporting and 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* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information, the retirement system schedules and other post employment benefits schedules listed in the index are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Giusti, Hingston and Company
Giusti, Hingston and Company
Certified Public Accountants
December 21, 2011

Town of Topsfield, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2011

As management of the Town of Topsfield, Massachusetts, we offer readers of the Town of Topsfield, Massachusetts' financial statements this narrative overview and analysis of the financial activities of the Town of Topsfield, Massachusetts for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the Town of Topsfield, Massachusetts' governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$26,145,138 (*net assets*).
- The assets of the Town of Topsfield, Massachusetts' business type activities exceeded its liabilities at the close of the most recent fiscal year by \$6,940,044 (*net assets*). Of this amount \$1,677,084 (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors related to the business type activities.
- The government's total net assets decreased by \$643,526. The decrease was due to the other post employment liability.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,342,955, or 11 percent of total general fund expenditures.
- The total debt of the Town of Topsfield, Massachusetts increased by 11 percent during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water operations and it is considered to be a major fund of the Town of Topsfield, Massachusetts.

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

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

Financial Analysis of the Government-wide Financial Statements

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. However, the net assets of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not, typically, used to finance costs related to business-type activities. Revenues of the business-type activities are generally used to finance the operations of the particular enterprise fund. The following table reflects the condensed net assets (prior period adjustments are reflected in the 2010 amounts).

| | Net Assets June 30, 2011 | | | | | |
|---|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Current and Noncurrent Assets | \$ 18,888,210 | \$ 18,243,602 | \$ 1,825,350 | \$ 1,665,732 | \$ 20,713,560 | \$ 19,909,334 |
| Capital Assets | 22,480,657 | 23,037,262 | 6,400,856 | 6,562,217 | 28,881,513 | 29,599,479 |
| Total Assets | <u>41,368,867</u> | <u>41,280,864</u> | <u>8,226,206</u> | <u>8,227,949</u> | <u>49,595,073</u> | <u>49,508,813</u> |
| Current Liabilities | 1,311,588 | 1,698,378 | 114,393 | 1,109,768 | 1,425,981 | 2,808,146 |
| Long Term Liabilities | 13,912,141 | 12,834,287 | 1,171,769 | 137,672 | 15,083,910 | 12,971,959 |
| Total Liabilities | <u>15,223,729</u> | <u>14,532,665</u> | <u>1,286,162</u> | <u>1,247,440</u> | <u>16,509,891</u> | <u>15,780,105</u> |
| Net Assets: | | | | | | |
| Invested in Capital Assets net of Related Debt | 18,003,831 | 18,563,339 | 5,262,960 | 5,548,526 | 23,266,791 | 24,111,865 |
| Restricted | 9,884,952 | 8,709,744 | - | - | 9,884,952 | 8,709,744 |
| Unrestricted | (1,743,645) | (524,884) | 1,677,084 | 1,431,983 | (66,561) | 907,099 |
| Total Net Assets | <u>\$ 26,145,138</u> | <u>\$ 26,748,199</u> | <u>\$ 6,940,044</u> | <u>\$ 6,980,509</u> | <u>\$ 33,085,182</u> | <u>\$ 33,728,708</u> |

The net assets of the Town decreased by \$643,526. The net assets of the governmental activities decreased by \$603,061 (or 2.2%), while the net assets of the business type activities decreased by \$40,465 (or 0.6%).

Changes in Net Assets

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|-----------------------|---------------------------------|------------------|---------------------|-----------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,161,510 | \$ 1,247,014 | \$ 855,364 | \$ 776,224 | \$ 2,016,874 | \$ 2,023,238 |
| Operating Grants and Contributions | 3,895,606 | 3,279,582 | 4,230 | 8,302 | 3,899,836 | 3,287,884 |
| Capital Grants and Contributions | - | 2,465,602 | - | 183,185 | - | 2,648,787 |
| General Revenues: | | | | | | |
| Property Taxes | 16,779,598 | 16,758,464 | - | - | 16,779,598 | 16,758,464 |
| Motor Vehicle and Other Excises | 853,916 | 835,866 | - | - | 853,916 | 835,866 |
| Intergovernmental Not Restricted to a Specific Program | 640,149 | 673,087 | - | - | 640,149 | 673,087 |
| Other | 378,768 | 174,843 | - | (13,730) | 378,768 | 161,113 |
| Total Revenues | <u>23,709,547</u> | <u>25,434,458</u> | <u>859,594</u> | <u>953,981</u> | <u>24,569,141</u> | <u>26,388,439</u> |
| Expenses | | | | | | |
| General Government | 1,100,054 | 1,008,005 | - | - | 1,100,054 | 1,008,005 |
| Public Safety | 2,182,627 | 2,262,725 | - | - | 2,182,627 | 2,262,725 |
| Education | 13,706,997 | 13,461,958 | - | - | 13,706,997 | 13,461,958 |
| Highways and Public Works | 1,319,785 | 1,305,838 | - | - | 1,319,785 | 1,305,838 |
| Human Services | 591,659 | 601,081 | - | - | 591,659 | 601,081 |
| Culture and Recreation | 1,055,663 | 1,003,519 | - | - | 1,055,663 | 1,003,519 |
| Intergovernmental | 203,177 | 185,847 | - | - | 203,177 | 185,847 |
| Employee Benefits | 3,838,947 | 3,912,719 | - | - | 3,838,947 | 3,912,719 |
| Interest on Long Term Debt | 431,878 | 469,615 | - | - | 431,878 | 469,615 |
| Water | - | - | 781,880 | 669,335 | 781,880 | 669,335 |
| Total Expenses | <u>24,430,787</u> | <u>24,211,307</u> | <u>781,880</u> | <u>669,335</u> | <u>25,212,667</u> | <u>24,880,642</u> |
| Increase (Decrease) in Net Assets | | | | | | |
| Before Contributions and Transfers | (721,240) | (2,152,781) | 77,714 | 190,657 | (643,526) | (1,962,124) |
| Transfers | 118,179 | 101,060 | (118,179) | (101,060) | - | - |
| Increase (Decrease) in Net Assets | <u>\$ (603,061)</u> | <u>\$ (2,051,721)</u> | <u>\$ (40,465)</u> | <u>\$ 89,597</u> | <u>\$ (643,526)</u> | <u>\$ (1,962,124)</u> |

Governmental Activities

In fiscal year 2011, property taxes accounted for approximately 71% of the revenues. In fiscal year 2010 and 2009, they accounted for approximately 66% and 75% of the revenues, respectively.

Business-type Activities

Water rates are structured to cover all costs related to the activity. The expenses and transfers out exceeded revenues in fiscal year 2011 by \$40,465. In fiscal year 2010, revenues exceeded expenses and transfers out by \$183,586. In fiscal year 2009, the net assets of the water fund increased by \$71,769."

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts, Department of Revenue (DOR) determines the amount of general fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations.

The following table reflects the trend in all the components of fund balance and details the certified free cash for the previous ten fiscal years.

| <u>Fiscal Year</u> | <u>Reserved for Encumbrances</u> | <u>Reserved for Petty Cash</u> | <u>Reserved for Expenditure</u> | <u>Designated for Subsequent Year's Expenditure</u> | <u>Designated for Appropriation Deficit (Snow & Ice)</u> | <u>Unreserved</u> | <u>Total Fund Balance</u> |
|--------------------|----------------------------------|--------------------------------|---------------------------------|---|--|-------------------|---------------------------|
| 2002 | \$ 469,336 | \$ 385 | \$ - | \$ 1,262,104 | \$ - | \$ 1,361,565 | \$ 3,093,390 |
| 2003 | 585,769 | 780 | - | 859,000 | - | 1,328,755 | 2,774,304 |
| 2004 | 447,214 | 613 | - | 578,568 | (82,068) | 1,250,863 | 2,195,190 |
| 2005 | 320,858 | 711 | - | 542,394 | - | 1,186,859 | 2,050,822 |
| 2006 | 292,735 | 449 | - | 882,545 | (159,832) | 1,583,467 | 2,599,364 |
| 2007 | 354,029 | 1,014 | - | 795,099 | - | 1,602,849 | 2,752,991 |
| 2008 | 410,029 | 616 | - | 836,901 | - | 1,568,835 | 2,816,381 |
| 2009 | 318,052 | 836 | - | 712,539 | (136,021) | 1,362,185 | 2,257,591 |
| 2010 | 244,632 | 971 | - | 512,621 | - | 1,567,101 | 2,325,325 |

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows:

| | <u>Restricted</u> | <u>Committed</u> | <u>Assigned</u> | <u>Unassigned</u> | <u>Total Fund Balance</u> |
|------|-------------------|------------------|-----------------|-------------------|---------------------------|
| 2011 | \$ - | \$ 200,139 | \$ 749,173 | \$ 2,342,955 | \$ 3,292,267 |

| <u>Fiscal Year</u> | <u>Free Cash</u> |
|--------------------|--------------------|
| 2002 | \$ 1,288,083 |
| 2003 | 1,155,568 |
| 2004 | 1,078,288 |
| 2005 | 976,121 |
| 2006 | 1,289,247 |
| 2007 | 1,324,987 |
| 2008 | 1,379,523 |
| 2009 | 1,188,197 |
| 2010 | 1,217,661 |
| 2011 | 1,220,632 Estimate |

Proprietary Funds

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

Unrestricted net assets of the Water operation at the end of the year amounted to \$1,677,084.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget were the results of special Town meeting votes and reserve fund transfers authorized by the Finance Committee. Conservative budget estimates resulted in favorable variances in the budget versus actual statement.

Capital Asset and Debt Administration

Capital assets. The Town of Topsfield, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2011, amounts to \$28,880,917 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Major capital asset events of the period included the following:

➤ Fire Truck \$256,203

Capital Assets at June 30, 2011 (Net of Depreciation)

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|-----------------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Land | \$ 5,196,767 | \$ 5,196,767 | \$ 323,038 | \$ 1,277,228 | \$ 5,519,805 | \$ 6,473,995 |
| Work in Process | 3,193,550 | 3,423,061 | - | - | 3,193,550 | 3,423,061 |
| Buildings | 11,221,102 | 11,644,745 | 110,640 | 114,253 | 11,331,742 | 11,758,998 |
| Improvements Other Than Buildings | 128,561 | 139,264 | 16,140 | 18,180 | 144,701 | 157,444 |
| Infrastructure | 1,533,203 | 1,780,900 | 5,883,553 | 5,092,673 | 7,416,756 | 6,873,573 |
| Equipment | 404,607 | 461,948 | 28,117 | 35,517 | 432,724 | 497,465 |
| Vehicles | 802,867 | 390,577 | 38,772 | 24,366 | 841,639 | 414,943 |
| Total | \$ 22,480,657 | \$ 23,037,262 | \$ 6,400,260 | \$ 6,562,217 | \$ 28,880,917 | \$ 29,599,479 |

Debt

The Town had \$10,255,000 in bonds, outstanding on June 30, 2011. This represents a \$1,045,000 increase or 11% increase from the previous year.

| Governmental Activities | <u>2011</u> | <u>2010</u> |
|----------------------------------|-----------------------------|----------------------------|
| General Obligation Bonds Payable | \$ 9,087,700 | \$ 9,090,500 |
| Business-type Activities | | |
| Water: | | |
| General Obligation Bonds Payable | <u>1,137,300</u> | <u>89,500</u> |
| Total Debt | <u>\$ 10,225,000</u> | <u>\$ 9,180,000</u> |

The Town maintains an "Aa2" rating from Moody's for general obligation debt. According to Moody's "the Aa2" rating reflects the town's solid financial performance, wealthy residential tax base and modest debt position".

Fiscal Year 2012 Budget

An initiative state statute, commonly known as "Proposition 2 1/2" limits the amount of property taxes that Town can assess in any one year. In general, the Town's property tax levy may increase by 2 1/2 percent over the prior year's tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 1/2", it is necessary to obtain the approval of a majority of the voters at an election.

The Town's 2012 original budget increased by \$785,568 or 3.6%.

Town of Topsfield, Massachusetts
Statement of Net Assets
June 30, 2011
(Continued on Page 9)

| | <u>Governmental Activities</u> | <u>Business - Type Activities</u> | <u>Government- Wide Total</u> |
|---|------------------------------------|---------------------------------------|---------------------------------------|
| Assets: | | | |
| Current: | | | |
| Cash/Investments | \$ 13,581,661 | \$ 1,752,348 | \$ 15,334,009 |
| Accounts Receivable: | | | |
| Property Taxes | 125,750 | - | 125,750 |
| Liens | 243,670 | 646 | 244,316 |
| Excises | 72,518 | - | 72,518 |
| User Charges | - | 72,356 | 72,356 |
| Intergovernmental | 4,861,808 | - | 4,861,808 |
| Other | 2,803 | - | 2,803 |
| Noncurrent: | | | |
| Deferred Special Assessments | - | 596 | 596 |
| Capital Assets: | | | |
| Assets Not Being Depreciated | 8,390,317 | 323,038 | 8,713,355 |
| Assets Being Depreciated, Net | 14,090,340 | 6,077,222 | 20,167,562 |
| Total Assets | <u>41,368,867</u> | <u>8,226,206</u> | <u>49,595,073</u> |
| Liabilities | | | |
| Current: | | | |
| Warrants Payable | 99,495 | 9,978 | 109,473 |
| Accrued Payroll Payable | 123,974 | 4,352 | 128,326 |
| Employees' Withholding Payable | 145,526 | - | 145,526 |
| Unclaimed Checks | 4,382 | - | 4,382 |
| Guarantee Deposits | 24,021 | - | 24,021 |
| Accrued Interest | 117,361 | 16,763 | 134,124 |
| Bonds Payable | 796,700 | 83,300 | 880,000 |
| Other | 129 | - | 129 |
| Noncurrent: | | | |
| Bonds Payable | 8,291,000 | 1,054,000 | 9,345,000 |
| Compensated Absences | 158,607 | - | 158,607 |
| Accrued Contractual Payroll Obligations | 53,515 | - | 53,515 |
| Other Post Employment Benefit Obligations | 4,436,863 | 117,769 | 4,554,632 |
| Landfill Closure Costs Payable | 972,156 | - | 972,156 |
| Total Liabilities | <u>15,223,729</u> | <u>1,286,162</u> | <u>16,509,891</u> |

Town of Topsfield, Massachusetts
Statement of Net Assets
June 30, 2011
(Continued from Page 8)

| | Governmental <u>Activities</u> | Business - Type <u>Activities</u> | Government- Wide <u>Total</u> |
|---|-----------------------------------|--------------------------------------|-------------------------------------|
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 18,003,831 | 5,262,960 | 23,266,791 |
| Restricted for: | | | |
| Special Revenue | 1,557,568 | - | 1,557,568 |
| Perpetual Funds: | | | |
| Expendable | 1,442,485 | - | 1,442,485 |
| Nonexpendable | 6,884,899 | - | 6,884,899 |
| Unrestricted | (1,743,645) | 1,677,084 | (66,561) |
| Total Net Assets | \$ 26,145,138 | \$ 6,940,044 | \$ 33,085,182 |

Town of Topsfield, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2011

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Assets | | |
|---|----------------------|----------------------------|--|--|--|----------------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business - Type Activities | Total |
| Primary Government: | | | | | | | |
| <i>Governmental Activities:</i> | | | | | | | |
| General Government | \$ 1,100,054 | \$ 87,356 | \$ 38,476 | \$ - | \$ (974,222) | \$ - | \$ (974,222) |
| Public Safety | 2,182,627 | 445,906 | 47,899 | - | (1,688,822) | - | (1,688,822) |
| Education | 13,706,997 | 441,104 | 2,348,898 | - | (10,916,995) | - | (10,916,995) |
| Highways and Public Works | 1,319,785 | 33,995 | 335,924 | - | (949,866) | - | (949,866) |
| Human Services | 591,659 | 121,787 | 71,897 | - | (397,975) | - | (397,975) |
| Culture and Recreation | 1,055,663 | 31,362 | 1,052,512 | - | 28,211 | - | 28,211 |
| Intergovernmental | 203,177 | - | - | - | (203,177) | - | (203,177) |
| Employee Benefits | 3,838,947 | - | - | - | (3,838,947) | - | (3,838,947) |
| Interest on Long Term Debt | 431,878 | - | - | - | (431,878) | - | (431,878) |
| Total Governmental Activities | <u>24,430,787</u> | <u>1,161,510</u> | <u>3,895,606</u> | <u>-</u> | <u>(19,373,671)</u> | <u>-</u> | <u>(19,373,671)</u> |
| <i>Business-Type Activities:</i> | | | | | | | |
| Water | 781,880 | 855,364 | 4,230 | - | - | 77,714 | 77,714 |
| Total Business-Type Activities | <u>781,880</u> | <u>855,364</u> | <u>4,230</u> | <u>-</u> | <u>-</u> | <u>77,714</u> | <u>77,714</u> |
| Total Primary Government | <u>\$ 25,212,667</u> | <u>\$ 2,016,874</u> | <u>\$ 3,899,836</u> | <u>\$ -</u> | <u>(19,373,671)</u> | <u>77,714</u> | <u>(19,295,957)</u> |
| <i>General Revenues:</i> | | | | | | | |
| Property Taxes | | | | | 16,779,598 | - | 16,779,598 |
| Motor Vehicle and Other Excise Taxes | | | | | 853,916 | - | 853,916 |
| Penalties and Interest on Taxes | | | | | 27,071 | - | 27,071 |
| Other Taxes, Assessments and in Lieu Payments | | | | | 226,955 | - | 226,955 |
| Intergovernmental | | | | | 640,149 | - | 640,149 |
| Interest and Investment Income | | | | | 24,040 | - | 24,040 |
| Miscellaneous | | | | | 5,796 | - | 5,796 |
| Contributions to Permanent Funds | | | | | 6,545 | - | 6,545 |
| Special Items: | | | | | | | |
| Bond Premium | | | | | 88,361 | - | 88,361 |
| Transfers, Net | | | | | 118,179 | (118,179) | - |
| Total General Revenues, Special Items and Transfers | | | | | <u>18,770,610</u> | <u>(118,179)</u> | <u>18,652,431</u> |
| Change in Net Assets | | | | | (603,061) | (40,465) | (643,526) |
| Net Assets: | | | | | | | |
| Beginning of the Year | | | | | <u>26,748,199</u> | <u>6,980,509</u> | <u>33,728,708</u> |
| End of the Year | | | | | <u>\$ 26,145,138</u> | <u>\$ 6,940,044</u> | <u>\$ 33,085,182</u> |

Town of Topsfield, Massachusetts

Governmental Funds

Balance Sheet

June 30, 2011

| | <u>General</u> | <u>Gould Trust</u> | Nonmajor Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|--------------------------------------|---------------------|---------------------|--|---------------------------------------|
| <u>Assets</u> | | | | |
| Cash/Investments | \$ 3,642,338 | \$ 6,977,549 | \$ 2,961,774 | \$ 13,581,661 |
| Accounts Receivable: | | | | |
| Property Taxes | 125,750 | - | - | 125,750 |
| Tax Liens | 243,670 | - | - | 243,670 |
| Excises | 72,518 | - | - | 72,518 |
| Intergovernmental | 4,611,664 | - | 250,144 | 4,861,808 |
| Other | 2,803 | - | - | 2,803 |
| Tax Foreclosures | 14,511 | - | - | 14,511 |
| Total Assets | <u>\$ 8,713,254</u> | <u>\$ 6,977,549</u> | <u>\$ 3,211,918</u> | <u>\$ 18,902,721</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Warrants Payable | \$ 80,501 | \$ - | \$ 18,994 | \$ 99,495 |
| Accrued Payroll Payable | 121,948 | - | 2,026 | 123,974 |
| Employees' Withholding Payable | 145,526 | - | - | 145,526 |
| Unclaimed Checks | 4,382 | - | - | 4,382 |
| Guarantee Deposits | 24,021 | - | - | 24,021 |
| Landfill Closure Costs Payable | - | - | 6,471 | 6,471 |
| Other Liabilities | - | - | 129 | 129 |
| Deferred Revenue: | | | | |
| Property Taxes | 88,377 | - | - | 88,377 |
| Property Taxes Paid in Advance | 14,659 | - | - | 14,659 |
| Tax Liens | 243,670 | - | - | 243,670 |
| Excises | 72,518 | - | - | 72,518 |
| Tax Foreclosures | 14,511 | - | - | 14,511 |
| Intergovernmental | 4,610,874 | - | 149,977 | 4,760,851 |
| Total Liabilities | <u>5,420,987</u> | <u>-</u> | <u>177,597</u> | <u>5,598,584</u> |
| Fund Equity: | | | | |
| Fund Balances: | | | | |
| Nonspendable | - | 6,217,927 | 666,972 | 6,884,899 |
| Restricted | - | 759,622 | 1,962,880 | 2,722,502 |
| Committed | 200,139 | - | 112,557 | 312,696 |
| Assigned | 749,173 | - | 291,912 | 1,041,085 |
| Unassigned | 2,342,955 | - | - | 2,342,955 |
| Total Fund Balances | <u>3,292,267</u> | <u>6,977,549</u> | <u>3,034,321</u> | <u>13,304,137</u> |
| Total Liabilities and Fund Balances | <u>\$ 8,713,254</u> | <u>\$ 6,977,549</u> | <u>\$ 3,211,918</u> | <u>\$ 18,902,721</u> |

Town of Topsfield, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2011
(Continued on Page 13)

| | <u>General</u> | <u>Gould Trust</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|------------------------|--|---|
| <u>Revenues:</u> | | | | |
| Property Taxes | \$ 16,990,399 | \$ - | \$ - | \$ 16,990,399 |
| Tax Liens | 62,374 | - | - | 62,374 |
| Excises | 853,259 | - | - | 853,259 |
| Penalties and Interest | 27,071 | - | - | 27,071 |
| Licenses and Permits | 413,815 | - | - | 413,815 |
| Intergovernmental | 3,012,533 | - | 684,236 | 3,696,769 |
| Charges for Services | 115,499 | - | 522,127 | 637,626 |
| Fines and Forfeits | 45,535 | - | - | 45,535 |
| Earnings on Investments | 24,043 | 974,437 | 123,252 | 1,121,732 |
| In Lieu of Taxes | 59,875 | - | - | 59,875 |
| Contributions | - | - | 39,556 | 39,556 |
| Miscellaneous | 63,177 | - | 147,626 | 210,803 |
| Total Revenues | <u>21,667,580</u> | <u>974,437</u> | <u>1,516,797</u> | <u>24,158,814</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| General Government | 990,547 | - | 44,997 | 1,035,544 |
| Public Safety | 2,098,708 | - | 294,950 | 2,393,658 |
| Education | 12,706,878 | - | 736,584 | 13,443,462 |
| Highways and Public Works | 837,426 | - | 220,438 | 1,057,864 |
| Human Services | 564,612 | - | 27,047 | 591,659 |
| Culture and Recreation | 717,545 | 111,408 | 125,741 | 954,694 |
| Intergovernmental | 203,177 | - | - | 203,177 |
| Employee Benefits | 2,485,309 | - | - | 2,485,309 |
| Debt Service: | | | | |
| Principal | 643,000 | - | 9,800 | 652,800 |
| Interest | 446,004 | - | - | 446,004 |
| Total Expenditures | <u>21,693,206</u> | <u>111,408</u> | <u>1,459,557</u> | <u>23,264,171</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(25,626)</u> | <u>863,029</u> | <u>57,240</u> | <u>894,643</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Operating Transfers In | 279,422 | - | 44,524 | 323,946 |
| Operating Transfers (Out) | (42,200) | (66,000) | (97,567) | (205,767) |
| Proceeds from Bonds | - | - | 650,000 | 650,000 |
| Bond Issuing Costs | - | - | (34,187) | (34,187) |
| Proceeds from Refunding Bonds | 2,252,700 | - | - | 2,252,700 |
| Payments to Escrow Agent for Refunding Bonds | (2,252,700) | - | (32,750) | (2,285,450) |
| Total Other Financing Sources (Uses) | <u>237,222</u> | <u>(66,000)</u> | <u>530,020</u> | <u>701,242</u> |

Town of Topsfield, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2011
(Continued from Page 12)

| | <u>General</u> | <u>Gould Trust</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|------------------------|--|---|
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 211,596 | 797,029 | 587,260 | 1,595,885 |
| Fund Balance, July 1, 2010 | <u>2,325,325</u> | <u>6,180,520</u> | <u>3,202,407</u> | <u>11,708,252</u> |
| Prior Period Adjustment | <u>755,346</u> | <u>-</u> | <u>(755,346)</u> | <u>-</u> |
| Fund Balance, July 1, 2010, as Restated | <u>3,080,671</u> | <u>6,180,520</u> | <u>2,447,061</u> | <u>11,708,252</u> |
| Fund Balance, June 30, 2011 | <u>\$ 3,292,267</u> | <u>\$ 6,977,549</u> | <u>\$ 3,034,321</u> | <u>\$ 13,304,137</u> |

Town of Topsfield, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Fiscal Year Ended June 30, 2011

| | | |
|--|----|--------------|
| Total governmental fund balances | \$ | 13,304,137 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 22,480,657 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | 5,180,075 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds | | |
| Bonds Payable | | (9,087,700) |
| Accrued Interest on Bonds | | (117,361) |
| Landfill Accrued Liability | | (965,685) |
| Contractual Payroll Obligations | | (53,515) |
| Other Post Employment Benefit Obligations | | (4,436,863) |
| Compensated Absences | | (158,607) |
| | | (15,295,426) |
| Net assets of governmental activities | \$ | 26,145,138 |

Town of Topsfield, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal Year Ended June 30, 2011

| | |
|--|----------------------------|
| Net change in fund balances - total governmental funds | \$ 1,595,885 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | (532,251) |
| Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. | (449,267) |
| The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 2,800 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due. This amount represents the net change in accrued interest payable. | 14,126 |
| A landfill liability was fully accrued in prior year in the statement of activities. Therefore, the current year statement of activities does not report an expense, whereas, the governmental funds report an expense when paid. | 37,192 |
| Some expenses reported in the Statement of Activities, such as compensated absences, other post employment benefits and contractual payroll obligations, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the net change in those liabilities. | (1,271,546) |
| Change in net assets of governmental activities | <u><u>\$ (603,061)</u></u> |

Town of Topsfield, Massachusetts
Proprietary Funds
Statement of Net Assets
June 30, 2011

| | Business - Type Activities - <u>Enterprise Fund</u> |
|---|---|
| | <u>Water</u> |
| Assets | |
| Current: | |
| Cash and Cash Investments | \$ 1,752,348 |
| Accounts Receivable, Net of Allowance for Uncollectibles: | |
| User Charges | 72,356 |
| Liens | 646 |
| Noncurrent: | |
| Accounts Receivable: | |
| Deferred Special Assessments | 596 |
| Assets Not Being Depreciated | 323,038 |
| Assets Being Depreciated, Net | <u>6,077,222</u> |
| Total Asset | <u>8,226,206</u> |
| Liabilities | |
| Current: | |
| Warrants Payable | 9,978 |
| Accrued Payroll Payable | 4,352 |
| Interest Payable | 16,763 |
| Bonds Payable | 83,300 |
| Noncurrent: | |
| Bonds Payable | 1,054,000 |
| Other Post Employment Benefit Obligations | <u>117,769</u> |
| Total Liabilities | <u>1,286,162</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 5,262,960 |
| Unrestricted | <u>1,677,084</u> |
| Total Net Assets | <u><u>\$ 6,940,044</u></u> |

Town of Topsfield, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2011

| | <u>Water Enterprise</u> |
|---|-----------------------------|
| Operating Revenues: | |
| Charges for Services | <u>\$ 855,364</u> |
| Total Operating Revenues | <u>855,364</u> |
| Operating Expenditures: | |
| Personal Services | 198,613 |
| Nonpersonal Services | 365,475 |
| Depreciation | <u>185,682</u> |
| Total Operating Expenditures | <u>749,770</u> |
| Operating Income | <u>105,594</u> |
| Nonoperating Revenues (Expenses): | |
| Earnings on Investments | 4,230 |
| Interest on Debt | <u>(32,110)</u> |
| Total Nonoperating Revenues (Expenses) | <u>(27,880)</u> |
| Income Before Contributions and Transfers | 77,714 |
| Operating Transfers Out | <u>(118,179)</u> |
| Change in Net Assets | <u>(40,465)</u> |
| Net Assets July 1, 2010 | <u>6,980,509</u> |
| Net Assets June 30, 2011 | <u><u>\$ 6,940,044</u></u> |

Town of Topsfield, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2011

| | Water |
|--|----------------------------|
| Cash Flows from Operating Activities: | |
| Receipts from Customers | \$ 860,402 |
| Payments to Employees | (139,047) |
| Payments to Vendors | (379,438) |
| Net Cash Flows from Operating Activities | <u>341,917</u> |
| Cash Flows from Non Capital Related Financing Activities: | |
| Transfers to Other Funds | (118,179) |
| Net Cash Flows from Non Capital Related Financing Activities | <u>(118,179)</u> |
| Cash Flows from Capital Related Financing Activities: | |
| Acquisition of Capital Assets | (23,725) |
| Payments on Bond Anticipation Notes | (1,070,000) |
| Proceeds from Bonds | 1,055,000 |
| Principal Payments on Bonds | (7,200) |
| Interest Payments on Debt | (16,791) |
| Net Cash Flows from Capital Related Financing Activities | <u>(62,716)</u> |
| Cash Flows from Investing Activities: | |
| Earnings on Investments | 4,230 |
| Net Cash Flows from Investing Activities | <u>4,230</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 165,252 |
| Cash and Cash Equivalents, July 1, 2010 | <u>1,587,096</u> |
| Cash and Cash Equivalents, June 30, 2011 | <u><u>\$ 1,752,348</u></u> |
| Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities: | |
| Operating Income (Loss) | \$ 105,594 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation Expense | 185,682 |
| (Increase) Decrease in Accounts Receivable | 5,038 |
| Increase (Decrease) in Warrants Payable | 45,603 |
| Net Cash Provided by Operating Activities | <u><u>\$ 341,917</u></u> |

Town of Topsfield, Massachusetts
Fiduciary Funds
Statement of Net Assets
June 30, 2011

| | Private-Purpose <u>Trust</u> |
|---------------------------|---------------------------------|
| Assets | |
| Cash and Cash Investments | \$ 9,934 |
| | <hr/> |
| Total Assets | \$ 9,934 |
| | <hr/> <hr/> |
| Liabilities | \$ - |
| | <hr/> |
| Net Assets | |
| Expendable | 9,934 |
| | <hr/> |
| Total Net Assets | \$ 9,934 |
| | <hr/> <hr/> |

Town of Topsfield, Massachusetts
 Fiduciary Funds
 Statement of Changes in Net Assets
 Fiscal Year Ended June 30, 2011

| | |
|----------------------------------|------------------------|
| Additions: | |
| Bequest | \$ 10,000 |
| Earnings (Losses) on Investments | <u>(66)</u> |
| Total Additions | <u>9,934</u> |
| Deductions: | |
| Trust Distributions | <u>-</u> |
| Change in Net Assets | <u>9,934</u> |
| Net Assets, July 1, 2010 | <u>-</u> |
| Net Assets, June 30, 2011 | <u><u>\$ 9,934</u></u> |

Town of Topsfield, Massachusetts
Notes to the Financial Statements
June 30, 2011

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Topsfield, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2011, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

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

A. **Reporting Entity**

The Town's basic financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity included in the accompanying basic financial statements.

B. **Government-wide and fund financial statements**

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

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds (when applicable), even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are

levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

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

Gould Fund – This is a library trust fund. It has an expendable portion and a nonexpendable portion.

The Town reports the following major proprietary fund:

Water Fund – This fund is used to account for the activities related to the water distribution system.

D. Assets, Liabilities and Net Assets or Equity

i Deposits and Investments

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

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

Also, certain governmental funds (primarily trust funds) have broader investment powers which allow investments in common stocks, corporate bonds and other types of investments.

ii Property Taxes

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

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

iii Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------|--------------|
| Buildings | 40 |
| Equipment | 5-15 |
| Improvements | 20-30 |
| Infrastructure | 40-50 |
| Vehicles | 5-15 |

iv Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It, also, establishes criteria for classifying fund balances into specifically defined classifications.

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

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories list below.

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

2. **Restricted**, constraints on the use of resources for specific purposes are imposed (a) by creditors, grantors or contributors, or (b) by law through constitutional provisions or through enabling legislation.

3. **Committed**, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen (the Town’s highest level of decision-making authority). Similar formal action by the Board of Selectmen is required in order to “reverse” the commitment.

4. **Assigned**, intentions (by the Board of Selectmen, Town Administrator or Town Accountant) that resources are to be used by the government for specific purposes, but the restrictions do not meet the criteria necessary to be classified as restricted or committed.

5. **Unassigned**, the residual classification for the government’s general fund. It includes all spendable amounts not contained in the nonspendable, restricted, committed or assigned categories. A “positive” unassigned may only be displayed in the general fund.

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

Details of Fund Balance Classifications

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

| | <u>General Fund</u> | <u>Gould Trust</u> | <u>Non Major Funds</u> | <u>Total</u> |
|---------------------------|---------------------|------------------------|------------------------|--------------|
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Permanent Fund Principal | \$ - | \$ 6,217,927 | \$ 666,972 | \$ 6,884,899 |
| Restricted for: | | | | |
| General Government | - | - | 204,269 | 204,269 |
| Public Safety | - | - | 79,482 | 79,482 |
| Education | - | - | 823,620 | 823,620 |
| Highways and Public Works | - | - | 521,943 | 521,943 |
| Human Services | - | - | 290,506 | 290,506 |
| Culture and Recreation | - | 759,622 | 43,060 | 802,682 |

| | <u>General Fund</u> | <u>Gould Trust</u> | <u>Non Major Funds</u> | <u>Total</u> |
|---------------------------|---------------------|---------------------|------------------------|----------------------|
| Committed to: | | | | |
| General Government | 75,031 | - | - | 75,031 |
| Public Safety | 21,927 | - | 99,084 | 121,011 |
| Education | 15,600 | - | - | 15,600 |
| Human Services | 28,323 | - | 9,098 | 37,421 |
| Culture and Recreation | 1,250 | - | 4,375 | 5,625 |
| Employee Benefits | 58,008 | - | - | 58,008 |
| Assigned to: | | | | |
| General Government | 575,918 | - | - | 575,918 |
| Public Safety | 7,338 | - | 537 | 7,875 |
| Education | 132,037 | - | - | 132,037 |
| Highways and Public Works | 32,267 | - | - | 32,267 |
| Human Services | 900 | - | 276,895 | 277,795 |
| Culture and Recreation | 713 | - | 14,480 | 15,193 |
| Unassigned | 2,342,955 | - | - | 2,342,955 |
| Total Fund Balances | <u>\$ 3,292,267</u> | <u>\$ 6,977,549</u> | <u>\$ 3,034,321</u> | <u>\$ 13,304,137</u> |

Stabilization Fund

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

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

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

The Town’s stabilization fund has a current balance of \$758,655. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the Town’s balance sheet.

v Compensated Absences

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

vi Long-Term Obligations

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

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

vii Use of Estimates

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

viii Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1, 2011 and July 15, 2011. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2011 and the corresponding credit is to the account entitled warrants payable.

II Stewardship, Compliance and Accountability

A. Budgetary Information

i General Budget Policies

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

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances do not constitute expenditures or liabilities.

ii Budget Basis of Accounting

The final budget appearing in the required supplementary information section of the financial statements is taken from the Town's annual recap sheet and includes those amounts which pertain to fiscal 2011 adjusted for any special Town meeting votes applicable to fiscal 2011 and reserve fund transfers authorized by the Finance Committee.

The following reconciliation summarizes the differences between the budget basis and the Generally Accepted Accounting Principles (GAAP) basis (fund financial statements) for the year ended June 30, 2011.

| | <u>Revenues</u> |
|---|----------------------|
| As Reported Budget Basis | \$ 20,786,806 |
| Adjustments: | |
| Sixty Day Property Tax Accrual - Net | (21,159) |
| Other revenues not reported on budget basis | 2,311 |
| On Behalf Payments Included in Intergovernmental | 899,622 |
| As Reported Fund Statement | <u>\$ 21,667,580</u> |
| | |
| | <u>Expenditures</u> |
| As Reported Budget Basis | \$ 20,834,375 |
| Adjustments: | |
| July 1, 2010 Encumbrances and Continued Appropriations | 244,632 |
| June 30, 2011 Encumbrances and Continued Appropriations | (285,423) |
| On Behalf Payments Included in Employee Benefits | 899,622 |
| As Reported Fund Statement | <u>\$ 21,693,206</u> |

III Detailed Notes on All Funds

A. Deposits and Investments

i) Deposits

a) Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2011, \$549,222 of the Town's bank balance of \$6,870,276 was exposed to credit risk as follows:

| | |
|--------------------------------|------------------|
| Uninsured and Uncollateralized | <u>\$549,222</u> |
|--------------------------------|------------------|

ii) Investments

a) As of June 30, 2011, the Town had the following investments and maturities.

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | |
|----------------------------------|---------------------|---|---------------------|------------------|
| | | <u>Less Than 1</u> | <u>1-5</u> | <u>5-10</u> |
| U. S. Government Obligations | \$ 930,119 | \$ 253,753 | \$ 651,223 | \$ 25,143 |
| Corporate Bonds | <u>2,573,769</u> | <u>375,117</u> | <u>2,198,652</u> | <u>-</u> |
| Total | <u>3,503,888</u> | <u>\$ 628,870</u> | <u>\$ 2,849,875</u> | <u>\$ 25,143</u> |
| <u>Other Investments</u> | | | | |
| Equities | \$ 3,776,154 | | | |
| Mutual Funds | 538,181 | | | |
| Mass. Municipal Depository Trust | <u>1,018,392</u> | | | |
| Total Other Investments | <u>5,332,727</u> | | | |
| Total Investments | <u>\$ 8,836,615</u> | | | |

b) Interest Rate Risk

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

c) Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Commonwealth of Massachusetts has an investment “legal list” that the Town follows. However, the Town does not have its formal policy relating to credit risk.

d) Concentration of Credit Risk

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

B. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|
| Government Activities: | | | | |
| Assets not Being Depreciated: | | | | |
| Land | \$ 5,196,767 | \$ - | \$ - | \$ 5,196,767 |
| Work In Process | 3,423,061 | 7,088 | (236,599) | 3,193,550 |
| Total Capital Assets Not Being Depreciated | <u>8,619,828</u> | <u>7,088</u> | <u>(236,599)</u> | <u>8,390,317</u> |
| Assets Being Depreciated: | | | | |
| Buildings | 17,579,406 | - | - | 17,579,406 |
| Improvements Other Than Buildings | 266,947 | - | - | 266,947 |
| Infrastructure | 9,651,960 | - | - | 9,651,960 |
| Equipment | 1,534,200 | 7,505 | - | 1,541,705 |
| Vehicles | 1,675,951 | 492,802 | - | 2,168,753 |
| Total Capital Assets Being Depreciated | <u>30,708,464</u> | <u>500,307</u> | <u>-</u> | <u>31,208,771</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (5,934,661) | (423,643) | - | (6,358,304) |
| Improvements Other Than Buildings | (127,683) | (10,703) | - | (138,386) |
| Infrastructure | (7,871,060) | (247,697) | - | (8,118,757) |
| Equipment | (1,072,252) | (64,846) | - | (1,137,098) |
| Vehicles | (1,285,374) | (80,512) | - | (1,365,886) |
| Total Accumulated Depreciation | <u>(16,291,030)</u> | <u>(827,401)</u> | <u>-</u> | <u>(17,118,431)</u> |
| Total Capital Assets Being Depreciated, Net | <u>14,417,434</u> | <u>(327,094)</u> | <u>-</u> | <u>14,090,340</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 23,037,262</u> | <u>\$ (320,006)</u> | <u>\$ (236,599)</u> | <u>\$ 22,480,657</u> |

Depreciation expense was charged to functions as follows:

| | |
|--|-------------------|
| Government Activities: | |
| General Government | \$ 10,223 |
| Public Safety | 96,440 |
| Education | 265,347 |
| Highways and Public Works | 351,376 |
| Culture and Recreation | 104,015 |
| Total Governmental Activities Depreciation Expense | <u>\$ 827,401</u> |

B. Capital Assets (Continued)

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|---------------------|---------------------------|
| Business-Type Activities: | | | | |
| Assets Not Being Depreciated: | | | | |
| Land | \$ 323,038 | \$ - | \$ - | \$ 323,038 |
| Work In Process | 954,190 | - | (954,190) | - |
| Total Capital Assets Not Being Depreciated | <u>1,277,228</u> | <u>-</u> | <u>(954,190)</u> | <u>323,038</u> |
| Assets Being Depreciated: | | | | |
| Buildings | 144,521 | - | - | 144,521 |
| Improvements Other Than Buildings | 30,400 | - | - | 30,400 |
| Infrastructure | 8,415,542 | 954,190 | - | 9,369,732 |
| Equipment | 95,000 | - | - | 95,000 |
| Vehicles | 87,278 | 23,725 | (29,139) | 81,864 |
| Total Capital Assets Being Depreciated | <u>8,772,741</u> | <u>977,915</u> | <u>(29,139)</u> | <u>9,721,517</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (30,268) | (3,613) | - | (33,881) |
| Improvements Other Than Buildings | (12,220) | (2,040) | - | (14,260) |
| Infrastructure | (3,322,869) | (163,310) | - | (3,486,179) |
| Equipment | (59,483) | (7,400) | - | (66,883) |
| Vehicles | (62,912) | (9,319) | 29,139 | (43,092) |
| Total Accumulated Depreciation | <u>(3,487,752)</u> | <u>(185,682)</u> | <u>29,139</u> | <u>(3,644,295)</u> |
| Total Capital Assets Being Depreciated, Net | <u>5,284,989</u> | <u>792,233</u> | <u>-</u> | <u>6,077,222</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 6,562,217</u> | <u>\$ 792,233</u> | <u>\$ (954,190)</u> | <u>\$ 6,400,260</u> |

C. Accounts Receivable

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

General Fund

Property Taxes Receivable:

Real Estate Taxes

2011

\$ 120,716

Total Real Estate Taxes

120,716

C. Accounts Receivable (Continued)

| | | |
|--|------------------|---------------------|
| Personal Property Taxes | | |
| 2011 | 1,225 | |
| 2010 | 962 | |
| 2009 | 831 | |
| 2008 | 654 | |
| 2007 | 187 | |
| 2006 | 96 | |
| 2005 | 488 | |
| 2004 | 280 | |
| 2003 | 89 | |
| 2002 | 96 | |
| 2001 | 60 | |
| 2000 | 66 | |
| Total Personal Property Taxes | <u>5,034</u> | |
| Total Property Taxes Receivable | | <u>\$ 125,750</u> |
| | | |
| Tax Liens | | <u>\$ 243,670</u> |
| | | |
| Excise Taxes Receivable: | | |
| Motor Vehicle Excise Tax | | |
| 2011 | \$ 50,663 | |
| 2010 | 6,988 | |
| 2009 | 4,588 | |
| 2008 | 2,768 | |
| 2007 | 4,528 | |
| 2006 | 2,983 | |
| Total Excise Tax | <u>72,518</u> | <u>\$ 72,518</u> |
| | | |
| Intergovernmental: | | |
| Current: | | |
| Due from Commonwealth of Massachusetts | | |
| Highway, and other | \$ 192,136 | |
| Various State and Federal Grants | 58,798 | |
| School Building Assistance Bureau | 419,170 | |
| Total Current | <u>670,104</u> | |
| | | |
| Noncurrent: | | |
| School Building Assistance Bureau | <u>4,191,704</u> | |
| Total Intergovernmental | | <u>\$ 4,861,808</u> |
| | | |
| Other: | | |
| Due from Individuals - Police Academy | | <u>\$ 2,803</u> |

C. Accounts Receivable (Continued)

Enterprise Fund

Liens:

| | | |
|-------------------|------------|----------------------|
| Betterment Liens | \$ 546 | |
| User Charge Liens | <u>100</u> | |
| Total Liens | | <u><u>\$ 646</u></u> |

Current:

| | | |
|--------------|--|-------------------------|
| User Charges | | <u><u>\$ 72,356</u></u> |
|--------------|--|-------------------------|

Noncurrent

| | | |
|-------------------------------|--|----------------------|
| Deferred Special Assessments: | | <u><u>\$ 596</u></u> |
|-------------------------------|--|----------------------|

D. Debt

i Short Term Debt

Bond Anticipation Notes Payable

The short term debt activity for fiscal year 2011 is as follows:

| <u>Purpose</u> | <u>Balance Beginning of Year</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Balance End of Year</u> |
|----------------------------------|--|-------------------|---------------------|------------------------------------|
| <u>Governmental Activities:</u> | <u>\$ 400,000</u> | <u>\$ 250,000</u> | <u>\$ 650,000</u> | <u>\$ -</u> |
| <u>Business-type Activities:</u> | <u>\$ 1,070,000</u> | <u>\$ -</u> | <u>\$ 1,070,000</u> | <u>\$ -</u> |

D. Debt (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2011 bear interest at various rates.

(a) The following is a summary of bond transactions for the fiscal year ended June 30, 2011:

| | <u>General Long Term Debt Group</u> | <u>Enterprise Fund</u> | <u>Total</u> |
|-----------------------|---|----------------------------|----------------------|
| Balance July 1, 2010 | \$ 9,090,500 | \$ 89,500 | \$ 9,180,000 |
| Add: New Issues | 650,000 | 1,055,000 | 1,705,000 |
| Refunding Issue | 2,252,700 | 82,300 | 2,335,000 |
| Less: Maturities | (652,800) | (7,200) | (660,000) |
| Refunded Debt | (2,252,700) | (82,300) | (2,335,000) |
| Balance June 30, 2011 | <u>\$ 9,087,700</u> | <u>\$ 1,137,300</u> | <u>\$ 10,225,000</u> |

(b) Summary of Debt Service Requirements to Maturity

| | <u>General Long Term Debt</u> | | <u>Enterprise Fund</u> | |
|-------------|-------------------------------|---------------------|------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2012 | \$ 796,700 | \$ 300,278 | \$ 83,300 | \$ 36,575 |
| 2013 | 826,500 | 280,252 | 83,500 | 34,076 |
| 2014 | 861,000 | 259,328 | 84,000 | 31,571 |
| 2015 | 881,500 | 236,052 | 83,500 | 28,212 |
| 2016 | 831,000 | 211,828 | 84,000 | 24,871 |
| 2017 - 2021 | 4,201,000 | 641,830 | 389,000 | 95,639 |
| 2022 - 2026 | 690,000 | 34,500 | 330,000 | 36,750 |
| | <u>\$ 9,087,700</u> | <u>\$ 1,964,068</u> | <u>\$ 1,137,300</u> | <u>\$ 287,694</u> |

(c) Bond Authorizations

The Town does not have any long-term debt authorizations which have not been issued or rescinded as of June 30, 2011.

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year were as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------------|-----------------------------|-----------------------------|
| General | \$ 279,422 | \$ (42,200) |
| Gould Trust | - | (66,000) |
| Non-Major Governmental | 44,524 | (97,567) |
| Enterprise - Business Type | - | (118,179) |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 323,946</u> | <u>\$ (323,946)</u> |

IV Other Information

A. Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

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

(b) Funding Plan

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

The Town's contributions for the years ending June 30, 2011, 2010 and 2009 were \$653,289, \$630,612 and \$576,103, respectively, equal to 100% of the required contribution each year.

(c) Other Postemployment Benefits (OPEB) Disclosures

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

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town’s retirees receiving a pension from the Essex Regional Retirement System are eligible for post retirement medical benefits. Currently there are 174 active employees and 67 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** The Town pays either 60% or 67% of the total premiums for health insurance (depending on the retirees’ insurance plan) and 67% of premiums for a \$2,500 life insurance policy. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.
- c. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan, and the Town’s Net OPEB Obligation (NOO):

| | |
|--|----------------------------|
| Annual Required Contribution (ARC) | \$ 1,930,137 |
| Interest on Net OPEB Obligation | 141,228 |
| Adjustment to Annual Required Contribution | <u>(192,671)</u> |
| Annual OPEB Cost (Expense) | 1,878,694 |
| Contributions Made | (352,254) |
| Allocations for Implicit Rate Subsidy | <u>(110,205)</u> |
| Increase in Net OPEB Obligation | 1,416,235 |
| Net OPEB Obligation (NOO)- Beginning of Year | <u>3,138,397</u> |
| Net OPEB Obligation (NOO)- End of Year | <u><u>\$ 4,554,632</u></u> |

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

| <u>Fiscal Year</u> <u>Ended June 30</u> | <u>Annual</u> <u>OPEB Cost</u> | <u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u> | <u>Net OPEB</u> <u>Obligation</u> |
|--|-----------------------------------|---|--------------------------------------|
| 2009 | \$1,885,230 | 18.0% | \$1,536,796 |
| 2010 | \$1,904,947 | 15.9% | \$3,138,397 |
| 2011 | \$1,878,694 | 24.6% | \$4,554,632 |

- d. **Funded Status and Funding Progress.** As of July 1, 2009 the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$15,246,807, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$15,246,807.

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

- e. **Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and considers the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent. The actuarial value of assets is determined using market value. The UAAL is being amortized over a thirty year amortization period.

B. On Behalf Payments

In accordance with Government Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," the Town is required to recognize, as income and expense, certain payments made on behalf of the Town by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth of Massachusetts.

For the fiscal year ended June 30, 2011, the Commonwealth paid \$899,622 to the State Plan on behalf of employees of the Town. Accordingly, the accompanying basic financial statements include the required adjustments, which have increased both Intergovernmental revenues and education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2011, or fund balances at June 30, 2011.

C. Subsequent Year Authorizations

On May 4, 2010, the Town adopted a fiscal 2012 operating and capital budget of \$22,818,381. Fiscal 2012 budgetary amounts which are not reflected (except for reserved for expenditures) in the accompanying financial statements will be financed by the following sources:

| | |
|--|----------------------|
| 2012 Property Taxes, State Aid and Non-Property Tax Revenue | \$ 20,726,878 |
| Enterprise Fund Revenues | 834,565 |
| Enterprise Fund Retained Earnings | 175,610 |
| 2012 Chapter 90 Highway Funds | 271,387 |
| Other Available Funds: | |
| General Fund | 663,888 |
| Gould Major Fund | 66,000 |
| Non-Major Funds | 80,053 |
| | <u>\$ 22,818,381</u> |

D. Solid Waste Landfill Closure and Postclosure Care Costs

State and Federal regulations require that landfill closures meet certain standards. Among the standards is the requirement to monitor the landfill for 30 years. Accounting principles generally accepted in the United States of America require recognition of a liability for closure and postclosure costs based on landfill capacity used to date. The landfill capacity used to date is 100%. During fiscal 1999, the landfill was closed and capping of the landfill has been completed.

The Town's estimate for monitoring costs are included as a liability in the Statement of Net Assets.

E. Significant Commitments

Encumbrances

Encumbrances for open purchase or unpaid bills are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose. The assigned fund balance in the general fund includes \$178,749 related to encumbrances. Articles carried forward are considered committed fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Topsfield, Massachusetts
Required Supplementary Information
General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Fiscal Year Ended June 30, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget |
|--|-------------------------|-------------------|---------------------------|------------------------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Favorable (Unfavorable)</u> |
| <u>Revenues</u> | | | | |
| Property Taxes | \$ 17,094,950 | \$ 17,094,950 | \$ 17,011,558 | \$ (83,392) |
| Tax Liens | - | - | 62,374 | 62,374 |
| Excises | 737,100 | 737,100 | 853,259 | 116,159 |
| Penalties and Interest | 25,300 | 25,300 | 27,071 | 1,771 |
| Licenses, Permits and Fees | 185,000 | 185,000 | 413,815 | 228,815 |
| Intergovernmental | 2,118,752 | 2,118,752 | 2,112,911 | (5,841) |
| Charges for Services | 167,500 | 167,500 | 115,499 | (52,001) |
| Fines and Forfeits | 48,400 | 48,400 | 45,535 | (2,865) |
| Earnings on Investments | 18,000 | 18,000 | 21,732 | 3,732 |
| In Lieu of Taxes | 59,300 | 59,300 | 59,875 | 575 |
| Miscellaneous | 500 | 500 | 63,177 | 62,677 |
| Total Revenues | <u>20,454,802</u> | <u>20,454,802</u> | <u>20,786,806</u> | <u>332,004</u> |
| <u>Expenditures</u> | | | | |
| General Government | 1,194,722 | 1,154,554 | 1,038,304 | 116,250 |
| Public Safety | 2,086,129 | 2,108,703 | 2,076,327 | 32,376 |
| Education | 11,882,838 | 11,882,838 | 11,822,884 | 59,954 |
| Highway and Public Works | 752,713 | 847,303 | 854,017 | (6,714) |
| Health and Human Services | 568,365 | 570,641 | 562,851 | 7,790 |
| Culture and Recreation | 707,121 | 719,277 | 704,742 | 14,535 |
| Intergovernmental | 196,937 | 196,937 | 203,177 | (6,240) |
| Employee Benefits | 2,654,823 | 2,567,363 | 2,483,069 | 84,294 |
| Debt Service: | | | | |
| Principal | 643,000 | 643,000 | 643,000 | - |
| Interest | 498,042 | 446,006 | 446,004 | 2 |
| Total Expenditures | <u>21,184,690</u> | <u>21,136,622</u> | <u>20,834,375</u> | <u>302,247</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>(729,888)</u> | <u>(681,820)</u> | <u>(47,569)</u> | <u>634,251</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Transfers In | 218,267 | 243,626 | 279,422 | 35,796 |
| Transfers Out | (1,000) | (28,200) | (43,200) | (15,000) |
| Other Available Funds | 88,177 | 88,177 | 88,177 | - |
| Budgetary Fund Balance - Sources | 424,444 | 451,644 | 451,644 | - |
| Budgetary Reserve for Subsequent Year | - | (73,427) | (73,427) | - |
| Total Other Financing Sources (Uses) | <u>729,888</u> | <u>681,820</u> | <u>702,616</u> | <u>20,796</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 655,047</u> | <u>\$ 655,047</u> |

Town of Topsfield, Massachusetts
Required Supplementary Information
Essex Regional Retirement System
Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|-------------------------------------|--|---------------------------------|--------------------------|---------------------------|--|
| 1/1/1994 | \$ 80,878,500 | \$ 178,256,800 | \$ 97,378,300 | 45.37% | \$ 62,076,500 | 156.87% |
| 1/1/1996 | 106,176,700 | 200,397,500 | 94,220,800 | 52.98% | 72,953,200 | 129.15% |
| 1/1/1998 | 151,293,900 | 245,965,100 | 94,671,200 | 61.51% | 85,785,000 | 110.36% |
| 1/1/1999 | 180,034,700 | 268,386,000 | 88,351,300 | 67.08% | 89,645,300 | 98.56% |
| 1/1/2000 | 190,363,700 | 253,847,100 | 63,483,400 | 74.99% | 69,525,900 | 91.31% |
| 1/1/2002 | 218,346,198 | 287,390,715 | 69,044,517 | 75.98% | 85,005,338 | 81.22% |
| 1/1/2004 | 229,852,971 | 333,396,222 | 103,543,251 | 68.94% | 93,404,002 | 110.86% |
| 1/1/2006 | 261,327,047 | 376,034,621 | 114,707,574 | 69.50% | 98,641,094 | 116.29% |
| 1/1/2008 | 301,420,965 | 445,171,554 | 143,750,589 | 67.71% | 111,726,856 | 128.66% |
| 1/1/2011 | 278,332,006 | 536,115,536 | 257,783,530 | 51.92% | 119,707,156 | 215.35% |

Town of Topsfield, Massachusetts
 Required Supplementary Information
 Essex Regional Retirement System
 Schedule of Employer's Contributions

| System Wide | | | | Town of Topsfield | |
|-----------------------------------|-------------------------------------|--------------------------------|---------------------------|--------------------------------|--|
| Plan Year Ended December 31 | Annual Required Contributions | Actual Contributions (A) | Percentage Contributed | Actual Contributions (B) | Town's Percentage of System Wide Actual Contributions (B/A) |
| 2001 | \$12,014,561 | \$12,014,561 | 100.00% | \$265,626 | 2.21% |
| 2002 | 9,840,064 | 9,840,064 | 100.00% | 354,891 | 3.61% |
| 2003 | 12,516,569 | 12,516,569 | 100.00% | 396,341 | 3.17% |
| 2004 | 12,223,776 | 12,223,776 | 100.00% | 427,475 | 3.50% |
| 2005 | 13,080,011 | 13,080,011 | 100.00% | 420,927 | 3.22% |
| 2006 | 16,622,274 | 16,622,274 | 100.00% | 473,082 | 2.85% |
| 2007 | 15,788,864 | 15,788,864 | 100.00% | 518,521 | 3.28% |
| 2008 | 21,355,202 | 21,355,202 | 100.00% | 618,800 | 2.90% |
| 2009 | 18,258,062 | 18,258,062 | 100.00% | 576,103 | 3.16% |
| 2010 | 19,136,746 | 19,136,746 | 100.00% | 630,612 | 3.30% |

Town of Topsfield, Massachusetts
 Required Supplementary Information - GASB 45
 Schedule of Funding Progress
 Fiscal Year Ended June 30, 2011

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a) / (b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)] |
|--------------------------------|--|--|--|------------------------------|---------------------------|---|
| 7/1/2007 | \$0 | \$14,702,233 | \$14,702,233 | 0% | \$6,582,185 | 223% |
| 7/1/2009 | \$0 | \$15,246,807 | \$15,246,807 | 0% | \$7,818,687 | 195% |

Required Supplementary Information - GASB 45

Town of Topsfield, Massachusetts

Valuation Details

Fiscal Year Ended June 30, 2011

| | |
|-------------------------------|-----------------------------------|
| Valuation Date | July 1, 2009 |
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level dollar thirty year |
| Remaining Amortization Period | 29 years as of July 1, 2009 |
| Asset Valuation Method | Not applicable - plan is unfunded |

Actuarial Assumptions:

| | |
|---------------------------|--|
| Investment Rate of Return | 4.5%, pay-as-you-go scenario |
| Health Care Trend Rates | 8.0% graded off 0.5% per year to an ultimate rate of 4.5% per year |

Plan Membership:

| | |
|---|------------|
| Current retirees, beneficiaries, and dependents | 67 |
| Current active members | <u>174</u> |
| Total | <u>241</u> |

Town of Topsfield, Massachusetts
Notes to the Required Supplementary Information
June 30, 2011

I Budgetary Information

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

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances do not constitute expenditures or liabilities.

II Pension Plans

(a) Plan Description

The Town provides pension benefits to employees by contributing to Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

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

(b) Funding Plan

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

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the accrued liability for benefits. Additionally, a schedule of employer contributions is presented as required supplementary information. The schedules presented relate to the Essex Regional Retirement System as a whole (of which the Town is one participating employer). The Town's data included should be helpful for understanding the scale of the information presented relative to the Town.

(c) Actuarial Assumptions

| | |
|--------------------------------------|---|
| Valuation Date | January 1, 2011 |
| Actuarial Cost Method | Entry age normal cost method. |
| Amortization Method | Level dollar for the ERI liability for most units, 4.5% increases for ERI liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%. |
| Remaining Amortization Period | As of July 1, 2011, schedules as selected by units for 2002 ERI liability, schedules as selected by unit for 2003 ERI liability and 24 years for the remaining unfunded liability. |
| Asset Valuation Method | Sum of actuarial value at the beginning of the year and increase in cost value during the year excluding realized appreciation or losses plus 20 percent of market value at end of year (as reported in the Annual Statement) in excess of that preliminary value, adjusted to be within 20% of their market value. |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8.25% (previously 8.50%) |
| Projected Salary Increases | 5.00% |
| Cost of Living Adjustments | 3.00% of the first \$12,000 of retirement income |

Plan Membership:

| | |
|--|--------------|
| Retired Participants and Beneficiaries | |
| Receiving Benefits | 1,624 |
| Inactive Participants Entitled to a Return of their Employee Contributions | 844 |
| Invested Participants with a Vested Right to a Deferred or Immediate Benefit | 70 |
| Active Participants | <u>3,013</u> |
| Total | <u>5,551</u> |

III Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2011. These statements require the Town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

- a. **Plan Description.** In addition to providing pension benefits described above, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the Town’s retirees receiving a pension from the Essex Regional Retirement System are eligible for post retirement medical benefits. Currently there are 174 active employees and 67 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan.
- b. **Funding Policy.** The Town pays either 60% or 67% of the total premiums for health insurance (depending on the retirees’ insurance plan) and 67% of premiums for a \$2,500 life insurance policy. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.

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

Board of Selectmen
Town of Topsfield
Eight West Common
Topsfield, MA 01864

We have audited the basic financial statements of the Town of Topsfield as of and for the year ended June 30, 2011, and have issued our report thereon dated December 21, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Topsfield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Topsfield's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Topsfield's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Topsfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Topsfield, in a separate letter dated December 30, 2011.

The report is intended solely for the information and use of management, the Board of Selectmen and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
December 21, 2011



EDWARDS WILDMAN PALMER LLP
111 HUNTINGTON AVENUE
BOSTON, MA 02199
+1 617 239 0100 main +1 617 227 4420 fax
edwardswildman.com

(Date of Delivery)

Barbara B. Michalowski, Treasurer
Town of Topsfield
Topsfield, Massachusetts

\$1,946,000
Town of Topsfield, Massachusetts
General Obligation Refunding Bonds
Dated February 14, 2012

We have acted as bond counsel to the Town of Topsfield, Massachusetts (the "Town") in connection with the issuance by the Town of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except

as expressed in paragraph 4 below, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

4. The Bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Wildman Palmer LLP

BOS111 12668914.2

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Topsfield, Massachusetts (the “Issuer”) in connection with the issuance of its \$1,946,000 General Obligation Refunding Bonds dated February 14, 2012 (the “Bonds”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated January 25, 2012 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth (except for the omission, if any, of a statement of fixed assets). If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
 8. Bond calls, if material, and tender offers.
 9. Defeasances.
 10. Release, substitution or sale of property securing repayment of the Bonds, if material.
 11. Rating changes.
 12. Bankruptcy, insolvency, receivership or similar event of the Issuer.*
 13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
 14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: February __, 2012

TOWN OF TOPSFIELD,
MASSACHUSETTS

By _____
Treasurer

Selectmen

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

BOS111 12668922.2

**PROPOSAL FOR
\$2,105,000*
General Obligation Refunding Bonds
Topsfield, Massachusetts**

Sale Date: January 25, 2012

Barbara M. Michalowski
Topsfield, Massachusetts
c/o Eastern Bank, Municipal Finance Department
265 Franklin Street
Boston, Massachusetts 02110

Dear Ms. Michalowski:

For all of \$2,105,000* Town of Topsfield, Massachusetts, General Obligation Refunding Bonds as further described in the Notice of Sale dated January 18, 2012, we bid _____ and accrued interest, if any, for each \$100 face value of bonds, bearing interest at the rate or rates per annum as follows:

| <u>Year</u> | <u>Rate</u> | <u>Year</u> | <u>Rate</u> |
|-------------|-------------|-------------|-------------|
| 2013..... | % | 2018..... | % |
| 2014..... | | 2019..... | |
| 2015..... | | 2020..... | |
| 2016..... | | 2021..... | |
| 2017..... | | 2022..... | |

Insurance Premium: \$ _____
Insurer: _____

The undersigned hereby acknowledges the receipt of and the opportunity to examine the Preliminary Official Statement accompanying the said Notice of Sale.

By: _____ Telephone: _____
Address: _____ Fax: _____

The following is our computation of the net interest cost and percent true interest cost, made as provided in the above-mentioned Notice of Sale, for the purchase of \$2,105,000 Bonds under the foregoing proposal:

| | |
|---------------------------------|-----------------|
| Gross Interest Cost..... | \$ _____ |
| Underwriters Premium..... | \$ _____ |
| Net Interest Cost..... | \$ _____ |
| Percent True Interest Cost..... | _____% |
| | (four decimals) |

The Municipal Finance Department of Eastern Bank will assist in submitting bids on this issue, if desired. Please sign a blank bid form and mail to the above address or fax in advance of the sale to: (617) 235-8110; or telephone final figures to us at (617) 235-8106 or 235-8104 approximately one-half hour prior to the sale. Bidders are responsible for any error in bids submitted in this manner.

* Preliminary, subject to change