

TOWN OF TOPSHAM

**TOPSHAM, MAINE**

**FINANCIAL AUDIT REPORT**

**JUNE 30, 2015**

**TOWN OF TOPSHAM  
TOPSHAM, MAINE  
JUNE 30, 2015**

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## **REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

### **Independent Auditors' Report**

Board of Selectmen and Manager  
TOWN OF TOPSHAM  
Topsham, Maine

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds and remaining fund information, which collectively comprise the financial statements, of the Town of Topsham, Maine as of and for the year ended June 30, 2015, as listed in the table of contents, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, major funds and remaining fund information of the Town of Topsham and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matter

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of the Town's Proportionate Share of Net Pension Liability and Schedule of Town Pension Contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management Discussion and Analysis (MD&A) which is the responsibility of management, is represented for purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedure applied in the audit of the financial statements and accordingly we do not express an opinion or provide any assurance on it.



**SMITH & ASSOCIATES, CPAs**  
*A Professional Association*

**Yarmouth, Maine**  
**November 5, 2015**



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis is an analysis of the financial condition and operating results of the town for the fiscal year ended June 30, 2015 written by the Town Manager. The purpose is to foster increased interest from citizenry and taxpayers and to provide an easily read overview of the town's financial condition in conjunction with the audited financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the Town of Topsham exceeded its liabilities at the close of the most recent fiscal year by \$11,452,454 per Exhibit I (net position). Of this amount, \$3,875,223 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors. The Town's total net position decreased by \$100,124.
- At the close of the current fiscal year, the Town of Topsham's governmental funds reported combined ending fund balances of \$5,110,738 an increase of \$293,044 over the prior year. The amount of \$3,499,273 is the General Fund Unreserved Fund Balance which is available for appropriation in the next budget cycle and represents 18% of the total general fund expenditures.
- The Town of Topsham has \$1,221,082 reserved for Capital Projects. The Town of Topsham has \$158,554 reserved for Special Revenues. See Note 13 for details of these funds.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town of Topsham's financial statements. The Town's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *Statement of Net Position* (Exhibit I) presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities* (Exhibit II) presents revenue and expenses and shows how the government's net position changed during the most recent fiscal year. All changes in net position are reported in a manner similar to the approach used by a private-sector business in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred. Accordingly, revenues are reported even when they may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

**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 Topsham, 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The Town's unemployment compensation program is reported in this fund.

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

## COMPARATIVE DATA

The following tables provide a summary of the Town of Topsham's net position and statement of activities for the year ended June 30, 2015, with comparative data for the previous year. Net position serves as a useful indicator of the Town's financial position. Changes in net position generally indicate the direction (positive and negative) of the Town's financial position over time.

COMPARATIVE DATA (CONTINUED)

TOWN OF TOPSHAM'S NET POSITION

Condensed Statement of Net Position	Governmental Activities		Business - Type Activities		Total	
	30-Jun-15	30-Jun-14	30-Jun-15	30-Jun-14	30-Jun-15	30-Jun-14
<b>Assets</b>						
Current and Other Assets	\$ 6,480,529	\$ 5,670,306	\$ 38,397	\$ 36,536	\$ 6,518,926	\$ 5,706,842
Non Current Assets	<u>17,725,421</u>	<u>18,320,268</u>	<u>0</u>	<u>0</u>	<u>17,725,421</u>	<u>18,320,268</u>
<b>Total Assets</b>	<u>\$ 24,205,950</u>	<u>\$ 23,990,574</u>	<u>\$ 38,397</u>	<u>\$ 36,536</u>	<u>\$ 24,244,347</u>	<u>\$ 24,027,110</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 75,440</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,440</u>	<u>\$ 0</u>
<b>Liabilities</b>						
Current and Other Liabilities	\$ 1,195,524	\$ 653,506	\$ 0	\$ 0	\$ 1,195,524	\$ 653,506
Long Term Liabilities	<u>10,957,089</u>	<u>10,650,664</u>	<u>0</u>	<u>0</u>	<u>10,957,089</u>	<u>10,650,664</u>
<b>Total Liabilities</b>	<u>\$12,152,613</u>	<u>\$ 11,304,170</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,152,613</u>	<u>\$ 11,304,170</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 714,720</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 714,720</u>	<u>\$ 0</u>
<b>Net Position</b>						
Net Investment in Capital Assets	\$ 7,369,112	\$ 7,669,604	\$ 0	\$ 0	\$ 7,369,112	\$ 7,669,604
Restricted	208,119	208,119	0	0	208,119	208,119
Unrestricted	<u>3,836,826</u>	<u>4,808,681</u>	<u>38,397</u>	<u>36,536</u>	<u>3,875,223</u>	<u>4,845,217</u>
<b>Total Net Position</b>	<u>\$ 11,414,057</u>	<u>\$ 12,686,404</u>	<u>\$ 38,397</u>	<u>\$ 36,536</u>	<u>\$ 11,452,454</u>	<u>\$ 12,722,940</u>

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

An additional portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$3,836,826 (prior year \$4,808,681) may be used to meet the governments' ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate government and business-type activities. The same situation held true for the prior year. The Town's net position decreased by \$100,124 during the current fiscal year as per Exhibit II.

## COMPARATIVE DATA (CONTINUED)

## TOWN OF TOPSHAM'S CHANGES IN NET POSITION

Condensed Statement of Activities	Governmental Activities		Business – Type Activities		Total	
	30-Jun-15	30-Jun-14	30-Jun-15	30-Jun-14	30-Jun-15	30-Jun-14
<b>Revenues:</b>						
<i>Program Revenues</i>						
Charge for Services	\$ 919,233	\$ 889,816	\$ 0	\$ 0	\$ 919,233	\$ 889,816
Operating Grants and Contributions	211,019	274,046	0	0	211,019	274,046
Capital Grants and Contributions	0	0	0	0	0	0
<i>General Revenues</i>						
Property and Other Taxes	17,936,533	17,023,592	0	0	17,936,533	17,023,592
Grants and Contributions Not Restricted to Specific Programs	701,286	773,821	0	0	701,286	773,821
Unrestricted Investment Earnings	19,809	20,653	57	52	19,866	20,705
Miscellaneous	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>5,500</u>	<u>5,000</u>	<u>5,500</u>
<b>Total Revenues</b>	<u>\$ 19,787,880</u>	<u>\$ 18,981,928</u>	<u>\$ 5,057</u>	<u>\$ 5,552</u>	<u>\$ 19,792,937</u>	<u>\$ 18,987,480</u>
<b>Expenses</b>						
General Government	\$ 1,357,789	\$ 1,407,232	\$ 3,196	\$ 1,255	\$ 1,360,985	\$ 1,408,487
Public Works and Sanitation Protection	2,199,857	1,330,766	0	0	2,199,857	1,330,766
Culture and Recreation	2,212,138	2,043,199	0	0	2,212,138	2,043,199
Public Health and Welfare	814,050	873,884	0	0	814,050	873,884
Contractual Services	59,897	73,671	0	0	59,897	73,671
Public Utilities	95,235	91,000	0	0	95,235	91,000
Education	318,246	294,435	0	0	318,246	294,435
Interest	8,593,788	7,911,387	0	0	8,593,788	7,911,387
County Tax and Overlay	368,875	400,206	0	0	368,875	400,206
Depreciation	1,494,935	1,458,672	0	0	1,494,935	1,458,672
Tax Incremental Financing	988,011	1,542,128	0	0	988,011	1,542,128
Pension Unallocated	1,182,054	1,118,439	0	0	1,182,054	1,118,439
Capital Outlay	69,698	0	0	0	69,698	0
<b>Total Expenses</b>	<u>\$ 19,889,865</u>	<u>\$ 18,545,019</u>	<u>\$ 3,196</u>	<u>\$ 1,255</u>	<u>\$ 19,893,061</u>	<u>\$ 18,546,274</u>
<b>Increase (Decrease) In Net Position</b>	<u>\$ (101,985)</u>	<u>\$ 436,909</u>	<u>\$ 1,861</u>	<u>\$ 4,297</u>	<u>\$ (100,124)</u>	<u>\$ 441,206</u>
<b>Net Position, July 1</b>	\$ 12,686,404	\$ 11,262,102	\$ 36,536	\$ 32,239	\$ 12,722,940	\$ 11,294,341
<b>Prior Period Adjustment</b>	<u>(1,170,362)</u>	<u>987,393</u>	<u>0</u>	<u>0</u>	<u>(1,170,362)</u>	<u>987,393</u>
<b>Net Position Restated July 1</b>	<u>\$ 11,516,042</u>	<u>\$ 12,249,495</u>	<u>\$ 36,536</u>	<u>\$ 32,239</u>	<u>\$ 11,552,578</u>	<u>\$ 12,281,734</u>
<b>Net Position, June 30</b>	<u>\$ 11,414,057</u>	<u>\$ 12,686,404</u>	<u>\$ 38,397</u>	<u>\$ 36,536</u>	<u>\$ 11,452,454</u>	<u>\$ 12,772,940</u>

**ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The Statement of Activities indicates that the total expenses exceeded total revenues by \$100,124 indicating a strong overall financial position for the year ended June 30, 2015.

**ANALYSIS OF SIGNIFICANT INDIVIDUAL FUND BALANCES, TRANSACTIONS AND CHANGES IN FUND BALANCES**

**General Fund** – Revenues were in excess of expenditures and then decreased by transfers of \$461,905 (an increase of \$143,253 in prior year) decreasing the fund balance to \$3,499,273. While the amount of fund balance that any town needs to maintain is debatable, this amount is healthy by most standards. My goal has been to at least maintain enough fund balance to eliminate the need for annual tax anticipation borrowing.

**Other Governmental Funds** – The increase of \$754,949 in fund balance for this category is primarily due to the operating transfers and proceeds from the issuance of an equipment bond to Capital Projects. In the prior year, the increase of \$127,686 in fund balance for this category is primarily due to excess of revenues over expenditures and operating transfers from the General Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

As presented in Exhibit VII, the original budgeted expenditures amount to \$19,705,125 (\$18,974,151 in prior year). The total gross budget for the year ending June 30, 2015, including transfers to and from other funds, was \$19,656,875 (\$18,889,651 in prior year). The budgeted revenues and expenditures in Exhibit VII are net of transfers in and out to various reserve funds.

The town department budgets were under spent by \$344,933 (\$533,877 in prior year) and revenues were above budgeted estimates by \$298,662 (revenues were \$40,624 below budgeted amount in prior year), due largely to increases in excise taxes collected. State Revenue Sharing also was up slightly (\$22,608) over what was budgeted. This results in an increase in the town's undesignated fund balance to \$3,499,273 (\$3,961,178 in prior year). This healthy surplus allows the town to operate from the fiscal year end to the first property tax payment due date without the need to temporarily borrow money. The fund balance is at a level now that during the last Town Meeting, \$400,000 was allocated to support the municipal budget, and to help minimize a tax increase. The Board of Selectman's adopted goal is to maintain a fund balance at approximately 18% of the municipal budget. Amounts in excess of this level would be used to supplement the municipal budget, and to fund one-time capital expenses.

For the first time in several years, property values increased organically – based on a healthier real estate market. Consequently, the FY 16 tax rate increased to \$17.96 (from \$17.33 in FY 15, and as opposed to the \$18.31 anticipated at Town Meeting). The bulk of the valuation adjustments this year were on the residential side, as opposed to the commercial side as in previous years.

State Municipal Revenue Sharing continues to decline. In FY 12, our Revenue Sharing was in excess of \$765,000. In FY 15, it was estimated at \$443,411 (\$466,019 actual). For the coming year (FY 16), our Revenue Sharing is estimated at \$435,000. If the State was adhering to the intent of the Revenue Sharing Statute, our estimated total for the coming year would be in excess of \$1,100,000.

**GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)**

Due to this decline, while we have maintained services, we have stretched ourselves to do so, and have had to sacrifice services that will become issues in the future (regular property visits to maintain assessment levels, adequate staff to maintain existing facilities, etc.) In the FY 16 budget, we have begun to address some of these shortfalls, by adding part time help to the Tax Office and to the Recreation Department (facility maintenance).

Topsham's local economy continues to improve since the Great Recession. During FY 15, we saw the opening of Smitty's Cinema, as well as the relocation of the DMV into a new facility on Rt. 201. Several new tenants move to the Topsham Fair Mall, including Lamey Wellehan and Day's Jewelers. At year end, the Planning Board was considering three more buildings for the Topsham Fair Mall/Park Drive Business Park. Topsham continues to be a desirable place for new businesses to locate. A new business is negotiating with the MidCoast Regional Redevelopment Authority to purchase the old Fire Station at the Topsham Commerce Park, to house a cheerleading/tumbling school.

The River Landing Apartments opened this past spring. This award winning facility was scheduled to be full by December of 2015, but will likely be full by September. In the Lower Village, there is increased interest from both developers and the public in traffic improvements that will enable both the creation of a waterfront park and high-value commercial redevelopment.

The Board of Selectmen and Finance Committee have reviewed a 25-year capital plan that replaces all major equipment (at least once) and includes debt service, along with increased investments in the Town's road reconstruction program. This plan will be modified to include other major projects (Main Street Culvert replacement is an example). This planning tool will enable the Town to better schedule major expenditures and keep expenditures at a more consistent level. This will avoid annual swings in capital expenditures, and the resultant impacts to tax rates.

The new TIF districts approved by voters, as well as the amendments to the Interchange TIF District, will give the Town added tools to help fund some of these major infrastructure improvements when they take place within our TIF Districts. TIF sheltered funds are now being set aside to assist with these anticipated expenditures.

Budgeting continues to be a difficult task in this era of declining State support for local governments. The upcoming elections may ease this burden or further exacerbate the problem from a local perspective.

Despite these challenges, Topsham's tax collection rate continues to be high, 97.2% in FY 15.

**CAPITAL ASSET AND DEBT****Capital Assets**

Additions to Capital Assets totaled \$393,164 (prior year \$1,589,896) for the fiscal year ended June 30, 2015 and retirements totaled \$85,583 (prior year \$91,253).

**CAPITAL ASSET AND DEBT (CONTINUED)**

**Debt**

The Town’s total debt decreased by \$288,200 to \$10,526,165 (prior year decreased by \$1,016,509 to \$10,814,365). Accrued compensation payable amounted to \$169,856 at June 30, 2015, a 3.8% increase over prior year (prior year \$103,701, 12.7% increase).

**NEXT YEAR’S BUDGET AND RATES**

The FY 16 budget saw increases in revenue, expenditures and valuation, the three components of the tax rate. The resultant mil rate reflected an increase from \$17.33 to \$17.96, approximately 3.6%. For FY16, the Town’s expenditure budget increased by 5.7%, while the County expenditures rose by more than 4.7%, and SAD #75 expenditures rose by more than 3.7%. The Town’s elected and appointed officials worked hard to present an acceptable budget to the citizens, one that provided service improvements while trying to minimize tax increases.

The following shows a five-year history of the Mil rate and budget:

<u>Year</u>	<u>Mil Rate</u>	<u>Budget</u>
2012	\$16.15	\$18,478,198
2013	\$16.21	\$18,437,241
2014	\$16.65	\$19,348,010
2015	\$17.33	\$19,893,375
2016	\$17.96	\$20,907,970

**EXHIBIT I****TOWN OF TOPSHAM  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-</u>	<u>Total</u>
	<u>Activities</u>	<u>Type</u>	
		<u>Activities</u>	
<b>Assets</b>			
Cash and Cash Equivalents	\$ 5,527,645	\$ 38,397	\$ 5,566,042
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$169,000	372,640	0	372,640
Taxes Receivable, Net of Allowance of Uncollectible Taxes of \$42,000	446,884	0	446,884
Tax Liens Receivable	133,360	0	133,360
Capital Assets, Net of Accumulated Depreciation	<u>17,725,421</u>	<u>0</u>	<u>17,725,421</u>
<b>Total Assets</b>	<u>\$ 24,205,950</u>	<u>\$ 38,397</u>	<u>\$ 24,244,347</u>
<b>Deferred Outflows of Resources</b>			
Related to Pension	<u>\$ 75,440</u>	<u>\$ 0</u>	<u>\$ 75,440</u>
<b>Liabilities</b>			
Accounts Payable	\$ 801,300	\$ 0	\$ 801,300
Accrued Expenses	394,224	0	394,224
Non Current Liabilities			
Due Within One Year	1,040,184	0	1,040,184
Due in More Than One Year	<u>9,916,905</u>	<u>0</u>	<u>9,916,905</u>
<b>Total Liabilities</b>	<u>\$ 12,152,613</u>	<u>\$ 0</u>	<u>\$ 12,152,613</u>
<b>Deferred Inflows of Resources</b>			
Related to Pension	<u>\$ 714,720</u>	<u>\$ 0</u>	<u>\$ 714,720</u>
<b>Net Position</b>			
<i>Net Investment In Capital Assets</i>	\$ 7,369,112	\$ 0	\$ 7,369,112
<i>Restricted</i>			
Permanent Funds, Non-Expendable	208,119	0	208,119
<i>Unrestricted</i>	<u>3,836,826</u>	<u>38,397</u>	<u>3,875,223</u>
<b>Total Net Position</b>	<u>\$ 11,414,057</u>	<u>\$ 38,397</u>	<u>\$ 11,452,454</u>

The Notes to the Financial Statements are an Integral Part of This Statement.



**TOWN OF TOPSHAM  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General <u>Fund</u>	Equipment <u>Bond</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 4,849,573	\$ 0	\$ 678,072	\$ 5,527,645
Taxes Receivable	446,884	0	0	446,884
Tax Liens Receivable	133,360	0	0	133,360
Accounts and Notes Receivable	372,640	0	0	372,640
Due From Other Funds	<u>0</u>	<u>745,555</u>	<u>187,838</u>	<u>933,393</u>
<b>Total Assets</b>	<b>\$ 5,802,457</b>	<b>\$ 745,555</b>	<b>\$ 865,910</b>	<b>\$ 7,413,922</b>
<b>Deferred Outflows of Resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u><b>\$ 5,802,457</b></u>	<u><b>\$ 745,555</b></u>	<u><b>\$ 865,910</b></u>	<u><b>\$ 7,413,922</b></u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 801,300	\$ 0	\$ 0	\$ 801,300
Accrued Expenses	161,586	0	0	161,586
Due To Other Funds	<u>933,393</u>	<u>0</u>	<u>0</u>	<u>933,393</u>
<b>Total Liabilities</b>	<u><b>\$ 1,896,279</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 1,896,279</b></u>
<b>Deferred Inflows of Resources</b>	<u><b>\$ 406,905</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 406,905</b></u>
<b>Fund Balance</b>				
<i>Reserved, Reported In</i>				
<i>Nonspendable</i>				
Permanent Funds – Non-Expendable	\$ 0	\$ 0	\$ 208,119	\$ 208,119
<i>Restricted</i>	0	0	0	0
<i>Committed</i>				
Capital Projects Funds	0	745,555	475,527	1,221,082
<i>Unreserved, Reported In</i>				
<i>Assigned</i>				
Appropriated Fund Balance FY 2015/16	400,000	0	0	400,000
Special Revenue Funds	0	0	158,554	158,554
Permanent Funds, Expendable	0	0	23,710	23,710
<i>Unassigned</i>				
General Fund	<u>3,099,273</u>	<u>0</u>	<u>0</u>	<u>3,099,273</u>
<b>Total Fund Balance</b>	<u><b>\$ 3,499,273</b></u>	<u><b>\$ 745,555</b></u>	<u><b>\$ 865,910</b></u>	<u><b>\$ 5,110,738</b></u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u><b>\$ 5,802,457</b></u>	<u><b>\$ 745,555</b></u>	<u><b>\$ 865,910</b></u>	<u><b>\$ 7,413,922</b></u>

The Notes to the Financial Statements are an Integral Part of This Statement

**TOWN OF TOPSHAM  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

<b>Total Fund Balance – Total Governmental Funds</b>		\$ 5,110,738
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because</b>		
Capital Assets Used in Governmental Activities are not Current Financial Resources and Therefore are not reported in the Governmental Funds Balance Sheet.		17,725,421
Interest Payable on Long-Term Debt does not require Current Financial Resources. Therefore, Interest Payable is not reported as a Liability in Governmental Funds Balance Sheet.		(62,782)
Property Tax Revenues are reported in the Governmental Funds Balance Sheet under NCGA Interpretation-3, <u>Revenue Recognition-Property Taxes.</u>		406,905
Long Term Liabilities are not due and payable in the Current Period and, therefore, they are not reported in the Governmental Funds Balance Sheet		
Due in One Year	\$ 1,040,184	
Due in More Than One Year	9,316,125	
Accrued Compensated Absence Pay	<u>169,856</u>	(10,526,165)
Changes Between Deferred Inflows and Deferred Outflows Regarding Related Pension Expenses Due to Implementation of GASB No. 68.		<u>(1,240,060)</u>
<b>Net Position of Governmental Activities</b>		<b><u>\$ 11,414,057</u></b>

The Notes to the Financial Statements are an Integral Part of This Statement.

**EXHIBIT V**

**TOWN OF TOPSHAM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	General <u>Fund</u>	Equipment <u>Bond</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues</b>				
Property and Other Taxes	\$ 17,955,175	\$ 0	\$ 0	\$ 17,955,175
Intergovernmental	853,116	0	59,189	912,305
Licenses, Permits and Fees	148,562	0	0	148,562
Charges For Services	592,233	0	7,620	599,853
Investment Income	18,753	55	1,001	19,809
Miscellaneous	<u>124,198</u>	<u>0</u>	<u>46,620</u>	<u>170,818</u>
<b>Total Revenues</b>	<b><u>\$ 19,692,037</u></b>	<b><u>\$ 55</u></b>	<b><u>\$ 114,430</u></b>	<b><u>\$ 19,806,522</u></b>
<b>Expenditures</b>				
<i>Current</i>				
General Government	\$ 1,347,055	\$ 0	\$ 11,323	\$ 1,358,378
Public Works and Sanitation	1,427,764	0	25,619	1,453,383
Protection	2,165,482	0	44,081	2,209,563
Culture and Recreation	759,753	0	52,651	812,404
Public Health and Welfare	59,250	0	0	59,250
Contractual Services	95,235	0	0	95,235
Public Utilities	318,246	0	0	318,246
Education	8,593,788	0	0	8,593,788
Fixed Charges	1,494,935	0	0	1,494,935
Debt Service	1,407,786	0	0	1,407,786
Tax Incremental Financing	1,182,054	0	0	1,182,054
<i>Capital Outlay</i>	<u>508,844</u>	<u>0</u>	<u>19,612</u>	<u>528,456</u>
<b>Total Expenditures</b>	<b><u>\$ 19,360,192</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 153,286</u></b>	<b><u>\$ 19,513,478</u></b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b><u>\$ 331,845</u></b>	<b><u>\$ 55</u></b>	<b><u>\$ (38,856)</u></b>	<b><u>\$ 293,044</u></b>
<b>Other Financing Sources (Uses)</b>				
Transfers In (Out)	\$ (48,250)	\$ 0	\$ 48,250	\$ 0
Proceeds from Bond	<u>(745,500)</u>	<u>745,500</u>	<u>0</u>	<u>0</u>
<b>Total Other Financing Sources</b>	<b><u>\$ (793,750)</u></b>	<b><u>\$ 745,500</u></b>	<b><u>\$ 48,250</u></b>	<b><u>\$ 0</u></b>
<b>Net Change in Fund Balance</b>	<b>\$ (461,905)</b>	<b>\$ 745,555</b>	<b>\$ 9,394</b>	<b>\$ 293,044</b>
<b>Fund Balance – July 1, 2014</b>	<b><u>3,961,178</u></b>	<b><u>0</u></b>	<b><u>856,516</u></b>	<b><u>4,817,694</u></b>
<b>Fund Balance – June 30, 2015</b>	<b><u>\$ 3,499,273</u></b>	<b><u>\$ 745,555</u></b>	<b><u>\$ 865,910</u></b>	<b><u>\$ 5,110,738</u></b>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF TOPSHAM  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

**Net Change in Fund Balance – Total Governmental Funds** \$ 293,044

**Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because**

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 of Capital Assets Recorded in the Current Period. 393,164

Depreciation Expense on Capital Assets is Reported in the Government-Wide Statement of Activities and Changes in Net Position, but They Do Not Require the Use of Current Financial Resources. Therefore, Depreciation Expense is Not Reported as Expenditure in Governmental Funds. (988,011)

The Issuance of Long-Term Debt (e.g. Bonds, Leases, and Accrued Compensated Absence Pay) Provides Current Financial Resources to Governmental Funds, while the Repayment of the Principal of Long-Term Debt Consumes the Current Financial Resources of Governmental Funds. Neither Transaction, However, has Any Effect on Net Position. In addition, Governmental Funds Report the Effect of Issuance Cost, Premiums, Discounts, and Similar Items When Debt is First Issued, Whereas the 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. 288,200

Some Property Tax Will Not be Collected for Several Months After the Town's Fiscal Year End; They are Not Considered Current Financial Resources in the Governmental Funds. This Amount is the Net Effect of the Differences. (18,642)

Accrued Interest Expense on Long-Term Debt is reported in the Government-Wide Statement of Activities and Changes in Net Position, But Does Not Require the Use of Current Financial Resources; Therefore, Accrued Interest Expense is Not Reported as Expenditures in Governmental Funds. (42)

Changes Between Deferred Inflows and Deferred Outflows Related to Pension and Implementation of GASB No. 68. (69,698)

**Change In Net Position of Governmental Activities** \$ (101,985)

The Notes to the Financial Statements are an Integral Part of This Statement.

**EXHIBIT VII**

**TOWN OF TOPSHAM  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
<b>Revenues</b>	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Property and Other Taxes	\$17,744,911	\$17,744,911	\$17,955,175	\$ 210,264
Intergovernmental	808,539	808,539	853,116	44,577
Licenses, Permits and Fees	136,825	136,825	148,562	11,737
Charges For Services	577,500	577,500	592,233	14,733
Investment Income	15,500	15,500	18,753	3,253
Miscellaneous	<u>110,100</u>	<u>110,100</u>	<u>124,198</u>	<u>14,098</u>
<b>Total Revenues</b>	<u>\$19,393,375</u>	<u>\$19,393,375</u>	<u>\$19,692,037</u>	<u>\$ 298,662</u>
<b>Expenditures</b>				
<i>Current</i>				
General Government	\$ 1,398,647	\$ 1,398,647	\$ 1,347,055	\$ 51,592
Public Works and Sanitation	1,485,386	1,485,386	1,427,764	57,622
Protection	2,245,132	2,245,132	2,165,482	79,650
Culture and Recreation	771,140	771,140	759,753	11,387
Public Health and Welfare	73,642	73,642	59,250	14,392
Education	8,593,788	8,593,788	8,593,788	0
Debt Service	1,407,787	1,407,787	1,407,786	1
Contractual Services	103,500	103,500	95,235	8,265
Public Utilities	317,000	317,000	318,246	(1,246)
Fixed Charges	1,583,249	1,583,249	1,494,935	88,314
Tax Incremental Financing	1,182,054	1,182,054	1,182,054	0
<i>Capital Outlay</i>	<u>543,800</u>	<u>543,800</u>	<u>508,844</u>	<u>34,956</u>
<b>Total Expenditures</b>	<u>\$19,705,125</u>	<u>\$19,705,125</u>	<u>\$19,360,192</u>	<u>\$ 344,933</u>
<b>Excess (Deficiency) of Revenue Over (Under) Expenditures</b>	<u>\$ (311,750)</u>	<u>\$ (311,750)</u>	<u>\$ 331,845</u>	<u>\$ 643,595</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In (Out)	\$ (48,250)	\$ (48,250)	\$ (48,250)	\$ 0
Transfer to Equipment Bond Fund	<u>0</u>	<u>0</u>	<u>(745,500)</u>	<u>745,500</u>
<b>Total Other Financing Sources</b>	<u>\$ (48,250)</u>	<u>\$ (48,250)</u>	<u>\$ (793,750)</u>	<u>\$ 745,500</u>
<b>Net Change in Fund Balance</b>	<u>\$ (360,000)</u>	<u>\$ (360,000)</u>	<u>\$ (461,905)</u>	<u>\$ (101,905)</u>
<b>Fund Balance – July 1, 2014</b>	<u>3,961,178</u>	<u>3,961,178</u>	<u>3,961,178</u>	<u>0</u>
<b>Fund Balance – June 30, 2015</b>	<u>\$ 3,601,178</u>	<u>\$ 3,601,178</u>	<u>\$ 3,499,273</u>	<u>\$ (101,905)</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**EXHIBIT VIII**

**TOWN OF TOPSHAM  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2015**

	Business - Type Activities Enterprise <u>Funds</u>
<b>Assets</b>	
Current Assets	
Cash and Cash Equivalents	<u>\$ 38,397</u>
<b>Liabilities</b>	
Current Liabilities	
Accounts Payable	<u>\$ 0</u>
<b>Net Position</b>	
Unrestricted	<u>\$ 38,397</u>
<b>Total Net Position</b>	<u><u>\$ 38,397</u></u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF TOPSHAM  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Business - Type Activities Enterprise <u>Funds</u>
<b>Operating Revenues</b>	
Miscellaneous Revenue	\$ <u>5,000</u>
<b>Operating Expenses</b>	
General Government	\$ 3,196
Public Works	<u>0</u>
<b>Total Operating Expense</b>	<u>\$ 3,196</u>
<b>Operating Income (Loss)</b>	<u>\$ 1,804</u>
<b>Non-Operating Revenues (Expenses)</b>	
Investment Income	\$ 57
Operating Transfers	<u>0</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>\$ 57</u>
<b>Changes in Net Position</b>	\$ 1,861
<b>Net Position – July 1, 2014</b>	<u>36,536</u>
<b>Net Position – June 30, 2015</b>	<u>\$ 38,397</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF TOPSHAM  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Business - Type Activities Enterprise <u>Funds</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers and Others	\$ 5,000
Payments to Vendors and Employees	<u>(3,196)</u>
<b>Net Cash Provided by (Used) in Operating Activities</b>	\$ 1,804
<b>Cash Flows from Investing Activities</b>	
Investment Income Received	<u>57</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	\$ 1,861
<b>Cash and Cash Equivalents - July 1, 2014</b>	<u>36,536</u>
<b>Cash and Cash Equivalents - June 30, 2015</b>	<u>\$ 38,397</u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used) in Operating Activities:</b>	
Operating Income (Loss)	<u>\$ 1,804</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used) in Operating Activities</b>	
Depreciation Expense	\$ 0
Increase (Decrease) in Accounts Payable	<u>0</u>
<b>Total Adjustments</b>	<u>\$ 0</u>
<b>Net Cash Provided by (Used) in Operating Activities</b>	<u>\$ 1,804</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

**A. – General Statement**

The Town of Topsham, Maine was incorporated in 1764 under the laws of the State of Maine and currently operates under a Selectmen/Manager Form of Government.

The accounting and reporting policies of the Town relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles as applicable to state and local governments. Generally, accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Town are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

The financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Town’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements including notes to financial statements.

**B. – Financial Reporting Entity**

The Town's combined financial statements include the accounts of all Town of Topsham operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The town holds the corporate powers of the organization.
- The town appoints a voting majority of the organization's board.
- The town is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the town.
- There is fiscal dependency by the organization on the town.

Based on the aforementioned criteria, the Town of Topsham has no component units that are not included in this report.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. – Financial Statements – Government-Wide Statements**

The Town's financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, charges for services, etc). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by 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.

The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc).

**D. – Financial Statements – Fund Financial Statements**

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town.

**Governmental Funds**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

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

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

*Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. – Financial Statements – Fund Financial Statements (Continued)**

*Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Equipment Bond is a major fund.

*Permanent Funds* are used to report resources that are legally restricted to the extent that only earnings, and principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry. A permanent fund would be used, for example, to account for the perpetual care endowment of a municipal cemetery.

**Proprietary Funds**

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town of Topsham:

*Enterprise Funds* are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has a third party requirement that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The Unemployment Compensation program operates in a manner similar to a private business enterprise. The intent is that costs for these services provided to the employees on a continuing basis be recovered or financed primarily through town appropriations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

**E. – Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. – Measurement Focus/Basis of Accounting (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. A one-year availability period is used for recognition of all other Governmental fund revenues. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

**F. – Budgetary Control**

Formal budgetary accounting is employed as a management control for the general fund of the Town of Topsham. The Town of Topsham's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Early in the second half of the last fiscal year, the Town prepared a budget for this fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the inhabitants of the Town of Topsham was then called for the purpose of adopting the proposed budget after public notice of the meeting was given.
3. The budget was adopted subsequent to passage by the inhabitants of the Town.

**G. – Cash and Cash Equivalents**

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. Generally, the Town invests certain funds in checking, savings accounts, or certificates of deposit.

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with a fiscal agent. Investments are recorded at fair market value.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. - Capital Assets**

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	7-30 Years
Machinery and Equipment	5-16 Years
Vehicles	7-16 Years
Infrastructure	10-50 Years

The Town of Topsham has elected not to retroactively report their major general infrastructure assets.

**I. - Compensated Absences**

The Town of Topsham recognizes accumulated sick leave, vacation, and comp time compensation during the period in which the related liability is incurred. In compliance with Town personnel policies the liability for accrued compensated absence pay was \$169,856 at June 30, 2015.

**J. - Interfund Activity**

Interfund activity is reported as either, loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**K. – Equity Classifications**

**Government-Wide Statements**

Net position represent the differences between assets and liabilities. Equity is classified as net position and displayed in three components:

- *Net investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. – Equity Classifications (Continued)**

**Government-Wide Statements (Continued)**

- *Unrestricted net position* – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

**Fund Financial Statements**

Governmental fund equity is classified as fund balance. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen, such as an appropriation. Assigned fund balance is constrained by the Board’s intent to be used for specific purposes by directive. See Note 13 for additional information about fund balances.

**L. – Deferred Outflows and Inflows of Resources**

The Town has implemented the following statements:

*GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB No. 65, Items Previously Reported as Assets and Liabilities.*

GASB No. 63 and GASB No. 65 amends GASB No. 34 to incorporate deferred outflows of resources and deferred inflows of resources into the financial reporting model. These terms are defined as follows:

*Deferred Outflows of Resources* - a consumption of net position by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

*Deferred Inflows of Resources* - an acquisition of net position by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

The GASB emphasizes in GASB No. 63 that deferred inflows and deferred outflows are not assets or liabilities and therefore should be separately categorized in the financial statements.

The deferred inflows of resources listed at June 30, 2015 in Exhibit I amounted to \$714,720 and \$75,440 of deferred outflows of resources for the Town of Topsham. Per Exhibit III, the deferred inflows of resources listed at June 30, 2015 for the Town of Topsham amounted to \$406,905 and there was no deferred outflow of resources at June 30, 2015.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. – Accounts Receivable**

Accounts Receivable at June 30, 2015 primarily consist of ambulance receipts, franchise fees, and miscellaneous governmental receivables. An allowance for doubtful accounts is recorded at June 30, 2015 as \$169,000.

The Town recognizes bad debts using the specific write-off method, which is not materially different from the allowance method as required under generally accepted accounting principles.

**N. – Use of Estimates**

Preparation of financial statements in conformity with GAAP requires the use of management’s estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Town’s deposits are categorized as follows to give an indication of the level of risk assumed by the Town at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Town or by the Town’s agent in the Town’s name; Category 2 includes uninsured deposits covered by collateral held by the pledging financial institution’s trust department or agent in the Town’s name; Category 3 includes uninsured and uncollateralized deposits.

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town’s policy is to invest in only financial institutions that are insured by the F.D.I.C. or additional insurance. The Town’s bank balances were covered by the F.D.I.C. or by additional insurance purchased on behalf of the Town by the respective banking institutions. The Town’s deposits have been reported as follows:

	<u>Book</u>	<u>Bank</u>
Reported in Governmental Funds	\$ 5,527,645	\$ 5,682,828
Reported in Business-Type Activities	<u>38,397</u>	<u>38,397</u>
<b>Total</b>	<b><u>\$ 5,566,042</u></b>	<b><u>\$ 5,721,225</u></b>

*Interest Rate Risk* – The Town does not currently have a deposit policy for interest rate risk.

*Credit Risk* – The Town does not have a formal policy regarding credit risk. Maine statutes authorized the Town to invest in obligations of the U.S. Treasury and U.S. agencies and certain bonds.

*Concentration of Credit Risk* –The Town does not have a policy for concentration of credit risk.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 3 – PROPERTY TAXES**

The Town is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The Town of Topsham’s property tax is levied on the assessed value listed as of the prior April 1<sup>st</sup> for all taxable real and personal property located in the Town. Assessed values are periodically established by the Assessor at 100% of assumed market value. The assessed value for the list of April 1, 2014, upon which the levy for the year ended June 30, 2015, was based amounted to \$947,930,534. The net assessment value of \$935,415,067 was 119.4% of the 2014 State valuation of \$783,200,000. According to the assessor’s report, the combined sales ratio for the Town of Topsham equals 102% and is within the State’s guidelines.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay and amounted to \$96,273 for the year ended June 30, 2015.

In the fund financial statements, property taxes are recognized in compliance with NCGA Interpretation – 3, *Revenue Recognition – Property Taxes* which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period. In the government-wide financial statements, property taxes are recognized under the accrual method.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Assessed Value		\$ 947,930,524
Less: BETE		(1,481,130)
Less: Homestead Exemption		<u>(11,034,327)</u>
Net Assessed Value		\$ 935,415,067
Tax Rate (Per \$1,000)		<u>17.33</u>
Commitment		\$ 16,210,743
Supplemental Taxes Assessed		<u>7,520</u>
Sub-Total		\$ 16,218,263
Less: Abatements		(7,959)
Less: Collections		<u>(15,769,214)</u>
Receivable at Year End		<u>\$ 441,090</u>
Collection Rate		<u>97.2%</u>

Property taxes may be paid in two installments with due dates of October 16, 2014, and April 7, 2015, with interest charged at a rate of 7.0% on delinquent accounts.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

<b><u>Governmental Activities</u></b>	Beginning Balance <u>July 1</u>	Additions/ Completions	Retirements/ Adjustments	Ending Balance <u>June 30</u>
Capital Assets not being Depreciated				
Land	\$ 1,453,638	\$ 0	\$ 0	\$ 1,453,638
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	\$19,947,723	\$ 0	\$ 0	\$19,947,723
Machinery and Equipment	1,005,938	60,855	0	1,066,793
Vehicles	3,397,945	320,519	85,583	3,632,881
Infrastructure	<u>1,643,257</u>	<u>11,790</u>	<u>0</u>	<u>1,655,047</u>
Total Capital Assets being Depreciated	<u>\$25,994,863</u>	<u>\$ 393,164</u>	<u>\$ 85,583</u>	<u>\$26,302,444</u>
<i>Less Accumulated Depreciation for</i>				
Buildings and Improvements	\$ 5,472,999	\$ 650,011	\$ 0	\$ 6,123,010
Machinery and Equipment	841,005	39,547	0	880,552
Vehicles	2,133,785	241,578	85,583	2,289,780
Infrastructure	<u>680,444</u>	<u>56,875</u>	<u>0</u>	<u>737,319</u>
Total Accumulated Depreciation	<u>\$ 9,128,233</u>	<u>\$ 988,011</u>	<u>\$ 85,583</u>	<u>\$10,030,661</u>
Total Capital Assets being Depreciated, Net	<u>\$16,866,630</u>	<u>\$ (594,847)</u>	<u>\$ 0</u>	<u>\$16,271,783</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$18,320,268</u>	<u>\$ (594,847)</u>	<u>\$ 0</u>	<u>\$17,725,421</u>

Depreciation expense has not been charged as a direct expense.

**NOTE 5 – LONG-TERM DEBT**

At June 30, 2015, loans, leases, and bonds payable consisted of the following individual issues:

	<u>Governmental Activities</u>
<b>Bank of New York/Mellon</b>	
Library Building Bonds of 2003, Interest Rate 3.248%, Annual Principal Payments of \$100,000, Maturity in 2019.	\$ 400,000
Municipal Building Bonds of 2005, Interest Rate 3.625% – 4.35%, Annual Principal Payments of \$300,000 - \$750,000, Maturity in 2025.	700,000
General Obligation Refunding Bond of 2012, Interest Rates 2% - 5%, Annual Principal Payments of \$730,000 or More Starting in FY 16/17, Maturity in 2025.	7,335,000

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

	<u>Governmental Activities</u> (Continued)
<b>Gorham Savings Bank</b>	
General Obligation Bond of 2006, Interest Rate 3.49% to 4.05%, Annual Principal Payments of \$50,000 - \$160,000, Maturity in 2024.	\$ 720,000
<b>Maine Municipal Bond Bank</b>	
General Obligation Bond of 2011, Interest Rate 0.5% to 5.5%, Annual Principal Payments of \$58,953 - \$78,953, Maturity in 2021.	452,671
General Obligation Bond of 2015, Interest Rate 0.35% to 2.74%, Annual Principal Payments of \$74,550, Maturity in 2025.	745,500
<b>Androscoggin Bank</b>	
Lease Purchase Agreement for a Copier, Amount Financed \$4,925, Four Year Lease with Payments of \$325, Maturity in 2017.	<u>3,138</u>
<b>Total Loans, Leases and Bonds Payable</b>	<u>\$10,356,309</u>

**Changes in Outstanding Debt**

Transactions for the year ended June 30, 2015, are summarized as follows:

	Balance	Issues or	Payments or	Balance	Due Within
<u>Governmental Activities</u>	<u>July 1</u>	<u>Additions</u>	<u>Expenditures</u>	<u>June 30</u>	<u>One Year</u>
General Obligation Bonds	\$10,646,624	\$ 745,500	\$ 1,038,953	\$ 10,353,171	\$ 1,038,953
Leases Payable	4,040	0	902	3,138	1,231
Net Pension Liability	600,780	0	0	600,780	0
Compensated Absences	<u>163,701</u>	<u>6,155</u>	<u>0</u>	<u>169,856</u>	<u>0</u>
<b>Total Governmental Activities</b>	<u>\$11,415,145</u>	<u>\$ 751,655</u>	<u>\$ 1,039,855</u>	<u>\$ 11,126,945</u>	<u>\$ 1,040,184</u>

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each debt type for the years subsequent to June 30, 2015, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015/16	\$ 1,038,953	\$ 340,164	\$ 1,379,117
2016/17	1,143,503	295,952	1,439,455
2017/18	1,023,503	278,822	1,302,325
2018/19	1,008,503	252,464	1,260,967
2019/20	908,503	216,988	1,125,491
2020/25	4,430,656	511,250	4,941,906
2025/30	<u>799,550</u>	<u>11,896</u>	<u>811,446</u>
<b>Total</b>	<b><u>\$ 10,353,171</u></b>	<b><u>\$ 1,907,536</u></b>	<b><u>\$ 12,260,707</u></b>

The following is a schedule of future minimum lease payments for the capital leases together with the present value of net minimum lease payments as of June 30, 2015:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2015/16	\$ 1,299
2016/17	1,299
2017/18	<u>651</u>
<b>Total Minimum Lease Payments</b>	<b>\$ 3,249</b>
<b>Less Amount Representing Interest</b>	<b><u>\$ (111)</u></b>
<b>Present Value of Future Minimum Lease Payments</b>	<b><u>\$ 3,138</u></b>

In accordance with 30-A MRSA, Section 5702, as amended, the amount of long-term debt that can be incurred by the Municipality is limited by state statute. Total outstanding long-term obligations during a year can be no greater than 7.5%, with certain exceptions, of the state valuation of taxable property as of the beginning of the fiscal year. As of June 30, 2015, the amount of outstanding long-term debt was equal to 1.17% of property valuation for the year then ended.

On September 20, 2012, the Bank of New York Mellon issued 2012 General Obligation Refunding Bonds in the amount of \$7,460,000 to the Town of Topsham for repayment of its 2005 General Obligation Bonds which were originally issued in the amount of \$13,445,000. The 2005 Bonds cannot be redeemed prior to their stated dates of maturity until November 1, 2016 at which time the remaining bonds are eligible for early redemption.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

As a result, the 2012 Bond issue proceeds were placed in an escrow account as an irrevocable deposit and invested in direct obligations of the United States of America or in obligations directly and unconditionally guaranteed by the United States of America. Payments on the 2005 debt for the period prior to November 1, 2016 are reflected as outstanding debt of the Town of Topsham. Payments subsequent to that date on the 2005 debt are considered defeased and neither the debt nor the escrow is reflected in the books and records of the Town of Topsham as of June 30, 2015.

**NOTE 6 – RETIREMENT PLANS**

The Town of Topsham provides retirement pension plans for its employees through a deferred compensation plan and a defined benefit pension plan.

**GASB Approves New Pension Accounting Standards**

On June 25, 2012, the governmental Accounting Standards Board approved 2 new standards (GASB 68 and 67) designed to improve accounting and financial reporting for state and local government pension plans.

**A Summary of GASB 68 requirements are as follows (Accounting and Financial Reporting for Pensions; Effective for Fiscal Years Starting After 6/15/14):**

*Net Pension Liability on Balance Sheet*

Government employers that sponsor Deferred Benefit plans will now recognize a net pension liability (unfunded accrued liability) in their statement of net position (balance sheet). This is the difference between total pension liability (actuarial accrued liability) and plan asset (at fair value). The entry age normal actuarial cost method must be used to calculate total pension liability.

As under GASB 27, future salary increases, expected future service, and automatic Cost of Living Adjustments (COLAs) must be included in the liability calculation. Unlike current rules, GASB 68 requires that ad hoc post retirement benefit increases, including ad hoc COLAs, also be included if considered substantively automatic.

*New Discount Rate*

The discount rate can continue to be expected long-term rate of return on plan investments where current assets plus future contributions are projected to cover all future benefit payments. We expect this requirement will be met if the employer funds the actuarially determined contribution, provided it pays off the unfunded liability over a reasonable period. However, plans where current assets plus future contributions are projected not to cover all future benefit payments must use a municipal bond rate to discount the noncovered payments.

The municipal bond rate is a yield or index rate of 20-year, tax-exempt general obligation bonds with an average rating of AA/Aa or higher (currently below 4%). Including a municipal bond rate as part of the discount rate increases liabilities. In addition, changes in the municipal bond rate or assumed rate of return on plan investments between measurement dates introduce more volatility into calculating liabilities and expense.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**A Summary of GASB 68 requirements are as follows (Accounting and Financial Reporting for Pensions; Effective for Fiscal Years Starting After 6/15/14) (Continued):**

*More Variable Pension Expense*

Pension expense will now be based on the net pension liability change between reporting dates, with some sources of the change recognized immediately in expense and others amortized over years. Service cost, interest on net pension liability, and expected investment earnings – as well as liability for any plan benefit change related to past service since the last reporting period must also be expensed immediately.

Changes in actuarial assumptions and experience gains and losses must be amortized over a closed period equal to the average remaining service of active and inactive plan members (who have no future service) – a much shorter than typical period. Investment gains and losses must be recognized in pension expense over closed 5-year periods.

*Cost-Sharing Employers (Those in Plans Where Assets are Pooled and Can Be Used to Pay Benefits of Any Employer in the Pool) Report a Proportionate Liability*

These employers will now report a net pension liability and pension expense equal to their proportionate share of the cost-sharing plan.

**GASB 67(Financial Reporting for Pension Plans; Effective for Fiscal Years Starting after 6/15/13) includes many of GASB 68’s changes, but for pension plans rather than employers.**

*New Required Disclosures*

These include the money-weighted rate of return (rather than the more common time-weighted rate) on plan investments (net of expenses).

**I. Deferred Compensation Plan – ICMA-RC**

*A. Description of the Plan*

The government offers its employees a deferred compensation plan through ICMA Retirement Corporation, created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the government subject only to the claims of the government’s general creditors. Participants’ right under the plan are equal to those of general creditor of the government in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the government's legal counsel that the government has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The government believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**I. Deferred Compensation Plan – ICMA-RC (Continued)**

*B. Funding Policy*

Under this plan, the Town matches employee deferrals on a dollar-for-dollar basis, up to a maximum of 6% of compensation.

Investments are managed by the plan's trustee under one of four investment options, or a combination thereof. The choice of the investment options is made by the participants. Total contributions on behalf of the Town were:

<u>For the Year Ended June 30,</u>	<u># of Members</u>	<u>Employee Contributions</u>	<u>Employee Rate*</u>	<u>Employer Contributions</u>	<u>Employer Rate</u>	<u>Compensation</u>
2015	25	\$ 72,736	1.5% - 15%	\$ 45,110	Up to 6%	\$ 1,383,952
2014	28	\$ 79,306	1% - 15%	\$ 51,068	Up to 6%	\$ 1,520,618
2013	29	\$ 75,443	1% - 15%	\$ 50,971	Up to 6%	\$ 1,513,460

\*Employer Rate = % or \$10 - \$50 a week

**II. Defined Benefit Pension Plan - Maine Public Employees Retirement System (MEPERS)**

*A. Plan Description*

Qualifying personnel of the Town participate in the Maine Public Employees Retirement System. The plan is a multiple employer, cost-sharing pension plan. The Town of Topsham has been enrolled in the MEPERS system since July 1, 1996. It is part of the COLA program within the MEPERS system plan. The Town participates in the Special Plan options.

*B. Funding Policy*

The Town of Topsham makes available to all full time employees the option to make a one-time irrevocable election to participate in the Maine Public Employees Retirement System (MEPERS), Plan 2C and 3C, as an alternate retirement plan. The employee shall pay, through payroll deduction(s), his/her required contribution determined by MEPERS. The Town shall pay its required contribution determined by MEPERS. This benefit shall be offered to eligible employees on the date of hire.

*C. Pension Benefits*

Benefit terms are established in Maine Statute. The System's retirement programs provide defined retirement benefits based on member's average final compensation and service credit earned as of retirement. Vesting (i.e. eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit.

Normal retirement age of PLD members is age 60. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute.

The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**II. Defined Benefit Pension Plan - Maine Public Employees Retirement System (Continued)**

C. *Pension Benefits (Continued)*

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual interest credited to member's accounts is set by the System's Board of Trustees.

D. *Member and Employer Contributions*

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employer contributions rates are determined through actuarial valuations. For the year ended June 30, 2015, the member contribution rate was 7% - 8.5% and the employer contribution rate was 8.3% - 11% of applicable member compensation.

The required contributions paid into the System for the year ended June 30, 2015 and the previous two years are as follows:

<u>For the Year Ended June 30,</u>	<u>Plan Name</u>	<u># of Members</u>	<u>Employee Contributions</u>	<u>Employee Rate</u>	<u>Employer Contributions</u>	<u>Employer Rate</u>	<u>Employer Compensation</u>
2015	2C	18	\$ 61,584	7.0%	\$ 73,021	8.3%	\$ 879,774
2015	3C	<u>12</u>	<u>60,288</u>	8.5%	<u>78,020</u>	11.0%	<u>709,271</u>
Total		30	<u>\$ 121,872</u>		<u>\$ 151,041</u>		<u>\$ 1,589,045</u>
2014	2C	18	\$ 59,587	7.0%	\$ 67,248	7.9%	\$ 851,240
2014	3C	<u>11</u>	<u>55,125</u>	8.5%	<u>68,534</u>	10.5%	<u>648,534</u>
Total		29	<u>\$ 114,712</u>		<u>\$ 135,782</u>		<u>\$ 1,499,774</u>
2013	2C	18	\$ 54,169	6.5%	\$ 62,502	7.5%	\$ 833,366
2013	3C	<u>11</u>	<u>49,856</u>	8%	<u>62,320</u>	10.0%	<u>623,199</u>
Total		29	<u>\$ 104,025</u>		<u>\$ 124,822</u>		<u>\$ 1,456,565</u>

E. *Revenue Recognition*

Employer contributions to the System are recognized as additions in the period when they become due pursuant to formal commitments or statutory requirements. Investment income is recognized when earned and investment expenses are recorded when incurred.

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

At June 30, 2015, the Town reported a net pension liability of \$600,780. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**II. Defined Benefit Pension Plan - Maine Public Employees Retirement System (Continued)**

F. *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

The Town proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At June 30, 2014, the Town proportion was 0.390418%, which was a decrease from its proportion measured at June 30, 2013 of 0.423574%.

For the fiscal year ended June 30, 2014, the Town recognized pension expense of \$135,344. At June 30, 2015, the reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources.

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between Expected and Actual Experience	\$ 75,440	\$ 0
Changes in Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	638,066
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions.	0	76,654
Town Contributions Subsequent to the Measurement Date	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 75,440</u></b>	<b><u>\$ 714,720</u></b>

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

<b>For the Year Ended June 30,</b>	<u>Amount</u>
2016	\$ (159,922)
2017	(159,922)
2018	(159,921)
2019	<u>(159,517)</u>
<b>Total</b>	<b><u>\$ (639,282)</u></b>

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**II. Defined Benefit Pension Plan - Maine Public Employees Retirement System (Continued)**

G. *Actuarial Assumptions*

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

➤ <b>Inflation</b>	3.12%
➤ <b>Salary Increases</b>	3.5% - 9.5% Including Inflation
➤ <b>Investment Rate of Return</b>	7.25% Net Pension Plan Investment Expense Including Inflation.

For the Town employees, the mortality rate is based on the RP2000 Combined Mortality Tables for males and females using Scale AA, with a two year setback for active members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study performed in 2011 and covered the period July 1, 2005 – June 30, 2010.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2014 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equities	20%	2.5%
Non- US Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	<u>25%</u>	0.0%
	<u>100%</u>	

H. *Discount Rate*

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contribution will be made the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**II. Defined Benefit Pension Plan - Maine Public Employees Retirement System (Continued)**

H. *Discount Rate (Continued)*

Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

I. *Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Town proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate Share of the Net Pension Liability	\$1,874,256	\$600,780	\$(463,688)

J. *Pension Plan Financial and Actuarial Information*

Additional financial information and actuarial information can be found in the Maine PERS 2014 Comprehensive Annual Financial Report available online at [www.mainebers.org](http://www.mainebers.org) or by contacting the System at (207) 512-3100.

**NOTE 7 – INTERFUND ACTIVITY**

Interfund balances at June 30, 2015, consisted of the following:

<b>Due To</b>	
Major Fund	
Equipment Bond	\$ 745,555
Non Major Governmental Funds:	
Special Revenue Funds	158,499
Capital Projects	<u>29,339</u>
<b>Total</b>	<b><u>\$ 933,393</u></b>
 <b>Due From</b>	
General Fund	<u>\$ 933,393</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 7 – INTERFUND ACTIVITY**

Interfund transfers for the year ended June 30, 2015, consisted of the following:

<b>Transfer To</b>	
Non Major Governmental Funds:	
Capital Projects	<u>\$ 48,250</u>
<b>Transfer From</b>	
General Fund	<u>\$ 48,250</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 8 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

There have been no significant reductions in insurance coverages during the fiscal year and no significant settlements that exceeded insurance coverage.

**NOTE 9 – OVERLAPPING DEBT**

The Town's proportionate share of MSAD #75's debt is not recorded in the financial statements of the Town of Topsham. At June 30, 2015, the Town's share was 36.27% (or \$3,483,273) of the District's outstanding debt of \$9,602,407.

The Town's proportionate share of Sagadahoc County's debt is not recorded in the financial statements of the Town of Topsham. At June 30, 2015, the Town's share was 19% (or \$1,349,488) of the County's outstanding debt of \$7,102,567.

**NOTE 10 – FUND BALANCE APPROPRIATIONS**

At the Annual Town Meeting held on May 14, 2014, the Townspeople voted appropriations of general fund balance totaling \$360,000 which are reflected as the excess of budgeted expenditures over budgeted revenues as per Exhibit VII. These appropriations were used to reduce the commitment.

**NOTE 11 – TAX INCREMENT FINANCING DISTRICTS**

The Town of Topsham had previously voted to approve nine municipal development programs and financial plans as follows:

- By-Pass (Highlands I) on May 15, 1996
- Village Candle on May 20, 1998

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 11 – TAX INCREMENT FINANCING DISTRICTS (CONTINUED)**

- Bowdoin Mill on September 24, 1998
- By-Pass North (Highlands II) on May 19, 1999
- Coastal Metal Fab Municipal Development on May 16, 2001
- Municipal Infrastructure Development on March 25, 2004
- Frost Street Municipal Development on February 17, 2005
- 29 Elm Street Affordable Housing Development on September 25, 2013
- Downtown and Transit-Oriented Municipal Development and Omnibus Tax Increment Financing District on September 25, 2013.

As an integral part of the Town's community development effort, the Districts will create a climate supportive of business expansions and job creations while enhancing development potential in the designated area. The expenditures for these development projects will be recouped in future years via an incremental tax levied upon the Districts' captured assessed value.

The Town approved total project costs consisting of the design and construction of various public facilities and capital improvements within the Districts. Pursuant to applicable regulations, a sinking fund will be established and utilized to retire the bonded debt associated with the related Development District Improvements when revenue exceeding related bonded debt retirement is collected.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Town participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not expected to be material.

**NOTE 13 – GOVERNMENTAL FUND BALANCES**

Previously, the Town implemented the following accounting standard issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions.

GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The hierarchical fund balance classification is based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds and includes the terms: nonspendable, committed, restricted, assigned, and unassigned.

The Town's fund balances represent: **(1) Nonspendable Fund Balance**, resources that cannot be spent because of legal or contractual provisions that require they be maintained intact. (e.g. the principal of an endowment). **(2) Restricted Purposes**, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; **(3) Committed Purposes**, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen; **(4) Assigned Purposes**, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 13 – GOVERNMENTAL FUND BALANCES (CONTINUED)**

**(5) Unassigned Fund Balance**, net resources in excess of what is properly categorized in one of the four categories already described. A positive amount of unassigned fund balance will never be reported in a governmental fund other than the general fund, because GASB Statement 54 prohibits reporting resources in another fund unless they are at least assigned to the purpose of that fund.

However, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable, restricted and committed fund balance exceeds the total net resources of the fund.

The Town of Topsham has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, and unassigned resources are available for use, it is the Town's policy to use committed or assigned resources first, then unassigned resources as they are needed.

The General Fund unassigned fund balance total of \$3,099,273 represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

The Town of Topsham adopted a Fund Balance Policy in 2012 and approved a revision on January 15, 2015. The Fund Balance Policy is stated below:

The purpose of the unassigned fund balance policy shall be to create a guideline to ensure the well being of the Town's financial administration in a manner that assists in providing for a stable cash flow, reducing short term borrowing costs and meeting the town's long term capital investment objectives while ensuring that year-to-year fluctuations do not allow accumulation of an excessive unassigned fund balance.

The General Fund shall endeavor to have an audited Unassigned Fund Balance level equivalent to two (2) months (16.7%) of annual general fund operating revenues and expenditures.

If the Unassigned Fund Balance drops below the 16.7% level, the Town will develop a plan, through the annual budget process, to restore the balance to the target level over a period of not more than two (2) fiscal years.

If the Unassigned Fund Balance exceeds the 16.7% level, all or part of the excess may be used as follows:

1. At least 50% of allocated funds shall be used to reduce the tax commitment in the next fiscal year.
2. Be committed or assigned for capital needs or one time expenditures.

In no case may the unassigned Fund Balance exceed 18%.

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 13 – GOVERNMENTAL FUND BALANCES (CONTINUED)**

If funds in the Unassigned Fund Balance are appropriated for an emergency situation, it is not required to allocate any of those funds toward a reduction in the tax commitment.

The Town is in compliance with this policy at June 30, 2015.

As per Exhibit III, a summary of the nature and purpose of these reserves by fund type at June 30, 2015 follows.

***Nonspendable and Assigned***

<b>Permanent Funds</b>	Non-Expendable	Expendable	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
Whittier Trust	\$ 182,144	\$ 1,790	\$ 183,934
William Trust	18,190	2,873	21,063
Worthy Poor Cash Fund	0	9,385	9,385
Charles Walker Trust	500	7,239	7,739
Mustard Fund	2,938	586	3,524
First Parish Church	924	1,156	2,080
Cemetery Trust	1,176	233	1,409
Barron Fund	1,000	200	1,200
Common School	667	133	800
Lulu Bickford Trust	<u>580</u>	<u>115</u>	<u>695</u>
<b>Total</b>	<u>\$ 208,119</u>	<u>\$ 23,710</u>	<u>\$ 231,829</u>

***Committed***

**Capital Projects**

Androscoggin River Bike Path	\$ 155,416
Public Works Bay Park Drainage	125,533
Revaluation	57,324
Economic and Community Development – Quality of Life	26,426
Topsham Crossing	22,566
Impact Fees	19,687
Recreation Truck Replacement	16,028
EMS Car	13,764
Bowdoin Mills Traffic Escrow	6,315
Assessing Hydro Sam Appraisal	6,020
Solid Waste Compost Pad	5,257
Solid Waste Facility Equipment	5,139
Town Landing Trail Escrow	5,008
Topsham Public Library	4,842
Economic and Community Development	4,217
Home Depot Sidewalks	1,461
Open Space	367
Trails Grant	115
Principal Group	<u>42</u>

**Total** \$ 475,527

**TOWN OF TOPSHAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 13 – GOVERNMENTAL FUND BALANCES (CONTINUED)**

*Committed*

**Capital Projects**

**Major Fund**

Equipment Bond	\$ <u>745,555</u>
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*Assigned*

**Special Revenues**

FEMA Storms	\$ 84,415
Head of Tide Park Grant	20,372
CDBG Main Street Village	16,690
Bridge to Bridge	13,343
Pejepscot School	8,402
Androscoggin Trail Development	6,254
Home Safety Survey	3,125
Land Conservation Grant	2,400
CASA Underage Drinking Grant	2,111
Bowdoin Intern	1,936
Winter Baseball	1,662
Local State NADDI	1,379
CASA Party Patrol Grant	1,000
Federal Drug Seizures	703
Cable Franchise Grant	584
Topsham 250 <sup>th</sup> Celebration	485
Maine Historic District Signs	463
Tree Committee Cole Memorial	390
Wellness Incentive Grant	87
Topsham Fair Mail Stream Watershed Project	(13)
Town Hall Park	<u>(7,234)</u>

<b>Total</b>	<b>\$ <u>158,554</u></b>
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*Assigned*

**General Fund**

Appropriated Fund Balance FY 2015/16	\$ <u>400,000</u>
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*Unassigned*

**General Fund**

	\$ <u>3,099,273</u>
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**NOTE 14 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. - Budgetary Accounting**

The Town of Topsham utilizes a formal budgetary accounting system to control revenues and expenditures accounted for in the General Fund. This budget is established by the Board of Selectmen and must be approved at the Annual Town Meeting.

**TOWN OF TOPSHAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 14 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**B. - Excess of Expenditures over Appropriations**

For the year ended June 30, 2015, expenditures exceeded appropriations for the following as per Exhibit VII:

Public Utilities	\$ <u>(1,246)</u>
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**C. - Deficit Balances**

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year-end.

As of June 30, 2015, Note 13 lists the following individual funds that held a deficit balance:

<b>Special Revenues</b>	
Topsham Fair Mall Watershed Project	\$ (13)
Town Hall Park	<u>(7,234)</u>
<b>Total</b>	<u>\$ (7,247)</u>

The Town expects to fund these deficit projects by the end of fiscal year ending June 30, 2016.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

Net position at July 1, 2014 was restated for a prior period adjustment of \$1,170,362. This amount represents the changes that occurred due to the pension disclosure for GASB No. 68. See Note 6 Retirement Plans.

**NOTE 16 – DATE OF MANAGEMENT’S REVIEW**

Management has evaluated subsequent events through November 5, 2015 the date on which the financial statements were available to be issued.

**SCHEDULE I**

**TOWN OF TOPSHAM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF NET PENSION LIABILITY  
JUNE 30, 2015**

	<u>6/30/15</u>
Proportion of Net Pension Liability	0.390418%
Proportionate Share of the Net Pension Liability	\$ 600,780
Covered Employee Payroll	\$ 1,499,774
Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Employee Payroll	<u>40.06%</u>
Plan Total Pension Liability	\$2,609,657,845
Plan Fiduciary Net Position	\$2,455,776,671
Plan Net Pension Liability	\$ 153,881,174
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>94.10%</u>
Plan Covered Employee Payroll	\$ 460,029,637
Plan Net Pension Liability as a Percentage of the Covered Employee Payroll	<u>33.45%</u>

Amounts presented for each fiscal year were determined as of June 30. The data above was determined by the actuarial valuation date which was one year prior to the audit report date. Retroactive information is not required to be presented. A full 10 year schedule will be displayed as it becomes available.

The Notes to the Financial Statements are an Integral Part of This Statement.

**SCHEDULE II**

**TOWN OF TOPSHAM  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE TOWN PENSION CONTRIBUTIONS  
JUNE 30, 2015**

	<u>6/30/15</u>
Contractually Required Contribution	\$ 135,782
Actual Contribution	<u>(135,344)</u>
Contribution Deficiency (Excess)	<u>\$ 438</u>
Covered Employee Payroll	\$ 1,499,774
Contributions as a Percentage of Covered Employee Payroll	<u>9.02%</u>

Amounts presented for each fiscal year were determined as of June 30. The data above was determined by the actuarial valuation date which was one year prior to the audit report date. Retroactive information is not required to be presented. A full 10 year schedule will be displayed as it becomes available.

The Notes to the Financial Statements are an Integral Part of This Statement.