

**TOWN OF ESSEX, MASSACHUSETTS**  
**FINANCIAL STATEMENTS AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2021**



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**TOWN OF ESSEX, MASSACHUSETTS  
TABLE OF CONTENTS  
JUNE 30, 2021**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>14</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>15</b>
<b>GOVERNMENTAL FUNDS – BALANCE SHEET</b>	<b>17</b>
<b>GOVERNMENTAL FUNDS – STATEMENT OF REVENUE, EXPENDITURES,         AND CHANGES IN FUND BALANCES</b>	<b>18</b>
<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET         TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION</b>	<b>19</b>
<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,         AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO         THE STATEMENT OF ACTIVITIES</b>	<b>20</b>
<b>PROPRIETARY FUNDS – STATEMENT OF NET POSITION</b>	<b>21</b>
<b>PROPRIETARY FUNDS – STATEMENT OF REVENUES, EXPENSES, AND         CHANGES IN NET POSITION</b>	<b>22</b>
<b>PROPRIETARY FUNDS – STATEMENT OF CASH FLOWS</b>	<b>23</b>
<b>FIDUCIARY FUNDS – STATEMENT OF FIDUCIARY NET POSITION</b>	<b>24</b>
<b>FIDUCIARY FUNDS – STATEMENT OF CHANGES IN FIDUCIARY NET         POSITION</b>	<b>25</b>
<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	<b>26</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND         CHANGE IN FUND BALANCE – BUDGET AND ACTUAL</b>	<b>61</b>
<b>PENSION PLAN SCHEDULES</b>	<b>63</b>
<b>OTHER POSTEMPLOYMENT BENEFITS SCHEDULES</b>	<b>64</b>
<b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>65</b>





## INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen  
Town of Essex, Massachusetts

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

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

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

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

### ***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Massachusetts, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

During the fiscal year ended June 30, 2021, the Town elected to change the measurement date of the liability reported under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Town reported a restatement for the change (see Note 18). Our auditors' opinions were not modified with respect to the restatement.

As described in Note 1 to the financial statements, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our auditors' opinions were not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

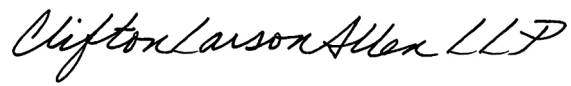
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and general fund budgetary comparison and certain pension and other postemployment benefits information to be presented to supplement the basic financial statements. Such information,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



Honorable Board of Selectmen  
Town of Essex, Massachusetts

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2021, on our consideration of the Town of Essex, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Essex, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Essex, Massachusetts' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Boston, Massachusetts  
December 8, 2021



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

As management of the Town of Essex, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2021.

**Financial Highlights**

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$37,254,919 (net position). Of this amount, no net position is available to be used to meet the government's ongoing obligations to citizens and creditors. \$4,910,775 is available to support business-type activities.
- The Town's total net position increased by \$1,535,894.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$4,269,389, or 23.5%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$1,895,899 during the fiscal year. No new debt was issued during the fiscal year.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains other required supplementary information in addition to the basic 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 presents information on all of the Town's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows with the difference 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 presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, net pension liability, etc.).

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*).



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include sewer and water activities.

The government-wide financial statements can be found on pages 14-16 of this report.

**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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

**Governmental Funds**

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

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

The Town maintains 85 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, Municipal Safety Building (capital projects), and Conomo Point (special revenue) funds, each of which are considered to be major funds. Data from the other 82 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 17-20 of this report.

**Proprietary Funds**

The Town maintains one type of proprietary fund.

*Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and water activities. The sewer enterprise fund and water enterprise fund are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 21-23 of this report.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Fiduciary Funds**

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

The other postemployment benefits trust fund, private-purpose trust funds and custodial funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "other postemployment benefits trust fund", "private purpose trust funds" and "custodial funds", respectively.

The basic fiduciary funds financial statements can be found on pages 24-25 of this report.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-60 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other postemployment benefits information, which can be located on pages 61-65 of this report.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Government-Wide Financial Analysis**

The following tables present current and prior year data on the government-wide financial statements.

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$37,254,919 at the close of the fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Assets</b>						
Current Assets	\$ 14,715,814	\$ 23,614,008	\$ 4,487,696	\$ 4,275,206	\$ 19,203,510	\$ 27,889,214
Noncurrent Assets (Excluding Capital Assets)	875,975	1,114,515	3,635,325	4,677,582	4,511,300	5,792,097
Capital assets (net)	24,373,396	15,895,351	21,722,482	22,325,713	46,095,878	38,221,064
Total Assets	39,965,185	40,623,874	29,845,503	31,278,501	69,810,688	71,902,375
<b>Deferred Outflows of Resources</b>	635,316	912,224	79,769	138,241	715,085	1,050,465
<b>Liabilities</b>						
Current Liabilities (Excluding Debt)	1,166,311	1,528,755	451,693	459,504	1,618,004	1,988,259
Noncurrent Liabilities (Excluding Debt)	8,508,897	10,865,636	2,626,868	3,254,325	11,135,765	14,119,961
Current Debt	477,075	460,849	1,440,048	1,435,049	1,917,123	1,895,898
Noncurrent Debt	12,262,633	12,739,709	4,289,544	5,729,592	16,552,177	18,469,301
Total Liabilities	22,414,916	25,594,949	8,808,153	10,878,470	31,223,069	36,473,419
<b>Deferred Inflows of Resources</b>	1,793,331	512,466	254,454	77,639	2,047,785	590,105
<b>Net Position</b>						
Net Investment in Capital Assets	14,308,713	14,072,384	15,951,890	15,108,072	30,260,603	29,180,456
Restricted	6,189,199	7,162,527	-	-	6,189,199	7,162,527
Unrestricted	(4,105,658)	(5,806,228)	4,910,775	5,352,561	805,117	(453,667)
Total Net Position	\$ 16,392,254	\$ 15,428,683	\$ 20,862,665	\$ 20,460,633	\$ 37,254,919	\$ 35,889,316

A portion of the Town's net position (81.2%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of 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 (16.6%) represents resources that are subject to external restrictions on how they may be used.

The Town has no unrestricted net position available for the support of governmental activities. Such resources have been consumed with the recognition of the net pension and other postemployment benefit liabilities. \$4,910,775 may be used to support business-type activities.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Changes in Net Position**

For the fiscal year ended June 30, 2021, the Town's total net position increased by \$1,535,894, compared to an increase of \$886,677 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 845,804	\$ 819,903	\$ 2,115,487	\$ 1,903,711	\$ 2,961,291	\$ 2,723,614
Operating Grants and Contributions	350,891	275,978	222,571	269,221	573,462	545,199
Capital Grants and Contributions	277,058	116,597	-	-	277,058	116,597
General Revenues:						
Real Estate and Personal Property Taxes	15,118,812	14,223,671	-	-	15,118,812	14,223,671
Motor Vehicle and Other Excise Taxes	1,024,189	1,043,133	-	-	1,024,189	1,043,133
Hotel/Motel Taxes	14,398	20,338	-	-	14,398	20,338
Lease Revenue	507,183	494,472	-	-	507,183	494,472
Penalties and Interest on Taxes	45,266	47,222	-	-	45,266	47,222
Community Preservation Surcharges	190,625	178,522	-	-	190,625	178,522
Grants and Contributions not Restricted to Specific Programs	320,877	326,721	-	-	320,877	326,721
Unrestricted Investment Income	73,929	165,215	-	-	73,929	165,215
Total Revenues	18,769,032	17,711,772	2,338,058	2,172,932	21,107,090	19,884,704
<b>Expenses</b>						
General Government	1,705,803	1,744,648	-	-	1,705,803	1,744,648
Public Safety	3,040,289	2,768,329	-	-	3,040,289	2,768,329
Education	10,050,341	9,837,434	-	-	10,050,341	9,837,434
Public Works	1,353,649	1,254,890	-	-	1,353,649	1,254,890
Health and Human Services	455,545	433,841	-	-	455,545	433,841
Culture and Recreation	366,021	425,984	-	-	366,021	425,984
Debt Service - Interest	365,643	5,155	-	-	365,643	5,155
Sewer	-	-	1,747,003	1,622,493	1,747,003	1,622,493
Water	-	-	495,565	930,590	495,565	930,590
Total Expenses	17,337,291	16,470,281	2,242,568	2,553,083	19,579,859	19,023,364
Change in Net Position Before Special Item and Transfers	1,431,741	1,241,491	95,490	(380,151)	1,527,231	861,340
Special Item - Gain on Sale of Lots	8,663	25,337	-	-	8,663	25,337
Transfers, Net	(328,911)	(328,911)	328,911	328,911	-	-
Change in Net Position	1,111,493	937,917	424,401	(51,240)	1,535,894	886,677
Net Position - Beginning of Year (As Restated)	15,280,761	14,490,766	20,438,264	20,511,873	35,719,025	35,002,639
Net Position - End of Year	\$ 16,392,254	\$ 15,428,683	\$ 20,862,665	\$ 20,460,633	\$ 37,254,919	\$ 35,889,316

Governmental activities increased the Town's net position \$1,111,493. In the prior year, governmental activities increased the Town's net position \$937,917. The key element of this year's increase relates to the budgetary surplus recognized in the general fund.

Business-type activities increased the Town's net position by \$424,401. In the prior year, business-type activities decreased the Town's net position by \$51,240. The key elements of this change relate to favorable experience related to the Town's net pension and other post employment benefits liabilities.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Fund Financial Statement Analysis**

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

Governmental Funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$13,374,816, a decrease of \$8,713,163 in comparison with the prior year. \$4,244,948 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable – \$248,679
- Restricted – \$7,978,023
- Committed – \$865,959
- Assigned – \$37,207

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$4,269,389, while total fund balance was \$5,198,052. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 23.5% of total general fund expenditures and transfers out, while total fund balance represents 28.6% of that same amount.

The balance of the Town's general fund decreased by \$227,083 during fiscal year 2021. The Town anticipated utilizing approximately \$1,124,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$1,646,000 budgetary surplus (excluding encumbrances and continuing appropriations).

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the Conomo Point fund (special revenue) increased by \$196,162 during the current year, which consisted of the payoff of an installment sales receivable for the sale of lots.

The fund balance of the Municipal Safety Building fund (capital projects) decreased by \$8,642,450 during the current year, which consisted of project expenditures incurred during the year.

Proprietary Funds

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

Unrestricted net position of the sewer and water enterprise funds at the end of the year amounted to \$5,036,851 and (\$126,076), respectively. The sewer enterprise fund had an increase in net position of \$19,924 for the year, and the water enterprise fund had an increase in net position of \$404,477 for the year.

Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**General Fund Budgetary Highlights**

The original general fund budget of \$17,690,949 was increased by \$776,590 (4.4%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
OPEB Trust contribution	\$ 400,000	Unassigned fund balance
Capital projects	163,000	Unassigned fund balance
Stabilization fund	100,000	Unassigned fund balance
Police cruisers	97,502	Unassigned fund balance
Part-time property custodian	8,500	Unassigned fund balance
Operational expenses	7,000	Unassigned fund balance
Other	588	Unassigned fund balance
Total	<u>\$ 776,590</u>	

During the year, general fund revenues exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$1,252,000.

**Capital Asset and Debt Administration**

**Capital Assets**

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$46,095,878 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total increase in the investment in capital assets for the current year was \$7,874,814, or 20.6% (a \$8,478,045 increase for governmental activities and a \$603,231 decrease for business-type activities).

Major capital asset events that occurred during the current year include the following:

- Municipal safety building completion (\$14,500,000)
- Ambulance purchase (\$231,000)
- Sewer infrastructure (\$68,000)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 918,095	\$ 918,095	\$ 2	\$ 2	\$ 918,097	\$ 918,097
Land Improvements	630,266	705,374	-	-	630,266	705,374
Buildings and Improvements	20,741,318	6,601,311	254,902	299,284	20,996,220	6,900,595
Machinery, Vehicles and Equipment	745,325	631,587	172,033	193,899	917,358	825,486
Infrastructure	1,190,431	1,052,288	21,295,543	21,832,528	22,485,974	22,884,816
Construction in Progress	147,961	5,986,696	-	-	147,961	5,986,696
Total Capital Assets	<u>\$ 24,373,396</u>	<u>\$ 15,895,351</u>	<u>\$ 21,722,480</u>	<u>\$ 22,325,713</u>	<u>\$ 46,095,876</u>	<u>\$ 38,221,064</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 42-43 of this report.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Long-Term Debt**

At the end of the current fiscal year, total bonded debt outstanding was \$18,469,300 which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	\$ 12,375,311	\$ 12,815,301	\$ 325,000	\$ 430,000	\$ 12,700,311	\$ 13,245,301
MCWT Notes	364,397	385,257	5,404,592	6,734,641	5,768,989	7,119,898
Total Bonds and Notes	<u>\$ 12,739,708</u>	<u>\$ 13,200,558</u>	<u>\$ 5,729,592</u>	<u>\$ 7,164,641</u>	<u>\$ 18,469,300</u>	<u>\$ 20,365,199</u>

The Town's total bonded debt decreased by \$1,895,899 during the current fiscal year. No new debt was issued during the fiscal year.

State statutes limit the amount of general obligation debt the Town may issue to 5.0% of its equalized valuation. The current debt limit is \$47,232,130. Additional information on the Town's long-term debt can be found in Note 9 on pages 46-48 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The development of the fiscal year 2022 general fund operating budget was influenced by six major factors: the property tax levy governed by Proposition 2 ½, new revenue sources, School District budget apportionments, employee wage increases, increased state aid, and the ongoing COVID-19 pandemic.

Proposition 2 ½ imposes a limit on the amount property taxes may increase in Massachusetts cities and towns in a given fiscal year. If the limit is not reached, or exceeded by means of an override vote, the excess amount remains available for future years. This helps to buffer the need for an override. In FY 2021 the Town of Essex had an excess levy of \$326,348, generated in part by conservative budgeting (especially in light of revenue uncertainty associated with the pandemic) and new revenue sources, e.g. local adoption of the state meals tax and interest from the sale of property at Conomo Point. Estimated excess levy has decreased to \$173,768 for FY22. Essex has not had an operational override since May of 2005.

Another component of Proposition 2 ½ is a factor added for "new growth". \$128,155 was certified for "new growth" in FY 2021, up \$8,749 from \$119,406 in FY 2020. New growth has not yet been certified for FY 2022.

The Manchester Essex Regional School District apportions its annual operating budget to the Towns of Essex and Manchester-by-the-Sea using a formula found in the Regional School Agreement that formed the District. For fiscal year 2022, the Essex apportionment increased by 3.9% (\$330,864) and totaled \$8,695,830, up from \$8,364,966 in fiscal year 2021. Also in fiscal year 2022, a debt assessment from the District relative to the Manchester Essex Regional High School building construction and the Memorial Elementary School of \$1,405,292 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$16,804 decrease from the fiscal year 2021 assessment of \$1,422,096, and will continue to decrease each year for the life of the loan.



**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

The Town of Essex is also a member of the Essex North Shore Agricultural and Technical School District. Enrollment has generally increased in recent years, largely due to the opening of a new facility. The town's assessment has however decreased from the FY 2021 assessment of \$235,527. In FY 2022 the assessment is \$218,080, a decrease of \$17,447 from Fiscal 2021, due to a slight decrease in pupil enrollment. Debt for the new school building is included in these amounts.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in two different unions (AFSCME and the Essex Police Benevolent Association – EPBA). Both CBAs were renewed, effective July 1, 2019 and run for three years. Percentage increases were two percent for union and non-union employees between fiscal year 2020 and fiscal year 2021.

In fiscal year 2021, the Commonwealth of Massachusetts provided the Town with \$278,969 in State Cherry Sheet aid. \$294,662 in State Cherry Sheet aid is expected for fiscal year 2022, representing a 5.6% increase of \$15,693.

The Town presently leases property in an area known as Conomo Point to residential leaseholders and has done so for over 100 years. The last of the long-term leases (ten-year leases) for this property expired on December 31, 2011. The Selectmen entered into bridge leases at the end of the ten-year leases, in order for the Town to plan further. Town Meeting approved of that concept at the 2011 Annual Town Meeting after the Town received Special Legislation to offer bridge leases to the then-current leaseholders. The Selectmen offered 121 bridge leases and, ultimately, 119 leaseholders signed. Bridge leases had been be offered annually, for a total of five, one-year terms. Approximately 57 properties in the southern and central areas of Conomo Point have been sold to the tenants (as per Special Legislation and a 2012 Annual Town Meeting vote). The segregated proceeds from all Conomo Point property sales through January 30, 2017 totaled approximately \$12.5M. In calendar year one, revenue from bridge leases was \$606,300, which represents an approximate \$500,000 increase over revenue generated from the expiring leases. In calendar year two, revenue from bridge leases was \$576,916. In calendar year three, revenue from bridge leases was \$670,939. In calendar year four, revenue from bridge leases was \$595,834. In calendar year five, revenue from bridge leases was \$601,450. The remaining northern area (the only area not sold) is under long-term (20-year) leases that commenced January 1, 2017 and revenue is expected to be approximately \$500,000 per year.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town of Essex, 30 Martin Street, Essex, MA 01929.



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**TOWN OF ESSEX, MASSACHUSETTS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 5,434,394	\$ 2,729,541	\$ 8,163,935
Restricted Cash and Cash Equivalents	8,599,830	-	8,599,830
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	369,361	-	369,361
Tax and Utility Liens	42,611	2,388	44,999
Motor Vehicle and Other Excise Taxes	137,870	-	137,870
Community Preservation Surcharges	5,495	-	5,495
Water	-	343,076	343,076
Sewer	-	375,783	375,783
Special Assessments	3,082	823,937	827,019
Departmental and Other	102,762	-	102,762
Intergovernmental	-	212,971	212,971
Loans	20,409	-	20,409
Total Current Assets	14,715,814	4,487,696	19,203,510
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	-	3,167,038	3,167,038
Intergovernmental	-	468,287	468,287
Loans	236,841	-	236,841
Installment Sales	192,500	-	192,500
Tax Foreclosures	446,634	-	446,634
Capital Assets not being Depreciated	1,066,056	2	1,066,058
Capital Assets, Net of Accumulated Depreciation	23,307,340	21,722,480	45,029,820
Total Noncurrent Assets	25,249,371	25,357,807	50,607,178
Total Assets	39,965,185	29,845,503	69,810,688
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to OPEB	167,291	26,991	194,282
Related to Pensions	468,025	52,778	520,803
Total Deferred Outflows of Resources	635,316	79,769	715,085
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	485,575	168,049	653,624
Accrued Payroll	138,281	21,723	160,004
Other Liabilities	30,212	-	30,212
Unearned Revenue	360,250	-	360,250
Accrued Interest	129,837	149,443	279,280
Settlement Payable	-	66,565	66,565
Compensated Absences	22,156	4,913	27,069
Short-Term Notes Payable	-	41,000	41,000
Long-Term Bonds and Notes Payable	477,075	1,440,048	1,917,123
Total Current Liabilities	1,643,386	1,891,741	3,535,127
Noncurrent Liabilities:			
Compensated Absences	199,406	44,219	243,625
Settlement Payable	-	1,531,005	1,531,005
Net OPEB Liability	2,359,511	380,682	2,740,193
Net Pension Liability	5,949,980	670,962	6,620,942
Long-Term Bonds and Notes Payable	12,262,633	4,289,544	16,552,177
Total Noncurrent Liabilities	20,771,530	6,916,412	27,687,942
Total Liabilities	22,414,916	8,808,153	31,223,069
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to OPEB	1,075,199	173,471	1,248,670
Related to Pensions	718,132	80,983	799,115
Total Deferred Inflows of Resources	1,793,331	254,454	2,047,785
<b>NET POSITION</b>			
Net Investment in Capital Assets	14,308,713	15,951,890	30,260,603
Restricted for:			
Capital Purposes	3,397,728	-	3,397,728
Community Preservation	790,092	-	790,092
Loans	236,841	-	236,841
Ambulance	306,235	-	306,235
Permanent Funds:			
Expendable	81,536	-	81,536
Nonexpendable	248,679	-	248,679
Other Specific Purposes	1,128,088	-	1,128,088
Unrestricted	(4,105,658)	4,910,775	805,117
Total Net Position	\$ 16,392,254	\$ 20,862,665	\$ 37,254,919

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 1,705,803	\$ 324,711	\$ 26,616	\$ 51,319	\$ (1,303,157)
Public Safety	3,040,289	490,052	285,453	12,875	(2,251,909)
Education	10,050,341	-	-	-	(10,050,341)
Public Works	1,353,649	12,246	4,028	212,864	(1,124,511)
Health and Human Services	455,545	17,815	27,942	-	(409,788)
Culture and Recreation	366,021	980	6,852	-	(358,189)
Debt Service-Interest	365,643	-	-	-	(365,643)
Total Governmental Activities	17,337,291	845,804	350,891	277,058	(15,863,538)
Business-Type Activities:					
Sewer	1,747,003	1,215,698	222,318	-	(308,987)
Water	495,565	899,789	253	-	404,477
Total Business-Type Activities	2,242,568	2,115,487	222,571	-	95,490
Total Primary Government	\$ 19,579,859	\$ 2,961,291	\$ 573,462	\$ 277,058	\$ (15,768,048)

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
STATEMENT OF ACTIVITIES (CONTINUED)  
YEAR ENDED JUNE 30, 2021**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>CHANGES IN NET POSITION</b>			
Net (Expense) Revenue (From Previous Page)	\$ (15,863,538)	\$ 95,490	\$ (15,768,048)
General Revenues:			
Real Estate and Personal Property Taxes	15,118,812	-	15,118,812
Motor Vehicle and Other Excise Taxes	1,024,189	-	1,024,189
Lease Revenue	507,183	-	507,183
Hotel/Motel Taxes	14,398	-	14,398
Penalties and Interest on Taxes	45,266	-	45,266
Community Preservation Surcharges	190,625	-	190,625
Grants and Contributions not Restricted to Specific Programs	320,877	-	320,877
Unrestricted Investment Income	73,929	-	73,929
Special Item - Gain on Sale of Lots	8,663	-	8,663
Transfers, Net	(328,911)	328,911	-
Total General Revenues, Special Item, and Transfers, Net	16,975,031	328,911	17,303,942
<b>CHANGE IN NET POSITION</b>	1,111,493	424,401	1,535,894
Net Position - Beginning of Year (As Restated)	15,280,761	20,438,264	35,719,025
<b>NET POSITION - END OF YEAR</b>	\$ 16,392,254	\$ 20,862,665	\$ 37,254,919

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2021**

	General	Municipal Safety Building	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,434,394	\$ -	\$ -	\$ -	\$ 5,434,394
Receivables, Net of Allowance for Uncollectible Amounts:					
Real Estate and Personal Property Taxes	369,361	-	-	-	369,361
Tax Liens	42,611	-	-	-	42,611
Motor Vehicle and Other Excise Taxes	137,870	-	-	-	137,870
Community Preservation Surcharges	-	-	-	5,495	5,495
Special Assessments	199	-	-	2,883	3,082
Departmental and Other	14,709	-	-	88,053	102,762
Loans	-	-	-	257,250	257,250
Installment Sales	-	-	192,500	-	192,500
Tax Foreclosures	446,634	-	-	-	446,634
Restricted Assets:					
Cash and Cash Equivalents	25,497	2,568,646	3,205,228	2,800,459	8,599,830
Total Assets	<u>\$ 6,471,275</u>	<u>\$ 2,568,646</u>	<u>\$ 3,397,728</u>	<u>\$ 3,154,140</u>	<u>\$ 15,591,789</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Warrants Payable	\$ 161,999	\$ 278,786	\$ -	\$ 44,790	\$ 485,575
Accrued Payroll	134,798	-	-	3,483	138,281
Other Liabilities	27,935	-	-	2,277	30,212
Unearned Revenue	-	-	-	360,250	360,250
Total Liabilities	<u>324,732</u>	<u>278,786</u>	<u>-</u>	<u>410,800</u>	<u>1,014,318</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	948,491	-	192,500	61,664	1,202,655
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	248,679	248,679
Restricted	25,497	2,289,860	3,205,228	2,457,438	7,978,023
Committed	865,959	-	-	-	865,959
Assigned	37,207	-	-	-	37,207
Unassigned	4,269,389	-	-	(24,441)	4,244,948
Total Fund Balances	<u>5,198,052</u>	<u>2,289,860</u>	<u>3,205,228</u>	<u>2,681,676</u>	<u>13,374,816</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,471,275</u>	<u>\$ 2,568,646</u>	<u>\$ 3,397,728</u>	<u>\$ 3,154,140</u>	<u>\$ 15,591,789</u>

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2021**

	General	Municipal Safety Building	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Real Estate and Personal Property Taxes	\$ 15,087,477	\$ -	\$ -	\$ -	\$ 15,087,477
Motor Vehicle and Other Excise Taxes	967,052	-	-	-	967,052
Hotel/Motel Tax	14,398	-	-	-	14,398
Tax Liens	2,751	-	-	-	2,751
Community Preservation Surcharges	-	-	-	189,036	189,036
Charges for Services	173,420	-	-	110,655	284,075
Intergovernmental	278,969	-	-	594,257	873,226
Special Assessments	-	-	-	4,465	4,465
Penalties and Interest on Taxes	45,266	-	-	-	45,266
Licenses and Permits	306,321	-	-	-	306,321
Fines and Forfeitures	21,455	-	-	-	21,455
Lease Revenue	507,183	-	-	-	507,183
Departmental and Other	52,549	-	-	182,752	235,301
Contributions	-	-	-	47,802	47,802
Investment Income	73,753	-	-	1,175	74,928
Total Revenues	<u>17,530,594</u>	<u>-</u>	<u>-</u>	<u>1,130,142</u>	<u>18,660,736</u>
<b>EXPENDITURES</b>					
Current:					
General Government	1,069,247	-	-	43,357	1,112,604
Public Safety	1,927,344	8,642,450	-	405,838	10,975,632
Education	10,042,589	-	-	-	10,042,589
Public Works	928,043	-	-	176,633	1,104,676
Health and Human Services	310,122	-	-	20,513	330,635
Culture and Recreation	147,210	-	-	126,058	273,268
Pension Benefits	547,429	-	-	-	547,429
Employee Benefits	2,011,061	-	-	-	2,011,061
Property and Liability Insurance	114,175	-	-	-	114,175
State and County Charges	32,426	-	-	-	32,426
Debt Service:					
Principal	430,860	-	-	-	430,860
Interest	265,795	-	-	-	265,795
Total Expenditures	<u>17,826,301</u>	<u>8,642,450</u>	<u>-</u>	<u>772,399</u>	<u>27,241,150</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(295,707)</u>	<u>(8,642,450)</u>	<u>-</u>	<u>357,743</u>	<u>(8,580,414)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	403,103	-	-	9,732	412,835
Transfer Out	(334,479)	-	-	(407,267)	(741,746)
Total Other Financing Sources (Uses)	<u>68,624</u>	<u>-</u>	<u>-</u>	<u>(397,535)</u>	<u>(328,911)</u>
<b>SPECIAL ITEM - SALE OF LOTS</b>	<u>-</u>	<u>-</u>	<u>196,162</u>	<u>-</u>	<u>196,162</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(227,083)</u>	<u>(8,642,450)</u>	<u>196,162</u>	<u>(39,792)</u>	<u>(8,713,163)</u>
Fund Balances - Beginning of Year	<u>5,425,135</u>	<u>10,932,310</u>	<u>3,009,066</u>	<u>2,721,468</u>	<u>22,087,979</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 5,198,052</u>	<u>\$ 2,289,860</u>	<u>\$ 3,205,228</u>	<u>\$ 2,681,676</u>	<u>\$ 13,374,816</u>

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2021**

Total Governmental Fund Balances	\$ 13,374,816
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	24,373,396
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	1,202,655
In the statement of net position, deferred outflows of resources are reported for amounts related to OPEB	167,291
In the statement of net position, deferred outflows of resources are reported for amounts related to pensions	468,025
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due	(129,837)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds and Notes Payable, Net	(12,739,708)
Compensated Absences	(221,562)
Net Pension Liability	(5,949,980)
Net OPEB Liability	(2,359,511)
In the statement of net position, deferred inflows of resources are reported for amounts related to OPEB	(1,075,199)
In the statement of net position, deferred inflows of resources are reported for amounts related to pensions	(718,132)
Net Position of Governmental Activities	\$ <u><u>16,392,254</u></u>

*See accompanying Notes to Financial Statements.*



**TOWN OF ESSEX, MASSACHUSETTS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balances - Total Governmental Funds	\$ (8,713,163)
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. These amounts represent the related activity of the current period.	
Capital Outlays	9,118,554
Depreciation	(640,509)
Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the governmental funds. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred inflows of resources.	(79,207)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of material premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. These amounts represent the related activity of the current period:	
Bond Maturities	430,860
Amortization of Bond Premiums	29,990
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable	(129,837)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:	
Net OPEB Liability	2,221,538
Net Pension Liability	413,855
Compensated Absences	17,185
In the statement of activities, deferred outflows related to OPEB are amortized and recognized as OPEB expense. This amount represents the net change in deferred outflows related to OPEB.	21,094
In the statement of activities, deferred outflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred outflows related to pensions.	(298,002)
In the statement of activities, deferred inflows related to OPEB are amortized and recognized as OPEB expense. This amount represents the net change in deferred inflows related to OPEB.	(932,596)
In the statement of activities, deferred inflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred inflows related to pensions.	(348,269)
Changes in Net Position of Governmental Activities	\$ <u>1,111,493</u>

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2021**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,345,340	\$ 384,201	\$ 2,729,541
Receivables, Net of Allowance for Uncollectible Amounts:			
Utility Liens	1,105	1,283	2,388
User Charges	375,783	343,076	718,859
Special Assessments	823,937	-	823,937
Intergovernmental	212,971	-	212,971
Total Current Assets	3,759,136	728,560	4,487,696
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	3,167,038	-	3,167,038
Intergovernmental	468,287	-	468,287
Capital Assets not being Depreciated	-	2	2
Capital Assets, Net of Accumulated Depreciation	21,406,959	315,521	21,722,480
Total Noncurrent Assets	25,042,284	315,523	25,357,807
Total Assets	28,801,420	1,044,083	29,845,503
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to OPEB	9,355	17,636	26,991
Related to Pensions	20,758	32,020	52,778
Total Deferred Outflows of Resources	30,113	49,656	79,769
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	121,953	46,096	168,049
Accrued Payroll	6,117	15,606	21,723
Accrued Interest	149,443	-	149,443
Compensated Absences	2,482	2,431	4,913
Settlement Payable	66,565	-	66,565
Short-Term Notes Payable	-	41,000	41,000
Long-Term Bonds and Notes Payable	1,430,048	10,000	1,440,048
Total Current Liabilities	1,776,608	115,133	1,891,741
Noncurrent Liabilities:			
Compensated Absences	22,344	21,875	44,219
Settlement Payable	1,531,005	-	1,531,005
Net OPEB Liability	131,944	248,738	380,682
Net Pension Liability	263,894	407,068	670,962
Long-Term Bonds and Notes Payable	4,260,544	29,000	4,289,544
Total Noncurrent Liabilities	6,209,731	706,681	6,916,412
Total Liabilities	7,986,339	821,814	8,808,153
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to OPEB	60,125	113,346	173,471
Related to Pensions	31,851	49,132	80,983
Total Deferred Inflows of Resources	91,976	162,478	254,454
<b>NET POSITION</b>			
Net Investment in Capital Assets	15,716,367	235,523	15,951,890
Unrestricted	5,036,851	(126,076)	4,910,775
Total Net Position	\$ 20,753,218	\$ 109,447	\$ 20,862,665

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2021**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 1,113,802	\$ 892,179	\$ 2,005,981
Penalties and Interest	101,896	7,610	109,506
Total Operating Revenues	1,215,698	899,789	2,115,487
<b>OPERATING EXPENSES</b>			
Cost of Service and Administration	950,491	687,529	1,638,020
Pension and OPEB Adjustments	(53,027)	(295,217)	(348,244)
Depreciation	626,689	100,696	727,385
Total Operating Expenses	1,524,153	493,008	2,017,161
<b>OPERATING INCOME (LOSS)</b>	(308,455)	406,781	98,326
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental	221,592	-	221,592
Investment Income	726	253	979
Interest Expense	(222,850)	(2,557)	(225,407)
Total Nonoperating Revenues (Expenses), Net	(532)	(2,304)	(2,836)
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	(308,987)	404,477	95,490
<b>TRANSFERS</b>			
Transfers In	328,911	-	328,911
<b>CHANGE IN NET POSITION</b>	19,924	404,477	424,401
Net Position - Beginning of Year (As Restated)	20,733,294	(295,030)	20,438,264
<b>NET POSITION - END OF YEAR</b>	\$ 20,753,218	\$ 109,447	\$ 20,862,665

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2021**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$ 2,011,564	\$ 869,186	\$ 2,880,750
Payments to Vendors	(881,299)	(660,874)	(1,542,173)
Payments to Employees	(110,017)	(12,262)	(122,279)
Net Cash Provided by Operating Activities	1,020,248	196,050	1,216,298
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers In	328,911	-	328,911
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the Issuance of Bonds and Notes	-	41,000	41,000
Acquisition and Construction of Capital Assets	(90,465)	(33,689)	(124,154)
Principal Payments on Bonds and Notes	(1,202,530)	(83,000)	(1,285,530)
Interest Paid	(36,931)	(2,558)	(39,489)
Net Cash Used by Capital and Related Financing Activities	(1,329,926)	(78,247)	(1,408,173)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	726	253	979
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	19,959	118,056	138,015
Cash and Cash Equivalents - Beginning of Year	2,325,381	266,145	2,591,526
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,345,340</u>	<u>\$ 384,201</u>	<u>\$ 2,729,541</u>
<b>RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating Income/(Loss)	\$ (308,455)	\$ 406,781	\$ 98,326
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	626,689	100,696	727,385
Net Pension Liability	(49,744)	(244,081)	(293,825)
Net OPEB Liability	(92,078)	(219,996)	(312,074)
Deferred Inflows of Resources Related to Pensions	13,622	11,287	24,909
Deferred Outflows of Resources Related to Pensions	16,995	46,360	63,355
Deferred Inflows of Resources Related to OPEB	53,151	98,755	151,906
Deferred Outflows of Resources Related to OPEB	(2,206)	(2,677)	(4,883)
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	76	(281)	(205)
User Charges	(37,808)	(30,322)	(68,130)
Special Assessments	833,598	-	833,598
Warrants Payable	31,733	27,101	58,834
Settlement Payable	(66,565)	-	(66,565)
Accrued Payroll	1,347	1,731	3,078
Compensated Absences	(107)	696	589
Total Adjustments	1,328,703	(210,731)	1,117,972
Net Cash Provided by Operating Activities	<u>\$ 1,020,248</u>	<u>\$ 196,050</u>	<u>\$ 1,216,298</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>			
Intergovernmental Debt Subsidies (MCWT) - Interest	\$ 221,592	\$ -	\$ 221,592
Intergovernmental Debt Subsidies (MCWT) - Principal	202,519	-	202,519

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2021**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Custodial Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,915	\$ 206,594	\$ 3,063
Investments:			
Equities	983,060	-	-
Mutual Bond Funds	621,778	-	-
Total Assets	<u>1,608,753</u>	<u>206,594</u>	<u>3,063</u>
<b>LIABILITIES</b>			
Due to Other Governments	<u>-</u>	<u>-</u>	<u>3,063</u>
<b>NET POSITION</b>			
Held in Trust for Other Postemployment Benefits and Other Purposes	<u>\$ 1,608,753</u>	<u>\$ 206,594</u>	<u>\$ -</u>

*See accompanying Notes to Financial Statements.*



**TOWN OF ESSEX, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2021**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Custodial Funds
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 1,565,596	\$ -	\$ -
Net Investment Income:			
Net Appreciation in Fair Value of Investments	268,712	-	-
Interest	-	118	-
Total Investment Income	268,712	118	-
Less: Investment Expense	(4,998)	-	-
Net Investment Income:	263,714	118	-
Taxes Collected for Other Governments	-	-	8,025
Total Additions	1,829,310	118	8,025
<b>DEDUCTIONS</b>			
Postemployment Benefits	220,557	-	-
Taxes Remitted to Other Governments	-	-	8,025
Total Deductions	220,557	-	8,025
<b>CHANGE IN NET POSITION</b>	1,608,753	118	-
Net Position - Beginning of Year	-	206,476	-
<b>NET POSITION - END OF YEAR</b>	\$ 1,608,753	\$ 206,594	\$ -

See accompanying Notes to Financial Statements.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

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

**B. Reporting Entity**

The Town of Essex, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen (Board).

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions, and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

**Joint Venture**

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in three joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town's joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2021 Assessment</u>
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 9,807,062
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	235,527
Essex County Regional Emergency Communications Center	To provide emergency services	18 Manning Avenue Middleton, MA	-



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

Manchester Essex Regional School District

The Manchester Essex Regional School District is governed by a six-member school committee consisting of two elected representatives from the Town. The Town is indirectly liable for the Manchester Essex Regional School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified on the previous page.

North Shore Technical High School

The North Shore Technical High School is governed by a 16-member school committee consisting of one elected representative (appointed by the Board of Selectmen) from the Town. The Town is indirectly liable for the North Shore Technical High School's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified on the previous page.

Essex County Regional Emergency Communications Center (ERECC)

The Essex County Regional Emergency Communications Center (ERECC) in Middleton is governed by a set of three committees (fire, police, and administration – appointed pursuant to an Intermunicipal Agreement) from each of the five communities (Essex, Topsfield, Middleton, Amesbury, and Wenham). The Town is indirectly liable for the ERECC's operating expenditures and is assessed annually for its share of operating costs. Separate financial statements may be obtained by writing to the Sheriff of Essex County at the address identified on the previous page.

**C. Implementation of New Accounting Principles**

For the year ended June 30, 2021, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

The implementation of GASB Statement No. 84 resulted in the removal of the *agency fund* from the Statement of Fiduciary Net Position along with the addition of the *custodial fund* to the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The implementation of this pronouncement also resulted in certain activities formerly reported within the *agency fund* to be reported within the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balance within the column entitled *nonmajor governmental funds*.

The implementation of GASB Statement No. 90 had no reporting impact for the Town.

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

**Government-Wide Financial Statements**

The government-wide financial statements (statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government and its component units. *Governmental Activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *Business-Type Activities*, which are primarily supported by user fees.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

**Fund Financial Statements**

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

Fiduciary funds are reported by fund type.

**E. Measurement Focus, Basis of Accounting, and Basis of Presentation**

**Government-Wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

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

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

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

**Fund Financial Statements**

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



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

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

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

The following major governmental funds are reported:

The *General fund* is used to account for and report all financial resources not accounted for and reported in another fund.

The *Municipal Safety Building fund* is a capital projects fund used to account for the construction of a new public safety building.

The *Conomo Point fund* is a special revenue fund used to account for the sales proceeds of various properties located in the Conomo Point area of town which are restricted for capital purposes.

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

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

*Permanent funds* are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

**Proprietary funds** financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

The following proprietary funds are reported:

The *sewer enterprise fund* is reported as a major fund and is used to account for the sewer activities.

The *water enterprise fund* is reported as a nonmajor fund and is used to account for the water activities.

**Fiduciary funds** financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

The following fiduciary fund types are reported:

The *other postemployment benefits trust fund* is an irrevocable trust fund established to accumulate resources to reduce the unfunded actuarial liability of other postemployment benefits.

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

The *custodial fund* is used to account for assets held in a custodial capacity. Such assets consist of amounts collected for other governments.

**F. Cash and Cash Equivalents and Investments**

**Government-Wide and Fund Financial Statements**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value, net asset value (NAV) or amortized cost; as further described in Note 3.

**G. Accounts Receivable**

**Government-Wide and Fund Financial Statements**

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

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

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1, November 1, February 1, and May 12 and are subject to penalties and interest if they are not paid by the respective due date.

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



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

Motor Vehicle Excise Taxes

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

Community Preservation Surcharges

Community preservation surcharges are levied annually at a rate of 1.5% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on August 1, November 1, February 1, and May 1 and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Water and Sewer Charges and Utility Liens

Water and sewer user charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer user charges are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting. Utility liens are processed quarterly and are included as a lien on the property owner's tax bill.

Special Assessments

Special assessments for sewer betterments are levied annually based on the final sewer connection costs incurred related to the inter-municipal agreement entered into with the City of Gloucester. Residents have the option of paying their respective share of the betterment in full or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Sewer betterments are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting.

Special assessments for water betterments are levied based on various water system improvement costs incurred by the Town. Residents have the option of paying their respective share of the betterment in full or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Water betterments are recorded as receivables in the fiscal year of the levy and are recorded under the accrual basis of accounting.

Departmental and Other

Departmental and other receivables consist primarily of police detail and ambulance receivables and are recorded as receivables in the fiscal year accrued.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For all grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met.

Loans

The Town administers a loan program to residents that provide assistance to comply with Title V of the Massachusetts Department of Environmental Protection's regulations related to septic systems requirements. Loans are recorded as receivables upon issuance.

Installment Sales

In 2013, the Town sold three Conomo Point properties under installment sales transactions with principal balloon payments due in fiscal year 2043. As of June 30, 2021, installment sales for one property remain outstanding as the other properties were paid off.

**H. Allowance for Uncollectible Amounts**

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Real estate and personal property taxes
- Certain tax and utility liens
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2021, the allowance for uncollectible accounts for personal property taxes and motor vehicle and other excise taxes are immaterial and therefore not reported.

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Community preservation surcharges
- Water and sewer charges
- Special assessments
- Loans

Intergovernmental receivables are considered 100% collectible.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

**I. Inventories**

**Government-Wide and Fund Financial Statements**

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

**J. Restricted Assets**

**Government-Wide and Fund Financial Statements**

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**K. Capital Assets**

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

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated acquisition value at the date of donation.

All purchases and construction costs in excess of \$10,000 for land; \$50,000 for buildings; \$25,000 for land and building improvements; and \$5,000 for all other capital assets are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements	20 - 40
Buildings and improvements	20 - 40
Machinery, vehicles, and equipment	5 - 15
Infrastructure	50

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



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

**Governmental Funds Financial Statements**

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

**L. Interfund Receivables and Payables**

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

**Government-Wide Financial Statements**

Transactions of a buyer/seller nature between governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net position as "internal balances".

**Fund Financial Statements**

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

**M. Interfund Transfers**

During the course of its operations, resources are permanently reallocated between funds.

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**N. Deferred Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

Deferred outflows of resources related to pensions and OPEB are reported in the government-wide and proprietary funds statements of net position.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

**O. Deferred Inflows of Resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows of resources related to pensions and OPEB are reported in the government-wide and proprietary funds statements of net position.

Unavailable revenue is reported in the governmental funds balance sheet. Unavailable revenue represents billed receivables that do not meet the availability criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.

**P. Unearned Revenue**

Unearned revenue is presented in the government-wide statement of net position and governmental funds balance sheet. Unearned revenue represents intergovernmental revenues received in advance of meeting eligibility requirements for revenue recognition.

**Q. Net Position and Fund Balances**

**Government-Wide Financial Statements and Proprietary Funds Financial Statements (Net Position)**

Net position represents the residual difference between assets and deferred outflows less liabilities and deferred inflows. Net position is reported as restricted when amounts are restricted by outside parties for a specific future use.

“Net Investment in Capital Assets” represents capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Net position has been “restricted” for the following:

“Capital purposes” represents amounts restricted as a result of the sale of town land.

“Community preservation” represents amounts restricted for open space, historic resource, and affordable housing purposes.

“Loans” represents outstanding septic loans receivable.

“Ambulance” represents amounts restricted for ambulance activities.

“Permanent funds – expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

“Permanent funds – nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents restrictions placed on assets from outside parties.

“Unrestricted” represents the remaining net position not considered invested in capital assets or restricted.

**Governmental Funds Financial Statements (Fund Balances)**

The following fund balance classifications describe the relative strength of the spending constraints:

*Nonspendable* — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

*Restricted* — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* — represents amounts that can be used only for specific purposes imposed by a formal action of Town Meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town Meeting.

*Assigned* — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town’s structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

*Unassigned* – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

**R. Long-Term Debt**

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

Long-term debt is reported as liabilities in the government-wide and proprietary funds statements of net position. Material bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

**Governmental Funds Financial Statements**

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

**S. Investment Income**

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

**T. Compensated Absences**

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

**Government-Wide and Proprietary Funds Financial Statements**

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

**Governmental Funds Financial Statements**

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

**U. Pensions**

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Essex Regional Retirement System (ERRS) and additions to/deductions from ERRS's fiduciary net position have been determined on the same basis as they are reported by ERRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**V. Post-Retirement Benefits**

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

In addition to providing pension benefits, and as more fully described in Note 10, the Town provides health and life insurance coverage for current and future retirees and their spouses.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

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

**W. Use of Estimates**

**Government-Wide and Fund Financial Statements**

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

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases to the original budget subsequent to the approval of the annual budget require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses, and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2021 approved budget for the general fund authorized \$17,690,949 in appropriations. During fiscal year 2021, supplemental appropriations totaling \$776,590 were authorized.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

**B. Fund Deficits**

At June 30, 2021, the following governmental fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Nonmajor Governmental Funds		
EOEEA Sediment Transport Grant	\$ <u>24,441</u>	State Grant



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 3 DEPOSITS AND INVESTMENTS**

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT). The Treasurer also has expanded investment powers as it relates to certain trust funds (as defined by the Commonwealth), permanent funds, and fiduciary funds.

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds and private purpose trust funds are held separately from other Town funds.

**A. Deposits – Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2021, \$4,100,463 of the Town's bank balance of \$16,813,198 was uninsured, uncollateralized and exposed to custodial credit risk. The carrying value of the Town's deposits totaled \$16,845,433.

**B. Investments Summary**

The Town's investments at June 30, 2021 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Total Amount	Investment Maturities (Years) Less Than 1
<u>Debt Securities:</u>		
Money market mutual funds	\$ 3,915	\$ 3,915
Mutual bond funds	621,778	621,778
External investment pools	127,987	127,987
Total debt securities	<u>753,680</u>	<u>\$ 753,680</u>
<u>Other Investments:</u>		
Equity mutual funds	<u>983,060</u>	
Total investments	<u>\$ 1,736,740</u>	

**C. Investments – Interest Rate Risk of Debt Securities**

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**D. Investments – Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2021 the Town's investments were not exposed to custodial credit risk.

**E. Investments – Credit Risk of Debt Securities**

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2021, the Town's debt securities were not rated by a nationally recognized statistical rating organization.

**F. Investments – Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2021, the Town was not exposed to concentration of credit risk.

**G. Investments – Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Town does not have a policy for foreign currency risk. As of June 30, 2021, the Town was not exposed to foreign currency risk.

**H. Investments – Fair Value Measurements**

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

Investment Type	Fair Value Measurements Using	
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
<u>Investments by Fair Value Level:</u>		
Money Market Mutual Funds	\$ 3,915	\$ 3,915
Mutual Bond Funds	621,778	621,778
Equity Mutual Funds	983,060	983,060
Total Investments at Fair Value	1,608,753	\$ 1,608,753
<u>Investments Measured at Amortized Cost:</u>		
External Investment Pools (MMDT)	127,987	
Total Investments	\$ 1,736,740	



**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2021**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

**NOTE 4 ACCOUNTS RECEIVABLE**

At June 30, 2021, receivables for the individual major governmental funds, nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes	\$ 629,812	\$ (260,451)	\$ 369,361
Tax liens	457,866	(415,255)	42,611
Motor vehicle and other excise taxes	137,870	-	137,870
Community preservation surcharges	5,495	-	5,495
Special assessments	3,082	-	3,082
Departmental and other	113,826	(11,064)	102,762
Loans	257,250	-	257,250
Installment sales	192,500	-	192,500
Total	\$ <u>1,797,701</u>	\$ <u>(686,770)</u>	\$ <u>1,110,931</u>

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

	Gross Amount	for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 343,076	\$ -	\$ 343,076
Sewer	375,783	-	375,783
Utility Liens	2,388	-	2,388
Special assessments	3,990,975	-	3,990,975
Intergovernmental	681,258	-	681,258
Total	\$ <u>5,393,480</u>	\$ <u>-</u>	\$ <u>5,393,480</u>



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 5 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 918,095	\$ -	\$ -	\$ 918,095
Construction in progress	5,986,696	-	(5,838,735)	147,961
Total capital assets not being depreciated	6,904,791	-	(5,838,735)	1,066,056
<u>Capital assets being depreciated:</u>				
Land improvements	1,306,634	-	-	1,306,634
Buildings and improvements	9,601,256	14,481,186	-	24,082,442
Machinery, vehicles and equipment	2,753,533	299,470	-	3,053,003
Infrastructure	1,281,766	176,633	-	1,458,399
Total capital assets being depreciated	14,943,189	14,957,289	-	29,900,478
<u>Less accumulated depreciation for:</u>				
Land improvements	(601,260)	(75,108)	-	(676,368)
Buildings and improvements	(2,999,945)	(341,179)	-	(3,341,124)
Machinery, vehicles and equipment	(2,121,946)	(185,732)	-	(2,307,678)
Infrastructure	(229,478)	(38,490)	-	(267,968)
Total accumulated depreciation	(5,952,629)	(640,509)	-	(6,593,138)
Total capital assets being depreciated, net	8,990,560	14,316,780	-	23,307,340
Total governmental activities capital assets, net	\$ 15,895,351	\$ 14,316,780	\$ (5,838,735)	\$ 24,373,396



**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2021**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 2	\$ -	\$ -	\$ 2
Total capital assets not being depreciated	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements	3,029,245	33,689	-	3,062,934
Machinery, vehicles and equipment	461,506	22,601	-	484,107
Infrastructure	<u>29,898,760</u>	<u>67,864</u>	<u>-</u>	<u>29,966,624</u>
Total capital assets being depreciated	<u>33,389,511</u>	<u>124,154</u>	<u>-</u>	<u>33,513,665</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(2,729,961)	(78,071)	-	(2,808,032)
Machinery, vehicles and equipment	(267,607)	(44,465)	-	(312,074)
Infrastructure	<u>(8,066,232)</u>	<u>(604,849)</u>	<u>-</u>	<u>(8,671,081)</u>
Total accumulated depreciation	<u>(11,063,800)</u>	<u>(727,385)</u>	<u>-</u>	<u>(11,791,187)</u>
Total capital assets being depreciated, net	<u>22,325,711</u>	<u>(603,231)</u>	<u>-</u>	<u>21,722,478</u>
Total business-type activities capital assets, net	<u>\$ 22,325,713</u>	<u>\$ (603,231)</u>	<u>\$ -</u>	<u>\$ 21,722,480</u>

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

**Governmental Activities:**

General government	\$ 186,377
Public safety	257,103
Education	7,752
Public works	141,003
Health and human services	1,670
Culture and recreation	<u>46,604</u>

Total depreciation expense - governmental activities \$ 640,509

**Business-Type Activities:**

Sewer	\$ 626,689
Water	<u>100,696</u>

Total depreciation expense - business-type activities \$ 727,385



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 6 INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2021 are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Total
General Fund	\$ -	\$ 5,568	\$ 328,911	\$ 334,479 (1)
Nonmajor Governmental Funds	403,103	4,164	-	407,267 (2)
Total	\$ 403,103	\$ 9,732	\$ 328,911	\$ 741,746

- (1) Represents budgeted transfers to the sewer enterprise fund (\$328,911) for operating subsidy. Also represents transfer to the Waterways fund (\$5,568).
- (2) Represents budgeted transfers from the nonmajor funds to the general fund (\$344,855) for the fiscal year operating budget. Also represents closeouts of old grant funds to the general fund (\$11,461) and nonmajor funds (\$4,164), and a transfer of COVID-19 CARES grant funds to the general fund (\$46,787) for eligible expenditures.

**NOTE 7 SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

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

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively. Interest expense in the government-wide financial statements is reported in the applicable governmental or business-type activities column.

Details related to the short-term debt activity for the fiscal year ended June 30, 2021 is as follows:

**Notes Payable – Water Enterprise Fund**

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2020	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2021
BAN	Permanent Water Loan	7/26/19	7/24/20	2.25	\$ 53,000	\$ -	\$ (53,000)	\$ -
BAN	Permanent Water Loan	7/24/20	7/23/21	0.89	-	41,000	-	41,000
Total					\$ 53,000	\$ 41,000	\$ (53,000)	\$ 41,000



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 7    SHORT-TERM FINANCING (CONTINUED)**

Subsequent Event

On July 23, 2021 the Town repaid \$12,000 of the Permanent Water Loan BAN with available funds and renewed the BAN in the amount of \$29,000 at an interest rate of 0.55% and a maturity date of July 22, 2022.

**NOTE 8    LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the year ended June 30, 2021:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable	\$ 12,385,257	\$ -	\$ (430,860)	\$ 11,954,397	\$ 447,085
Unamortized bond premium	815,301	-	(29,990)	785,311	29,990
Total bonds and notes payable	<u>13,200,558</u>	<u>-</u>	<u>(460,850)</u>	<u>12,739,708</u>	<u>477,075</u>
Compensated absences	238,747	4,510	(21,695)	221,562	22,156
Total	<u>\$ 13,439,305</u>	<u>\$ 4,510</u>	<u>\$ (482,545)</u>	<u>\$ 12,961,270</u>	<u>\$ 499,231</u>
	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
<b>Business-type Activities:</b>					
Bonds and notes payable	\$ 7,164,641	-	(1,435,049)	\$ 5,729,592	\$ 1,440,048
Compensated absences	48,543	696	(107)	49,132	4,913
Settlement Payable	1,664,135	-	(66,565)	1,597,570	66,565
Total	<u>\$ 8,877,319</u>	<u>\$ 696</u>	<u>\$ (1,501,721)</u>	<u>\$ 7,376,294</u>	<u>\$ 1,511,526</u>

Long-term liabilities of the governmental activities are generally liquidated by the general fund.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 9 LONG-TERM DEBT**

**Bonds and Notes Payable – Governmental Funds**

Details related to the outstanding indebtedness at June 30, 2021 and the debt service requirements are as follows:

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2020	Issued	Redeemed	Outstanding at June 30, 2021
MCWT - Title V Loan*	8/1/22	4.90	\$ 5,978	\$ -	\$ (1,962)	\$ 4,016
MCWT - Title V Loan*	7/15/25	0.00	60,000	-	(10,000)	50,000
MCWT - Title V Loan*	7/15/27	0.00	71,177	-	(8,898)	62,279
MCWT - Title V Interim Loan*	7/15/33	2.00	248,102	-	-	248,102
Building Remodeling - Town Hall	8/15/24	2.07	300,000	-	(60,000)	240,000
Public Safety Building	3/1/50	2.75-5.00	11,700,000	-	(350,000)	11,350,000
Total Governmental Funds			\$ 12,385,257	\$ -	\$ (430,860)	\$ 11,954,397

\* Notes from Direct Borrowings

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

Fiscal Year	Bonded Debt		Notes from Direct Borrowing		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 410,000	\$ 365,400	\$ 37,085	\$ 7,988	\$ 447,085	\$ 373,388
2023	410,000	346,400	37,437	7,561	447,437	353,961
2024	410,000	327,100	35,788	7,177	445,788	334,277
2025	450,000	314,800	36,156	6,835	486,156	321,635
2026	390,000	294,400	36,531	6,486	426,531	300,886
2027	390,000	274,900	26,914	6,130	416,914	281,030
2028	390,000	255,400	27,305	5,766	417,305	261,166
2029	390,000	235,900	18,808	5,394	408,808	241,294
2030	390,000	216,400	19,217	5,013	409,217	221,413
2031	400,000	196,900	19,635	4,625	419,635	201,525
2032	400,000	180,900	20,062	4,228	420,062	185,128
2033	400,000	168,900	20,498	3,822	420,498	172,722
2034	400,000	160,900	20,943	3,408	420,943	164,308
2035	400,000	152,900	8,018	2,984	408,018	155,884
2036	400,000	144,900	-	-	400,000	144,900
2037	400,000	136,900	-	-	400,000	136,900
2038	400,000	128,400	-	-	400,000	128,400
2039	400,000	119,900	-	-	400,000	119,900
2040	400,000	111,400	-	-	400,000	111,400
2041	400,000	102,400	-	-	400,000	102,400
2042	400,000	93,400	-	-	400,000	93,400
2043	400,000	83,900	-	-	400,000	83,900
2044	400,000	74,400	-	-	400,000	74,400
2045	400,000	64,900	-	-	400,000	64,900
2046	400,000	53,900	-	-	400,000	53,900
2047	390,000	42,900	-	-	390,000	42,900
2048	390,000	32,175	-	-	390,000	32,175
2049	390,000	21,450	-	-	390,000	21,450
2050	390,000	10,725	-	-	390,000	10,725
Total	\$ 11,590,000	\$ 4,712,850	\$ 364,397	\$ 77,417	\$ 11,954,397	\$ 4,790,267



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

**Bonds Payable – Water Enterprise Fund**

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2020	Issued	Redeemed	Outstanding at June 30, 2021
Refunding Water Treatment Facility	8/15/20	2.00	\$ 20,000	\$ -	\$ (20,000)	\$ -
Refunding Water	8/15/24	2.00 - 3.00	49,000	-	(10,000)	39,000
Total			<u>\$ 69,000</u>	<u>\$ -</u>	<u>\$ (30,000)</u>	<u>\$ 39,000</u>

Debt service requirements for principal and interest for the water enterprise fund bonds payable in future years are as follows:

Fiscal Year	Principal	Interest	Total
2022	\$ 10,000	\$ 970	\$ 10,970
2023	10,000	720	10,720
2024	10,000	420	10,420
2025	9,000	135	9,135
Total	<u>\$ 39,000</u>	<u>\$ 2,245</u>	<u>\$ 41,245</u>

**Bonds and Notes Payable – Sewer Enterprise Fund**

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2020	Issued	Redeemed	Outstanding at June 30, 2021
MCWT*	8/1/23	4.43	\$ 1,130,000	\$ -	\$ (270,000)	\$ 860,000
MCWT*	8/1/23	4.43	1,395,000	-	(335,000)	1,060,000
MCWT*	8/1/23	4.43	630,000	-	(150,000)	480,000
MCWT*	7/15/25	0.00	2,894,922	-	(482,487)	2,412,435
MCWT*	7/20/26	0.00	390,390	-	(55,770)	334,620
MCWT*	7/15/27	0.00	294,329	-	(36,792)	257,537
Refunding Sewer	8/15/24	2.00 - 3.00	361,000	-	(75,000)	286,000
Total			<u>\$ 7,095,641</u>	<u>\$ -</u>	<u>\$ (1,405,049)</u>	<u>\$ 5,690,592</u>

\* Notes from Direct Borrowings



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

Debt service requirements for principal and interest for the sewer enterprise fund bonds and notes payable in future years are as follows:

Fiscal Year	Bonded Debt		Notes from Direct Borrowing		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 75,000	\$ 7,080	\$ 1,355,048	\$ 203,752	\$ 1,430,048	\$ 210,832
2023	70,000	5,280	1,380,048	143,476	1,450,048	148,756
2024	70,000	3,180	1,390,048	82,326	1,460,048	85,506
2025	71,000	1,065	575,048	41,300	646,048	42,365
2026	-	-	575,048	20,650	575,048	20,650
2027	-	-	92,561	-	92,561	-
2028	-	-	36,791	-	36,791	-
Total	\$ 286,000	\$ 16,605	\$ 5,404,592	\$ 491,504	\$ 5,690,592	\$ 508,109

The Town receives subsidy assistance from the Massachusetts Clean Water Trust (MCWT) which operates a water pollution abatement bond program for community-owned water systems. Principal and interest on the outstanding bonds for MCWT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2021, the Town's subsidy totaled approximately \$424,000. Future subsidies total approximately \$1,103,000. The amount of MCWT bonds outstanding at June 30, 2021, totaled \$5,768,989.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2021, the Town had \$751,898 authorized and unissued long-term debt for Title V septic repairs.

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS**

**Plan Description** – The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the Plan) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand-alone, GAAP-basis audited financial report.

The Plan is administered by the Town Treasurer as having been duly designated as the Trustee by a vote of the Board of Selectmen.

**Benefits Provided** – The Town provides health, dental and life insurance coverage for its retirees and their survivors. The costs of administering the Plan are paid by the Town.

**Contributions** – The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town are 25%-40% and 75%-60%, respectively, depending upon the type of plan selected. The Plan members and Town each contribute 50% towards a life insurance policy. Plan members pay 100% of the dental plan.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

For the fiscal year ended June 30, 2021, employer contributions totaled \$1,565,596. The Plan did not receive contributions from any other sources.

**Plan Investments** – The Town’s policy in regard to the allocation of invested assets is established and may be amended by the Board of Selectmen by a majority vote. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan.

For the year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 23.64%. The money-weighted rate of return expresses investment performance, net of investment expense.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class include in the target asset allocation as of June 30, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Fixed Income	35.50%	1.40%
Domestic Equity - Large Cap	21.75%	4.90%
Domestic Equity - Small/Mid Cap	16.50%	5.40%
International Equity - Developed Market	9.50%	5.32%
International Fixed Income	7.00%	1.30%
Alternatives	4.75%	6.32%
International Equity-Emerging Market	4.75%	6.26%
Cash and Cash Equivalents	0.25%	0.00%
Real Estate	0.00%	6.25%
Total	<u>100.00%</u>	

**Participants Covered by Benefit Terms** – The number of participants as of July 1, 2020, the latest actuarial valuation, was as follows:

Active employees	35
Retirees and survivors	<u>29</u>
Total	<u>64</u>



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Net OPEB Liability** – Changes in the net OPEB liability are as follows:

	Total OPEB Liability	Increase (Decrease) Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2020, as Restated*	\$ 5,273,805	\$ -	\$ 5,273,805
Changes for the Year:			
Service Cost	94,508	-	94,508
Interest	157,765	-	157,765
Difference Between Expected and Actual Experience	242,853	-	242,853
Changes of Assumptions	(1,199,428)	-	(1,199,428)
Contributions - Employer	-	1,565,596	(1,565,596)
Investment Income	-	263,714	(263,714)
Benefits Payments	(220,557)	(220,557)	-
Net Changes	(924,859)	1,608,753	(2,533,612)
Balances at June 30, 2021	\$ 4,348,946	\$ 1,608,753	\$ 2,740,193

Fiduciary Net Position as a Percentage of the Total OPEB Liability

36.99%

\*The June 30, 2020 Total OPEB Liability was restated by \$170,291 due to the Town's adoption of a GASB compliant OPEB trust fund in fiscal year 2021 which resulted in a change in the measurement date of the liability reported under GASB Statement No. 75. See Note 19.

The OPEB trust fund reported in the fiduciary funds financial statements is reported using the flow of economic resources measurement focus and uses the accrual basis of accounting. Contributions are recognized as additions in the period when they have become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred.

The Town's net OPEB liability was measured as of June 30, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2020 which was rolled forward to the measurement date of June 30, 2021.

**Actuarial Assumptions**

The total OPEB liability in the July 1, 2020 actuarial valuation and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Discount Rate:	5.90% (3.00% as of June 30, 2020)
Healthcare/Medical Cost Trend Rate:	4.50%
Pre-Retirement Mortality:	RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females, set forward 1 year for females.
Post-Retirement Mortality:	RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for females.
Disabled Mortality:	P-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year for males and females.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

The actuarial assumptions used to calculate the actuarial accrued liability and the service cost primarily reflect the latest experience studies of the Massachusetts PERAC issued in 2014 and their most recent analysis of retiree mortality during 2015 and 2016.

**Discount Rate** – The discount rate used to measure the total OPEB liability was 5.90%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate** – The following presents the total OPEB liability calculated using the current discount rate of 5.90%, as well as what the total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower (4.90%) or 1 percentage point higher (6.90%) than the current rate:

	1% Decrease (4.90%)	Current Discount Rate (5.90%)	1% Increase (6.90%)
Total OPEB Liability	\$ 3,273,735	\$ 2,740,193	\$ 2,319,269

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates** – The following presents the total OPEB liability calculated using the current healthcare cost trend rates (4.50%) as well as what the total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower (3.50%) or 1 percentage point higher (5.50%) than the current rate:

	1% Decrease (3.50%)	Current Trend Rate (4.50%)	1% Increase (5.50%)
Total OPEB Liability	\$ 2,235,249	\$ 2,740,193	\$ 3,359,147

**OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources** – For the year ended June 30, 2021, the Town recognized OPEB expense of (\$77,796). At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 194,282	\$ 106,957
Changes of assumptions	-	962,030
Differences between expected and actual earnings on Plan investments	-	179,683
Total	\$ 194,282	\$ 1,248,670



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

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

<u>Year ended June 30</u>	<u>Amount</u>
2022	\$ (290,959)
2023	(290,958)
2024	(236,236)
2025	(236,235)
Total	\$ <u>(1,054,388)</u>

**NOTE 11 FUND BALANCES**

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	<u>General</u>	<u>Municipal Safety Building</u>	<u>Conomo Point</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>					
Permanent fund principal	\$ -	\$ -	\$ -	\$ 248,679	\$ 248,679
<b>Restricted for:</b>					
Municipal insurance	25,497	-	-	-	25,497
Loans	-	-	-	257,250	257,250
General government	-	-	-	178,697	178,697
Public safety	-	2,289,860	-	279,569	2,569,429
Public works	-	-	-	874,818	874,818
Health and human services	-	-	-	32,648	32,648
Culture and recreation	-	-	-	49,816	49,816
Community preservation	-	-	-	784,640	784,640
Capital purposes	-	-	3,205,228	-	3,205,228
Subtotal - Restricted	<u>25,497</u>	<u>2,289,860</u>	<u>3,205,228</u>	<u>2,457,438</u>	<u>7,978,023</u>
<b>Committed to:</b>					
Subsequent year's expenditures	25,000	-	-	-	25,000
Continuing appropriations	357,200	-	-	-	357,200
Other stabilization	46,015	-	-	-	46,015
Capital stabilization	437,744	-	-	-	437,744
Subtotal - Committed	<u>865,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>865,959</u>
<b>Assigned to:</b>					
General government	27,882	-	-	-	27,882
Public works	9,325	-	-	-	9,325
Subtotal - Assigned	<u>37,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,207</u>
<b>Unassigned</b>	<u>4,269,389</u>	<u>-</u>	<u>-</u>	<u>(24,441)</u>	<u>4,244,948</u>
Total	<u>\$ 5,198,052</u>	<u>\$ 2,289,860</u>	<u>\$ 3,205,228</u>	<u>\$ 2,681,676</u>	<u>\$ 13,374,816</u>



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 12 STABILIZATION FUNDS**

The Town maintains a general stabilization, town celebrations stabilization, Essex River and Bay dredging stabilization, town buildings capital, town hall capital, Conomo Point capital, recreational capital, vehicle and major equipment capital, public safety building, and street light capital stabilization funds that were established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization funds require two-thirds vote of Town meeting. Investment income is retained by the funds.

The balance of the Town's stabilization funds at June 30, 2021 are reported as follows:

Fund	Amount
Stabilization Funds	
<i>Committed for Capital and Other Purposes:</i>	
Conomo Point	\$ 108,629
Recreation	107,227
Town Buildings	79,187
Town Hall	70,560
Vehicles and Major Equipment	45,055
Town Celebrations	25,009
Public Safety Building	21,006
Essex River and Bay Dredging	21,006
Street Lighting	6,080
Subtotal	<u>483,759</u>
<i>Unassigned:</i>	
General Stabilization	1,042,161
Total Stabilization Funds	<u>\$ 1,525,920</u>

**NOTE 13 RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based health care plan for its active employees. The Town also participates in a premium-based workers' compensation plan. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town has a municipal building fund that is used to subsidize the Town's premium-based insurance. As of June 30, 2021, this fund had a balance of \$25,497, which is reported in the general fund as restricted fund balance.

**NOTE 14 OPERATING LEASES (RENTAL INCOME)**

The Town leases land to property owners within the Conomo Point area of the Town. Subsequent to the end of the 5<sup>th</sup> year annual bridge lease term, long-term (20-year) leases commenced on January 1, 2017. For the year ended June 30, 2021, the Town received \$507,183 in rental income, which is reported in the general fund as lease revenue.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 14 OPERATING LEASES (RENTAL INCOME) (CONTINUED)**

Future rental revenues are expected to total \$7,803,801; which represents the total calendar year 2021 annual rents of \$503,471 multiplied by the remaining lives of the 20-year lease agreements (15.5 years) as of June 30, 2021. Rents will be adjusted annually based upon the consumer price index which is currently undefined for calendar year 2021.

**NOTE 15 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM**

**General Information about the Pension Plan**

*Plan description.* Employees of the Town deemed eligible by the Essex Regional Retirement Board are provided with pensions through the Essex Regional Retirement System (ERRS) – a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Membership in the ERRS is mandatory immediately upon the commencement of employment for all permanent, full time employees (except for school department employees who serve in a teaching capacity). The ERRS issues a publicly available financial report that can be obtained by contacting the ERRS located at 491 Maple Street, Suite 202, Danvers, Massachusetts, 01923.

*Benefits provided.* Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the plan; Group 1, Group 2, and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service if hired after 1978 and if classified in groups 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 50 years of age with 10 years of service if in group 2, and 55 years of age if hired prior to 1978 or if classified in group 4. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80%-85% pension and 15%-20% annuity.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 15 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM (CONTINUED)**

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

*Contributions.* Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Employers are required to pay an actuarially determined annual appropriation.

The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the plan's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The pension fund appropriations are allocated amongst employers based on covered payroll. Active member employees contribute between 5% and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30,000. Contributions to the pension plan from the Town were \$644,034 for the year ended June 30, 2021.

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

At June 30, 2021, the Town reported a liability of \$6,620,942 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020; which was rolled forward to the measurement date of December 31, 2020. The Town's proportion of the net pension liability is a blended rate of the proportionate share of active employers covered payroll and direct charges for early retirement incentives. At June 30, 2021, the Town's proportion was 1.668%, which compared to a proportion of 1.739% at June 30, 2020.

For the year ended June 30, 2021, the Town recognized pension expense of \$670,889. At June 30, 2021, the Town reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

<u>Deferral Category:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 723	\$ 5,677
Differences between projected and actual earnings on investments	-	492,602
Changes of assumptions	442,930	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,150	300,836
Total	<u>\$ 520,803</u>	<u>\$ 799,115</u>



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 15 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM (CONTINUED)**

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

<u>Year Ended June 30</u>	<u>Amount</u>
2022	\$ (9,991)
2023	(9,241)
2024	(124,929)
2025	(134,151)
Total	<u>\$ (278,312)</u>

*Actuarial assumptions.* The total pension liability was determined using the following actuarial assumptions:

Salary increases	Based on years of service, ranging from 7.50% at zero years of service decreasing to 3.75% after five years of service.
Mortality Rates:	Pre-Retirement – The RP-2014 Employee Mortality Table projected generationally with scale MP-2019.  Healthy Retiree – The RP-2014 Healthy Annuitant Mortality Table projected generationally with scale MP-2019.  Disabled Retiree – The RP-2014 Healthy Annuitant Mortality Table, set forward two years, projected generationally with scale MP-2019.
Investment rate of return:	7.30%
Cost of living adjustments:	2.0% of the first \$14,000 for fiscal year 2021, and 3% of the first \$14,000 thereafter.
Rates of retirement:	Varies based upon age for general employees, police and fire employees.

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



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 15 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM (CONTINUED)**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

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

*Discount rate.* The discount rate used to measure the total pension liability was 7.3%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate.* The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.3%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.3%) or 1-percentage-point higher (8.3%) than the current rate:

	1% Decrease (6.3%)	Current Discount Rate (7.3%)	1% Increase (8.3%)
Town's Proportionate Share of the Net Pension Liability	\$ 8,477,843	\$ 6,620,942	\$ 5,060,199

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued ERRS financial report.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 16 SETTLEMENT AGREEMENT**

The Town entered into a Settlement Agreement (Agreement) with the City of Gloucester (City) regarding certain stipulations, as set forth in its June 6, 2000 inter-municipal agreement (IMA) concerning the collection, treatment and disposal of wastewater generated in Essex and processed through the City's sanitary sewer system, regarding the Town's obligation to pay the City certain sums of money to defray debt service costs related to the City's combined sewer overflow (CSO) project.

The Agreement provides the Town to pay the City a total of \$1,664,135 in equal, annual installments of \$66,565 over a 25-year period commencing July 2020 (fiscal year 2021) and concluding by July 2044 (fiscal year 2045). Total installments outstanding at June 30, 2021 amount to \$1,597,570. Accordingly, \$1,597,570 has been recorded as a liability in the sewer enterprise fund's and business-type activities' statements of net position.

The Agreement also provides that under the new IMA, effective October 1, 2019, the Town will be charged a sewer rate that is 14% less than the sewer rate charged to the City's residential users. The Town expects that this reduced sewer rate will completely offset each of the annual CSO-related payments.

**NOTE 17 COMMITMENTS AND CONTINGENCIES**

The Town has entered into, or is planning to enter into, contracts totaling approximately \$8,400,000 for the municipal safety building, vehicles and equipment, streets, buildings and improvements, police cruisers, and water and sewer infrastructure in accordance with its five-year capital improvement plan.

Significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$394,407 at June 30, 2021.

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



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 18 PRIOR PERIOD ADJUSTMENT**

The Town changed the measurement date of its net other postemployment benefits liability, reported in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to June 30, 2021; which is also the OPEB Plan's fiscal year end. The Town's previous accounting policy would have reported their liability as of a measurement date one year earlier than the OPEB Plan's fiscal year end. As a result, the Town has restated its beginning net position as of June 30, 2020, to reflect the change of accounting principle. The cumulative effects of the change are presented as follows:

	Governmental Activities	Business-Type Activities	Sewer Enterprise Fund	Water Enterprise Fund
Net Position, June 30, 2020, as previously reported	\$ 15,428,683	\$ 20,460,633	\$ 20,740,528	\$ (279,895)
Cumulative Affects of Restatements:				
Net OPEB Liability	<u>(147,922)</u>	<u>(22,369)</u>	<u>(7,234)</u>	<u>(15,135)</u>
Net Position, June 30, 2020, as restated	<u>\$ 15,280,761</u>	<u>\$ 20,438,264</u>	<u>\$ 20,733,294</u>	<u>\$ (295,030)</u>

**NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement No. 87, Leases, which is required to be implemented during fiscal year 2022. Management is currently evaluating the Statement's future impact on the basic financial statements.
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which is required to be implemented during fiscal year 2022. Management is currently evaluating the Statement's future impact on the basic financial statements.
- Statement No. 91, Conduit Debt Obligations, which is required to be implemented during fiscal year 2023. Management is currently evaluating the Statement's future impact on the basic financial statements.
- Statement No. 92, Omnibus 2020, which is required to be implemented during fiscal year 2023. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 93, Replacement of Interbank Offered Rates, which is required to be implemented during fiscal year 2022. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, which is required to be implemented during fiscal year 2023. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 96, Subscription-Based Information Technology Arrangements, which is required to be implemented during fiscal year 2023. Management is evaluating the Statement's future impact on the basic financial statements.



**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

**NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS (CONTINUED)**

- *Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, which is required to be implemented during fiscal year 2022. Management is evaluating the Statement's future impact on the basic financial statements.*

These statements will be implemented by their respective implementation dates.



**TOWN OF ESSEX, MASSACHUSETTS**  
**GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE**  
**IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2021**

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ -	\$ 15,202,261	\$ -	\$ 15,202,261
Motor Vehicle and Other Excise Taxes	-	648,267	-	648,267
Hotel/Motel Tax	-	10,000	-	10,000
Tax Liens	-	-	-	-
Charges for Services	-	164,890	-	164,890
Intergovernmental	-	294,359	-	294,359
Special Assessments	-	6,800	-	6,800
Penalties and Interest on Taxes	-	30,692	-	30,692
Licenses and Permits	-	187,615	-	187,615
Fines and Forfeitures	-	16,272	-	16,272
Lease Revenue	-	440,500	-	440,500
Departmental and Other	-	99,596	-	99,596
Investment Income	-	141,343	-	141,343
Total Revenues	-	17,242,595	-	17,242,595
<b>EXPENDITURES</b>				
Current:				
General Government	175,780	1,296,220	15,882	1,487,882
Public Safety	13,898	2,169,188	97,502	2,280,588
Education	-	10,054,580	-	10,054,580
Public Works	64,150	1,018,330	-	1,082,480
Health and Human Services	36,350	381,487	-	417,837
Culture and Recreation	-	194,848	-	194,848
Pension Benefits	-	557,417	-	557,417
Employee Benefits	-	811,349	400,000	1,211,349
Property and Liability Insurance	-	127,594	-	127,594
State and County Charges	-	32,426	-	32,426
Debt Service:		-		
Principal	-	430,860	-	430,860
Interest	-	275,377	-	275,377
Total Expenditures	290,178	17,349,676	513,384	18,153,238
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(290,178)	(107,081)	(513,384)	(910,643)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	391,355	-	391,355
Transfers Out	-	(341,273)	(263,206)	(604,479)
Total Other Financing Sources (Uses)	-	50,082	(263,206)	(213,124)
<b>NET CHANGE IN FUND BALANCE</b>	(290,178)	(56,999)	(776,590)	(1,123,767)
Fund Balance - Beginning of Year	3,061,274	3,061,274	3,061,274	3,061,274
<b>FUND BALANCE - END OF YEAR</b>	\$ 2,771,096	\$ 3,004,275	\$ 2,284,684	\$ 1,937,507

See accompanying Independent Auditors' Report



**TOWN OF ESSEX, MASSACHUSETTS**  
**GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE**  
**IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2021**

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 15,121,829	\$ -	\$ 15,121,829	\$ (80,432)
967,052	-	967,052	318,785
14,398	-	14,398	4,398
2,751	-	2,751	2,751
173,420	-	173,420	8,530
278,969	-	278,969	(15,390)
-	-	-	(6,800)
45,266	-	45,266	14,574
306,321	-	306,321	118,706
21,455	-	21,455	5,183
507,183	-	507,183	66,683
52,549	-	52,549	(47,047)
67,399	-	67,399	(73,944)
<u>17,558,592</u>	<u>-</u>	<u>17,558,592</u>	<u>315,997</u>
1,069,247	175,882	1,245,129	242,753
1,927,344	119,210	2,046,554	234,034
10,042,589	-	10,042,589	11,991
928,043	61,475	989,518	92,962
310,122	37,840	347,962	69,875
147,210	-	147,210	47,638
547,429	-	547,429	9,988
1,066,022	-	1,066,022	145,327
114,175	-	114,175	13,419
32,426	-	32,426	-
430,860	-	430,860	-
265,795	-	265,795	9,582
<u>16,881,262</u>	<u>394,407</u>	<u>17,275,669</u>	<u>877,569</u>
<u>677,330</u>	<u>(394,407)</u>	<u>282,923</u>	<u>1,193,566</u>
449,603	-	449,603	58,248
<u>(604,479)</u>	<u>-</u>	<u>(604,479)</u>	<u>-</u>
<u>(154,876)</u>	<u>-</u>	<u>(154,876)</u>	<u>58,248</u>
522,454	(394,407)	128,047	1,251,814
<u>3,061,274</u>	<u>-</u>	<u>3,061,274</u>	<u>-</u>
<u>\$ 3,583,728</u>	<u>\$ (394,407)</u>	<u>\$ 3,189,321</u>	<u>\$ 1,251,814</u>

See accompanying Independent Auditors' Report.



**TOWN OF ESSEX, MASSACHUSETTS  
PENSION PLAN SCHEDULES  
JUNE 30, 2021**

**SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
ESSEX REGIONAL RETIREMENT SYSTEM (1) (2)**

	2021	2020	2019	2018	2017
Town's proportion of the net pension liability	1.668%	1.739%	1.719%	1.766%	1.724%
Town's proportionate share of the net pension liability	6,620,942	7,328,622	7,260,967	6,647,132	6,643,169
Town's covered payroll	2,353,626	2,261,786	2,190,580	2,110,254	2,264,722
Town's proportionate share of the net pension liability as a percentage of its covered payroll	281.31%	324.02%	331.46%	314.99%	293.33%
Plan fiduciary net position as a percentage of the total pension liability	59.73%	55.46%	51.89%	55.40%	51.12%
	2016	2015			
Town's proportion of the net pension liability	1.692%	1.672%			
Town's proportionate share of the net pension liability	6,147,565	5,672,204			
Town's covered payroll	2,231,674	2,146,894			
Town's proportionate share of the net pension liability as a percentage of its covered payroll	275.47%	264.21%			
Plan fiduciary net position as a percentage of the total pension liability	51.01%	52.27%			

- (1) Amounts presented were determined as of December 31 of the fiscal year.  
(2) Data is being accumulated annually to present 10 years of the reported information

**SCHEDULE OF TOWN CONTRIBUTIONS  
ESSEX REGIONAL RETIREMENT SYSTEM (1)**

	2021	2020	2019	2018	2017
Actuarially Required Contribution	\$ 644,034	\$ 624,736	\$ 574,361	\$ 550,026	\$ 499,581
Contributions in Relation to the Actuarially Required Contribution	(644,034)	(624,736)	(574,361)	(550,026)	(499,581)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Town's Covered Payroll	2,909,532	2,904,765	2,908,457	2,628,198	2,643,271
Contributions as a Percentage of Covered Payroll	22.14%	21.51%	19.75%	20.93%	18.90%
	2016	2015			
Actuarially Required Contribution	\$ 464,836	\$ 428,738			
Contributions in Relation to the Actuarially Required Contribution	(464,836)	(428,738)			
Contribution Deficiency (Excess)	\$ -	\$ -			
Town's Covered Payroll	2,576,699	2,442,528			
Contributions as a Percentage of Covered Payroll	18.04%	17.55%			

- (1) Data is being accumulated annually to present 10 years of the reported information

See accompanying Independent Auditors' Report.



**TOWN OF ESSEX, MASSACHUSETTS  
OTHER POSTEMPLOYMENT BENEFITS SCHEDULES  
JUNE 30, 2021**

**SCHEDULES OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS (1)**

	2021*	2020	2019	2018	2017
<b>Total OPEB Liability</b>					
Service cost	\$ 94,508	\$ 191,683	\$ 171,493	\$ 166,500	\$ 166,433
Interest on unfunded liability	157,765	156,212	151,162	154,619	161,606
Change in assumptions	(1,199,428)	-	-	(6,220)	-
Differences between actual and expected experience	242,853	-	-	(267,394)	-
Benefits payments	<u>(220,557)</u>	<u>(177,604)</u>	<u>(171,471)</u>	<u>(164,087)</u>	<u>(129,345)</u>
Net change in Total OPEB liability	(924,859)	170,291	151,184	(116,582)	198,694
Total OPEB liability - beginning	5,273,805	5,103,514	4,952,330	5,068,912	4,870,218
Total OPEB liability - ending (a)	<u>4,348,946</u>	<u>5,273,805</u>	<u>5,103,514</u>	<u>4,952,330</u>	<u>5,068,912</u>
<b>Fiduciary Net Position</b>					
Contributions - employer	1,565,596	177,604	171,471	164,087	129,345
Net investment income	263,714	-	-	-	-
Benefits payments	<u>(220,557)</u>	<u>(177,604)</u>	<u>(171,471)</u>	<u>(164,087)</u>	<u>(129,345)</u>
Net change in fiduciary net position	1,608,753	-	-	-	-
Fiduciary net position - beginning	-	-	-	-	-
Fiduciary net position - ending (b)	<u>1,608,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 2,740,193</u>	<u>\$ 5,273,805</u>	<u>\$ 5,103,514</u>	<u>\$ 4,952,330</u>	<u>\$ 5,068,912</u>
 Covered employee payroll	 \$ 2,516,593	 \$ 2,124,064	 \$ 2,124,064	 \$ 2,062,198	 \$ 2,779,588
Net OPEB liability as a percentage of covered employee payroll	108.89%	248.29%	240.27%	240.15%	182.36%

\*The June 30, 2020 Total OPEB Liability was restated by \$170,291 due to the Town's adoption of a GASB compliant OPEB trust fund in fiscal year 2021 which resulted in a change in the measurement date of the liability reported under GASB Statement No. 75. See Note 18.

(1) Data is being accumulated annually to present 10 years of the reported information

**SCHEDULE OF TOWN CONTRIBUTIONS – OPEB PLAN (2)**

	2021	2020	2019	2018	2017
Actuarially Required Contribution	\$ 227,260	\$ 444,475	\$ 416,800	\$ 417,580	\$ 407,671
Contributions in Relation to the Actuarially Required Contribution	<u>(1,565,596)</u>	<u>(177,604)</u>	<u>(171,471)</u>	<u>(164,087)</u>	<u>(129,345)</u>
Contribution Deficiency (Excess)	<u>\$ (1,338,336)</u>	<u>\$ 266,871</u>	<u>\$ 245,329</u>	<u>\$ 253,493</u>	<u>\$ 278,326</u>

(2) Data is being accumulated annually to present 10 years of the reported information

**SCHEDULE OF INVESTMENT RETURNS – OPEB PLAN (3)**

	2021
Annual money-weighted rate of return, net of investment expense	23.64%

(3) Data is being accumulated annually to present 10 years of the reported information



**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2021**

**NOTE A BUDGETARY – GAAP RECONCILIATION**

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

	<u>Revenues</u>	<u>Expenditures</u>	<u>OFS/ (OFU), net</u>	<u>Fund Balance</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual	\$ 17,558,592	\$ 17,275,669	\$ (154,876)	\$ 3,189,321
<u>Adjustments and reclassifications:</u>				
Net Change in Recording 60-Day Receipts	(34,333)	-	-	62,907
To record Encumbrances and Continuing Appropriations	-	(394,407)	-	394,407
To Reclassify the Activity of the Stabilization Funds to the General Fund	6,321	-	223,500	1,525,920
To Reclassify the Activity of the Municipal Building Trust Fund to the General Fund	14	-	-	25,497
To Present Contribution to the OPEB Trust Fund from the General Fund	<u>-</u>	<u>945,039</u>	<u>-</u>	<u>-</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 17,530,594</u>	<u>\$ 17,826,301</u>	<u>\$ 68,624</u>	<u>\$ 5,198,052</u>

**NOTE B METHODS AND ASSUMPTIONS – ACTUARIALLY DETERMINED CONTRIBUTIONS – OPEB**

The following methods and assumptions from the July 1, 2019 actuarial valuation were used to determine the most recent actuarially determined contribution rates:

Actuarial cost method:	Individual Entry Age Normal
Amortization Method:	Level Dollar
Remaining amortization period:	30 years from July 1, 2018
Asset valuation method:	Market Value
Inflation rate:	2.50%
Healthcare/Medical Cost Trend Rate:	4.50%

See accompanying Independent Auditors' Report.