

TOWN OF ESSEX, MASSACHUSETTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022



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INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen
Town of Essex, Massachusetts

Report on the Audit of the Financial Statements

Opinions

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 (the Town), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2021, the Town adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinions were not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

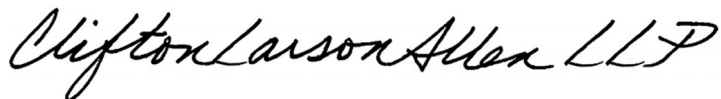
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparisons, and certain pension and other postemployment benefits information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2023, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Boston, Massachusetts
February 1, 2023

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

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, 2022.

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 \$40,518,932 (net position). Of this amount, no unrestricted net position is available to be used to meet the government's ongoing obligations to citizens and creditors. \$3,707,021 is available to support business-type activities.
- The Town's total net position increased by \$3,264,013.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$3,755,063, or 20.81%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$1,950,830 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, 2022**

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 93 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, Dam & Seawall Repair (special revenue), and Conomo Point (special revenue) funds, each of which are considered to be major funds. Data from the other 90 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, 2022**

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 26-59 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, 2022**

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 \$40,518,932 at the close of the fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current Assets	\$ 16,256,152	\$ 14,715,814	\$ 4,302,473	\$ 4,487,696	\$ 20,558,625	\$ 19,203,510
Noncurrent Assets (Excluding Capital Assets)	6,318,658	875,975	2,592,700	3,635,325	8,911,358	4,511,300
Capital assets (net)	26,527,063	24,373,396	21,288,294	21,722,482	47,815,357	46,095,878
Total Assets	49,101,873	39,965,185	28,183,467	29,845,503	77,285,340	69,810,688
Deferred Outflows of Resources	1,160,356	635,316	180,218	79,769	1,340,574	715,085
Liabilities						
Current Liabilities (Excluding Debt)	2,285,356	1,166,311	365,025	451,693	2,650,381	1,618,004
Noncurrent Liabilities (Excluding Debt)	7,886,729	8,508,897	2,703,906	2,626,868	10,590,635	11,135,765
Current Debt	504,513	477,075	1,460,048	1,440,048	1,964,561	1,917,123
Noncurrent Debt	11,724,413	12,262,633	2,829,496	4,289,544	14,553,909	16,552,177
Total Liabilities	22,401,011	22,414,916	7,358,475	8,808,153	29,759,486	31,223,069
Deferred Inflows of Resources	8,019,057	1,793,331	328,439	254,454	8,347,496	2,047,785
Net Position						
Net Investment in Capital Assets	16,451,604	14,308,713	16,969,750	15,951,890	33,421,354	30,260,603
Restricted	6,141,291	6,189,199	-	-	6,141,291	6,189,199
Unrestricted	(2,750,734)	(4,105,658)	3,707,021	4,910,775	956,287	805,117
Total Net Position	\$ 19,842,161	\$ 16,392,254	\$ 20,676,771	\$ 20,862,665	\$ 40,518,932	\$ 37,254,919

A portion of the Town's net position 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 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. \$3,707,021 may be used to support business-type activities.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Changes in Net Position

For the fiscal year ended June 30, 2022, the Town's total net position increased by \$3,264,013, compared to an increase of \$1,535,894 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program Revenues:						
Charges for Services	\$ 1,352,261	\$ 1,352,987	\$ 1,935,852	\$ 2,115,487	\$ 3,288,113	\$ 3,468,474
Operating Grants and Contributions	495,938	350,891	176,492	222,571	672,430	573,462
Capital Grants and Contributions	1,885,517	277,058	-	-	1,885,517	277,058
General Revenues:						
Real Estate and Personal Property Taxes	15,766,839	15,118,812	-	-	15,766,839	15,118,812
Motor Vehicle and Other Excise Taxes	1,001,994	1,024,189	-	-	1,001,994	1,024,189
Hotel/Motel Taxes	36,926	14,398	-	-	36,926	14,398
Lease Revenue	-	507,183	-	-	-	507,183
Interest Revenue	185,714	-	-	-	185,714	-
Penalties and Interest on Taxes	49,124	45,266	-	-	49,124	45,266
Community Preservation Surcharges	199,832	190,625	-	-	199,832	190,625
Grants and Contributions not Restricted to Specific Programs	344,694	320,877	-	-	344,694	320,877
Unrestricted Investment Income	35,798	73,929	-	-	35,798	73,929
Total Revenues	21,354,637	19,276,215	2,112,344	2,338,058	23,466,981	21,614,273
Expenses						
General Government	1,712,023	1,705,803	-	-	1,712,023	1,705,803
Public Safety	3,147,925	3,040,289	-	-	3,147,925	3,040,289
Education	10,474,915	10,050,341	-	-	10,474,915	10,050,341
Public Works	1,251,959	1,353,649	-	-	1,251,959	1,353,649
Health and Human Services	392,807	455,545	-	-	392,807	455,545
Culture and Recreation	321,633	366,021	-	-	321,633	366,021
Debt Service - Interest	274,557	365,643	-	-	274,557	365,643
Sewer	-	-	1,702,322	1,747,003	1,702,322	1,747,003
Water	-	-	924,827	495,565	924,827	495,565
Total Expenses	17,575,819	17,337,291	2,627,149	2,242,568	20,202,968	19,579,859
Change in Net Position Before Special Item and Transfers	3,778,818	1,938,924	(514,805)	95,490	3,264,013	2,034,414
Special Item - Gain on Sale of Lots	-	8,663	-	-	-	8,663
Transfers, Net	(328,911)	(328,911)	328,911	328,911	-	-
Change in Net Position	3,449,907	1,618,676	(185,894)	424,401	3,264,013	2,043,077
Net Position - Beginning of Year	16,392,254	15,280,761	20,862,665	20,438,264	37,254,919	35,719,025
Net Position - End of Year	\$ 19,842,161	\$ 16,899,437	\$ 20,676,771	\$ 20,862,665	\$ 40,518,932	\$ 37,762,102

Governmental activities increased the Town's net position \$3,449,907. In the prior year, governmental activities increased the Town's net position \$1,111,493. The key element of this year's increase relates to the budgetary surplus recognized in the general fund defer.

Business-type activities decreased the Town's net position by \$185,894. In the prior year, business-type activities increased the Town's net position by \$424,401. The key elements of this change relate to increased expenses associated with the Town's net pension and net OPEB liabilities.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

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 \$13,657,059, an increase of \$282,243 in comparison with the prior year. \$3,755,063 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable – \$257,892
- Restricted – \$7,685,567
- Committed – \$1,923,812
- Assigned – \$34,725

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 \$3,755,063, while total fund balance was \$5,739,101. 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 20.81% of total general fund expenditures and transfers out, while total fund balance represents 31.80% of that same amount.

The fund balance of the Town's general fund increased by \$541,049 during fiscal year 2022. The Town anticipated utilizing approximately \$1,740,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$1,786,000 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 \$199,294 during the current year, which consisted of the receipt of an installment sales receivable for the sale of lots.

The fund balance of the Dam & Seawall Repair fund (special revenue) decreased by \$537,300 during the current year. The fund received \$1,607,543 of intergovernmental revenues and incurred \$2,144,843 of expenditures.

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 \$3,932,713 and (\$225,692), respectively. The sewer enterprise fund had a decrease in net position of \$93,297 for the year, and the water enterprise fund had a decrease in net position of \$92,597 for the year.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

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

General Fund Budgetary Highlights

The original general fund budget of \$17,941,610 was increased by \$1,324,300 (7.4%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
OPEB Trust contribution	\$ 500,000	Unassigned fund balance
Capital projects	343,000	Unassigned fund balance
Pavillion at Centennial Grove	150,000	Unassigned fund balance
Snow removal tractor	94,600	Unassigned fund balance
Other	236,700	Unassigned fund balance
Total	\$ 1,324,300	

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 \$1,340,000.

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 \$47,815,357 (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 \$1,719,481, or 3.7% (a \$2,153,667 increase for governmental activities and a \$434,186 decrease for business-type activities).

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

- Dam and Seawall Repair construction in progress (\$2,145,000)
- Municipal Safety Building (\$480,000)
- Sewer Equipment (\$144,000)
- Infrastructure Improvements (\$166,000)

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

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 918,095	\$ 918,095	\$ 2	\$ 2	\$ 918,097	\$ 918,097
Land Improvements	1,493,126	630,266	-	-	1,493,126	630,266
Buildings and Improvements	20,728,739	20,741,318	207,157	254,902	20,935,896	20,996,220
Machinery, Vehicles and Equipment	814,957	745,325	264,141	172,033	1,079,098	917,358
Infrastructure	1,313,857	1,190,431	20,816,994	21,295,543	22,130,851	22,485,974
Construction in Progress	1,258,289	147,961	-	-	1,258,289	147,961
Total Capital Assets	\$ 26,527,063	\$ 24,373,396	\$ 21,288,294	\$ 21,722,480	\$ 47,815,357	\$ 46,095,876

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, 2022**

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$16,518,470 which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
General Obligation Bonds	\$ 11,885,434	\$ 12,375,311	\$ 240,000	\$ 325,000	\$ 12,125,434	\$ 12,700,311
MCWT Notes	343,492	364,397	4,049,544	5,404,592	4,393,036	5,768,989
Total Bonds and Notes	<u>\$ 12,228,926</u>	<u>\$ 12,739,708</u>	<u>\$ 4,289,544</u>	<u>\$ 5,729,592</u>	<u>\$ 16,518,470</u>	<u>\$ 18,469,300</u>

The Town's total bonded debt decreased by \$1,950,830 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 2023 general fund operating budget was influenced by five major factors: the property tax levy governed by Proposition 2 ½, new revenue sources, School District budget apportionments, employee wage increases, and increased state aid.

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 FY2022 the Town of Essex had an excess levy of \$186,326, generated in part by conservative budgeting 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 increased to \$435,583 for FY23. Essex has not had an operational override since May of 2005.

Another component of Proposition 2 ½ is a factor added for "new growth". \$122,308 was certified for "new growth" in FY 2022, down \$5,847 from \$128,155 in FY 2021. For fiscal year 2023, "new growth" has been certified at \$122,629.

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 2023 the Essex apportionment increased by 4.39% (\$381,841) and totaled \$9,077,671, up from \$8,695,830 in fiscal year 2022. Also in fiscal year 2023, a debt assessment from the District relative to the Manchester Essex Regional High School building construction and the Memorial Elementary School of \$1,483,892 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$78,600 increase from the fiscal year 2022 assessment of \$1,405,292. We expect the District to issue one final round of debt related to the Memorial Elementary School in FY24, so we anticipate a small increase in the Town's debt assessment.

**TOWN OF ESSEX, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

The Town of Essex is also a member of the Essex North Shore Agricultural and Technical School District. The Town's assessment for FY23 is \$257,940, which represents an increase of \$39,860 over the prior year (\$218,080). While the cost per student has remained roughly the same, the Town is sending an additional two students to the District. This is driving the increased assessment for FY23.

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, 2022, and run for three years. Percentage increases were two percent for union and non-union employees between fiscal year 2022 and fiscal year 2023.

In fiscal year 2022, the Commonwealth of Massachusetts provided the Town with \$294,901 in State Cherry Sheet aid. We project \$309,878 of State Cherry Sheet aid in fiscal year 2023, representing a 5.08% increase of \$14,977.

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 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, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,712,115	\$ 2,577,050	\$ 8,289,165
Restricted Cash and Cash Equivalents	8,174,690	-	8,174,690
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	318,518	-	318,518
Tax and Utility Liens	86,744	4,913	91,657
Motor Vehicle and Other Excise Taxes	50,620	-	50,620
Community Preservation Surcharges	6,090	-	6,090
Water	-	321,337	321,337
Sewer	-	354,334	354,334
Special Assessments	-	816,878	816,878
Departmental and Other	113,010	-	113,010
Intergovernmental	1,441,043	227,961	1,669,004
Loans	18,497	-	18,497
Leases	334,825	-	334,825
Total Current Assets	16,256,152	4,302,473	20,558,625
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	-	2,352,374	2,352,374
Intergovernmental	-	240,326	240,326
Loans	220,256	-	220,256
Leases	5,651,768	-	5,651,768
Tax Foreclosures	446,634	-	446,634
Capital Assets not being Depreciated	2,176,384	2	2,176,386
Capital Assets, Net of Accumulated Depreciation	24,350,679	21,288,292	45,638,971
Total Noncurrent Assets	32,845,721	23,880,994	56,726,715
Total Assets	49,101,873	28,183,467	77,285,340
DEFERRED OUTFLOWS OF RESOURCES			
Related to OPEB	578,740	89,886	668,626
Related to Pensions	581,616	90,332	671,948
Total Deferred Outflows of Resources	1,160,356	180,218	1,340,574
LIABILITIES			
Current Liabilities:			
Warrants Payable	1,471,132	138,576	1,609,708
Accrued Payroll	95,292	12,326	107,618
Other Liabilities	45,896	-	45,896
Unearned Revenue	531,644	-	531,644
Accrued Interest	118,871	113,443	232,314
Settlement Payable	-	66,565	66,565
Compensated Absences	22,521	5,115	27,636
Short-Term Notes Payable	-	29,000	29,000
Long-Term Bonds and Notes Payable	504,513	1,460,048	1,964,561
Total Current Liabilities	2,789,869	1,825,073	4,614,942
Noncurrent Liabilities:			
Compensated Absences	202,692	46,034	248,726
Settlement Payable	-	1,464,440	1,464,440
Net OPEB Liability	2,670,833	414,815	3,085,648
Net Pension Liability	5,013,204	778,617	5,791,821
Long-Term Bonds and Notes Payable	11,724,413	2,829,496	14,553,909
Total Noncurrent Liabilities	19,611,142	5,533,402	25,144,544
Total Liabilities	22,401,011	7,358,475	29,759,486
DEFERRED INFLOWS OF RESOURCES			
Related to OPEB	670,275	104,102	774,377
Related to Pensions	1,444,420	224,337	1,668,757
Related to Leases	5,904,362	-	5,904,362
Total Deferred Inflows of Resources	8,019,057	328,439	8,347,496
NET POSITION			
Net Investment in Capital Assets	16,451,604	16,969,750	33,421,354
Restricted for:			
Capital Purposes	3,404,522	-	3,404,522
Community Preservation	1,030,018	-	1,030,018
Loans	220,256	-	220,256
Ambulance	379,199	-	379,199
Permanent Funds:			
Expendable	90,377	-	90,377
Nonexpendable	257,892	-	257,892
Other Specific Purposes	759,027	-	759,027
Unrestricted	(2,750,734)	3,707,021	956,287
Total Net Position	\$ 19,842,161	\$ 20,676,771	\$ 40,518,932

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General Government	\$ 1,712,023	\$ 769,926	\$ 163,654	\$ 90,139	\$ (688,304)
Public Safety	3,147,925	507,092	175,972	1,607,542	(857,319)
Education	10,474,915	-	132,897	-	(10,342,018)
Public Works	1,251,959	52,974	-	187,836	(1,011,149)
Health and Human Services	392,807	20,359	15,262	-	(357,186)
Culture and Recreation	321,633	1,910	8,153	-	(311,570)
Debt Service-Interest	274,557	-	-	-	(274,557)
Total Governmental Activities	17,575,819	1,352,261	495,938	1,885,517	(13,842,103)
Business-Type Activities:					
Sewer	1,702,322	1,103,911	176,203	-	(422,208)
Water	924,827	831,941	289	-	(92,597)
Total Business-Type Activities	2,627,149	1,935,852	176,492	-	(514,805)
Total Primary Government	\$ 20,202,968	\$ 3,288,113	\$ 672,430	\$ 1,885,517	\$ (14,356,908)

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2022**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION			
Net (Expense) Revenue (From Previous Page)	\$ (13,842,103)	\$ (514,805)	\$ (14,356,908)
General Revenues:			
Real Estate and Personal Property Taxes	15,766,839	-	15,766,839
Motor Vehicle and Other Excise Taxes	1,001,994	-	1,001,994
Interest Revenue	185,714	-	185,714
Hotel/Motel Taxes	36,926	-	36,926
Penalties and Interest on Taxes	49,124	-	49,124
Community Preservation Surcharges	199,832	-	199,832
Grants and Contributions not Restricted to Specific Programs	344,694	-	344,694
Unrestricted Investment Income	35,798	-	35,798
Transfers, Net	(328,911)	328,911	-
Total General Revenues and Transfers, Net	17,292,010	328,911	17,620,921
CHANGE IN NET POSITION	3,449,907	(185,894)	3,264,013
Net Position - Beginning of Year	16,392,254	20,862,665	37,254,919
NET POSITION - END OF YEAR	<u>\$ 19,842,161</u>	<u>\$ 20,676,771</u>	<u>\$ 40,518,932</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2022**

ASSETS	General	Dam & Seawall Repair	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 5,712,115	\$ -	\$ -	\$ -	\$ 5,712,115
Receivables, Net of Allowance for Uncollectible Amounts:					
Real Estate and Personal Property Taxes	318,518	-	-	-	318,518
Tax Liens	86,744	-	-	-	86,744
Motor Vehicle and Other Excise Taxes	50,620	-	-	-	50,620
Community Preservation Surcharges	-	-	-	6,090	6,090
Departmental and Other	11,296	-	-	101,714	113,010
Intergovernmental	-	1,357,543	-	83,500	1,441,043
Loans	-	-	-	238,753	238,753
Lease	5,986,593	-	-	-	5,986,593
Due from Other Funds	99,254	-	-	-	99,254
Tax Foreclosures	446,634	-	-	-	446,634
Restricted Assets:					
Cash and Cash Equivalents	25,501	-	3,404,522	4,744,667	8,174,690
Total Assets	\$ 12,737,275	\$ 1,357,543	\$ 3,404,522	\$ 5,174,724	\$ 22,674,064
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Warrants Payable	\$ 138,771	\$ 1,258,289	\$ -	\$ 74,072	\$ 1,471,132
Accrued Payroll	93,452	-	-	1,840	95,292
Other Liabilities	43,619	-	-	2,277	45,896
Unearned Revenue	-	-	-	531,644	531,644
Due to Other Funds	-	99,254	-	-	99,254
Total Liabilities	275,842	1,357,543	-	609,833	2,243,218
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	817,970	-	-	51,455	869,425
Related to Leases	5,904,362	-	-	-	5,904,362
Total Deferred Inflows of Resources	6,722,332	-	-	51,455	6,773,787
FUND BALANCES					
Nonspendable	-	-	-	257,892	257,892
Restricted	25,501	-	3,404,522	4,255,544	7,685,567
Committed	1,923,812	-	-	-	1,923,812
Assigned	34,725	-	-	-	34,725
Unassigned	3,755,063	-	-	-	3,755,063
Total Fund Balances	5,739,101	-	3,404,522	4,513,436	13,657,059
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 12,737,275	\$ 1,357,543	\$ 3,404,522	\$ 5,174,724	\$ 22,674,064

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, 2022**

Total Governmental Fund Balances	\$ 13,657,059
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	26,527,063
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	869,425
In the Statement of Net Position, deferred outflows of resources are reported for amounts related to OPEB	578,740
In the Statement of Net Position, deferred outflows of resources are reported for amounts related to pensions	581,616
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	(118,871)
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	(12,228,926)
Compensated Absences	(225,213)
Net Pension Liability	(5,013,204)
Net OPEB Liability	(2,670,833)
In the Statement of Net Position, deferred inflows of resources are reported for amounts related to OPEB	(670,275)
In the Statement of Net Position, deferred inflows of resources are reported for amounts related to pensions	(1,444,420)
Net Position of Governmental Activities	\$ <u><u>19,842,161</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2022**

	General	Dam & Seawall Repair	Conomo Point	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Real Estate and Personal Property Taxes	\$ 15,806,500	\$ -	\$ -	\$ -	\$ 15,806,500
Motor Vehicle and Other Excise Taxes	1,089,245	-	-	-	1,089,245
Hotel/Motel Tax	36,926	-	-	-	36,926
Community Preservation Surcharges	-	-	-	199,236	199,236
Charges for Services	179,387	-	-	130,799	310,186
Intergovernmental	311,469	1,607,543	-	738,682	2,657,694
Sale of Lots	-	-	199,294	-	199,294
Special Assessments	-	-	-	12,285	12,285
Penalties and Interest on Taxes	49,124	-	-	-	49,124
Licenses and Permits	318,633	-	-	-	318,633
Fines and Forfeitures	23,367	-	-	-	23,367
Lease Revenue	410,221	-	-	-	410,221
Interest Revenue	185,714	-	-	-	185,714
Departmental and Other	49,737	-	-	261,171	310,908
Contributions	-	-	-	41,334	41,334
Investment Income	35,753	-	-	696	36,449
Total Revenues	18,496,076	1,607,543	199,294	1,384,203	21,687,116
EXPENDITURES					
Current:					
General Government	1,188,435	-	-	228,590	1,417,025
Public Safety	2,014,710	2,144,843	-	844,824	5,004,377
Education	10,319,202	-	-	-	10,319,202
Public Works	1,048,837	-	-	66,288	1,115,125
Health and Human Services	291,996	-	-	14,440	306,436
Culture and Recreation	181,909	-	-	62,539	244,448
Pension Benefits	587,506	-	-	-	587,506
Employee Benefits	1,141,264	-	-	-	1,141,264
Property and Liability Insurance	111,575	-	-	-	111,575
State and County Charges	32,699	-	-	-	32,699
Debt Service:					
Principal	430,905	-	-	-	430,905
Interest	365,400	-	-	-	365,400
Total Expenditures	17,714,438	2,144,843	-	1,216,681	21,075,962
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	781,638	(537,300)	199,294	167,522	611,154
OTHER FINANCING SOURCES (USES)					
Transfers In	93,750	-	-	5,428	99,178
Transfer Out	(334,339)	-	-	(93,750)	(428,089)
Total Other Financing Sources (Uses)	(240,589)	-	-	(88,322)	(328,911)
NET CHANGE IN FUND BALANCES	541,049	(537,300)	199,294	79,200	282,243
Fund Balances - Beginning of Year	5,198,052	537,300	3,205,228	4,434,236	13,374,816
FUND BALANCES - END OF YEAR	<u>\$ 5,739,101</u>	<u>\$ -</u>	<u>\$ 3,404,522</u>	<u>\$ 4,513,436</u>	<u>\$ 13,657,059</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, 2022

Net Change in Fund Balances - Total Governmental Funds	\$ 282,243
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	2,967,677
Depreciation	(814,010)
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.	(333,230)
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	430,905
Amortization of Bond Premiums	79,877
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	10,966
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	(311,322)
Net Pension Liability	936,776
Compensated Absences	(3,651)
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.	411,449
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.	113,591
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.	404,924
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.	(726,288)
Changes in Net Position of Governmental Activities	\$ <u>3,449,907</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2022**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,203,316	\$ 373,734	\$ 2,577,050
Receivables, Net of Allowance for Uncollectible Amounts:			
Utility Liens	2,528	2,385	4,913
User Charges	354,334	321,337	675,671
Special Assessments	816,878	-	816,878
Intergovernmental	227,961	-	227,961
Total Current Assets	3,605,017	697,456	4,302,473
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	2,352,374	-	2,352,374
Intergovernmental	240,326	-	240,326
Capital Assets not being Depreciated	-	2	2
Capital Assets, Net of Accumulated Depreciation	20,987,752	300,540	21,288,292
Total Noncurrent Assets	23,580,452	300,542	23,880,994
Total Assets	27,185,469	997,998	28,183,467
DEFERRED OUTFLOWS OF RESOURCES			
Related to OPEB	31,217	58,669	89,886
Related to Pensions	31,372	58,960	90,332
Total Deferred Outflows of Resources	62,589	117,629	180,218
LIABILITIES			
Current Liabilities:			
Warrants Payable	125,337	13,239	138,576
Accrued Payroll	3,439	8,887	12,326
Accrued Interest	113,443	-	113,443
Compensated Absences	2,583	2,532	5,115
Settlement Payable	66,565	-	66,565
Short-Term Notes Payable	-	29,000	29,000
Long-Term Bonds and Notes Payable	1,450,048	10,000	1,460,048
Total Current Liabilities	1,761,415	63,658	1,825,073
Noncurrent Liabilities:			
Compensated Absences	23,248	22,786	46,034
Settlement Payable	1,464,440	-	1,464,440
Net OPEB Liability	144,063	270,752	414,815
Net Pension Liability	270,410	508,207	778,617
Long-Term Bonds and Notes Payable	2,810,496	19,000	2,829,496
Total Noncurrent Liabilities	4,712,657	820,745	5,533,402
Total Liabilities	6,474,072	884,403	7,358,475
DEFERRED INFLOWS OF RESOURCES			
Related to OPEB	36,154	67,948	104,102
Related to Pensions	77,911	146,426	224,337
Total Deferred Inflows of Resources	114,065	214,374	328,439
NET POSITION			
Net Investment in Capital Assets	16,727,208	242,542	16,969,750
Unrestricted	3,932,713	(225,692)	3,707,021
Total Net Position	\$ 20,659,921	\$ 16,850	\$ 20,676,771

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, 2022**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
OPERATING REVENUES			
Charges for Services	\$ 1,019,861	\$ 824,482	\$ 1,844,343
Penalties and Interest	84,050	7,459	91,509
Total Operating Revenues	1,103,911	831,941	1,935,852
OPERATING EXPENSES			
Cost of Service and Administration	891,547	743,836	1,635,383
Pension and OPEB Adjustments	8,248	107,076	115,324
Depreciation	640,595	72,583	713,178
Total Operating Expenses	1,540,390	923,495	2,463,885
OPERATING LOSS	(436,479)	(91,554)	(528,033)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue	175,392	-	175,392
Investment Income	811	289	1,100
Interest Expense	(161,932)	(1,332)	(163,264)
Total Nonoperating Revenues (Expenses), Net	14,271	(1,043)	13,228
LOSS BEFORE TRANSFERS	(422,208)	(92,597)	(514,805)
TRANSFERS			
Transfers In	328,911	-	328,911
CHANGE IN NET POSITION	(93,297)	(92,597)	(185,894)
Net Position - Beginning of Year	20,753,218	109,447	20,862,665
NET POSITION - END OF YEAR	\$ 20,659,921	\$ 16,850	\$ 20,676,771

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 1,945,659	\$ 852,577	\$ 2,798,236
Payments to Vendors	(784,189)	(458,072)	(1,242,261)
Payments to Employees	(172,212)	(324,328)	(496,540)
Net Cash Provided by Operating Activities	989,258	70,177	1,059,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	328,911	-	328,911
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the Issuance of Bonds and Notes	-	29,000	29,000
Acquisition and Construction of Capital Assets	(221,394)	(57,600)	(278,994)
Principal Payments on Bonds and Notes	(1,217,077)	(51,000)	(1,268,077)
Interest Paid	(22,533)	(1,333)	(23,866)
Net Cash Used by Capital and Related Financing Activities	(1,461,004)	(80,933)	(1,541,937)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	811	289	1,100
NET CHANGE IN CASH AND CASH EQUIVALENTS	(142,024)	(10,467)	(152,491)
Cash and Cash Equivalents - Beginning of Year	2,345,340	384,201	2,729,541
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,203,316</u>	<u>\$ 373,734</u>	<u>\$ 2,577,050</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES			
Operating Loss	\$ (436,479)	\$ (91,554)	\$ (528,033)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	640,595	72,583	713,178
Net Pension Liability	6,516	101,139	107,655
Net OPEB Liability	12,119	22,014	34,133
Deferred Inflows of Resources Related to Pensions	46,060	97,294	143,354
Deferred Outflows of Resources Related to Pensions	(10,614)	(26,940)	(37,554)
Deferred Inflows of Resources Related to OPEB	(23,971)	(45,398)	(69,369)
Deferred Outflows of Resources Related to OPEB	(21,862)	(41,033)	(62,895)
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	(1,423)	(1,102)	(2,525)
User Charges	21,449	21,738	43,187
Special Assessments	821,722	-	821,722
Warrants Payable	3,384	(32,857)	(29,473)
Settlement Payable	(66,565)	-	(66,565)
Accrued Payroll	(2,678)	(6,719)	(9,397)
Compensated Absences	1,005	1,012	2,017
Total Adjustments	1,425,737	161,731	1,587,468
Net Cash Provided by Operating Activities	<u>\$ 989,258</u>	<u>\$ 70,177</u>	<u>\$ 1,059,435</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Intergovernmental Debt Subsidies (MCWT) - Interest	\$ 175,392	\$ -	\$ 175,392
Intergovernmental Debt Subsidies (MCWT) - Principal	212,971	-	212,971

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Custodial Funds
ASSETS			
Cash and Cash Equivalents	\$ 9,153	\$ 206,624	\$ 2,525
Investments:			
Equities	956,670	-	-
Mutual Bond Funds	876,320	-	-
Total Assets	1,842,143	206,624	2,525
LIABILITIES			
Due to Other Governments	-	-	2,525
NET POSITION			
Held in Trust for Other Postemployment Benefits and Other Purposes	\$ 1,842,143	\$ 206,624	\$ -

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2022**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Custodial Funds
ADDITIONS			
Contributions:			
Employer	\$ 730,627	\$ -	\$ -
Net Investment Income:			
Net Depreciation in Fair Value of Investments	(259,785)	-	-
Interest	-	30	-
Total Investment Income	(259,785)	30	-
Less: Investment Expense	(6,825)	-	-
Net Investment Income:	(266,610)	30	-
Taxes Collected for Other Governments	-	-	3,450
Total Additions	464,017	30	3,450
DEDUCTIONS			
Postemployment Benefits	230,627	-	-
Taxes Remitted to Other Governments	-	-	3,450
Total Deductions	230,627	-	3,450
CHANGE IN NET POSITION	233,390	30	-
Net Position - Beginning of Year	1,608,753	206,594	-
NET POSITION - END OF YEAR	\$ 1,842,143	\$ 206,624	\$ -

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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 2022 Assessment</u>
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 10,101,122
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	218,080
Essex County Regional Emergency Communications Center	To provide emergency services	18 Manning Avenue Middleton, MA	N/A

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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.

Fiduciary Component Unit

The Other Postemployment Benefits Trust Fund (OPEB Trust) was established to accumulate resources to provide post-retirement benefits other than pensions to retirees and their beneficiaries. Chapter 32B of Massachusetts General Law assigns authority to establish and amend benefit provisions of the OPEB Trust. The Fund is presented using the accrual basis of accounting and is reported in the other postemployment benefits trust fund in the fiduciary fund financial statements. The OPEB Trust does not issue a stand-alone financial report that includes financial statements and related notes.

C. Implementation of New Accounting Principles

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Town adopted the requirements of the guidance effective July 1, 2021 and has applied the provisions of this standard to the beginning of the period of adoption.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 *Dam & Seawall Repair fund* is a special revenue fund used to account for grant proceeds and for the construction and repair of Conomo Point Dam and Seawall.

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 major 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 firearm permits taxes 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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Leases

The Town leases land to property owners within the Conomo Point area of the Town. Revenue is recognized in a systematic and rational manner over the life of the lease term.

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, 2022, 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 and lease receivables are considered 100% collectible.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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, 2022**

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 reports 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, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports 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. Deferred inflows of resources related to leases are reported in the government-wide statement of net position and governmental funds balance sheet.

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, 2022**

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, 2022**

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. Postretirement 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, 2022**

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 2022 approved budget for the general fund authorized \$17,941,610 in appropriations. During fiscal year 2022, supplemental appropriations totaling \$1,324,300 were authorized.

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

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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, 2022, \$3,782,166 of the Town's bank balance of \$16,689,322 was uninsured, uncollateralized and exposed to custodial credit risk. The carrying value of the Town's deposits totaled \$16,544,607.

B. Investments Summary

The Town's investments at June 30, 2022 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	\$ 9,153	\$ 9,153
Mutual bond funds	876,320	876,320
External investment pools	<u>128,398</u>	<u>128,398</u>
Total debt securities	1,013,871	<u><u>\$ 1,013,871</u></u>
<u>Other Investments:</u>		
Equity mutual funds	<u>956,670</u>	
Total investments	<u><u>\$ 1,970,541</u></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, 2022**

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, 2022 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, 2022, 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, 2022, 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, 2022, 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.

The Town's investments in Money Market Mutual Funds, Mutual Bond Funds, and Equity Mutual Funds are valued at Level 1 using quoted prices in active markets. Investments in External Investment Pools are measured at Amortized Cost.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2022, 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	\$ 595,749	\$ (277,231)	\$ 318,518
Tax liens	556,058	(469,314)	86,744
Motor vehicle and other excise taxes	50,620	-	50,620
Community preservation surcharges	6,090	-	6,090
Departmental and other	149,140	(36,130)	113,010
Intergovernmental	1,441,043	-	1,441,043
Loans	238,753	-	238,753
Leases	5,986,593	-	5,986,593
	<u>\$ 9,024,046</u>	<u>\$ (782,675)</u>	<u>\$ 8,241,371</u>
Total	\$ 9,024,046	\$ (782,675)	\$ 8,241,371

At June 30, 2022, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 321,337	\$ -	\$ 321,337
Sewer	354,334	-	354,334
Utility Liens	4,913	-	4,913
Special assessments	3,169,252	-	3,169,252
Intergovernmental	468,287	-	468,287
	<u>\$ 4,318,123</u>	<u>\$ -</u>	<u>\$ 4,318,123</u>
Total	\$ 4,318,123	\$ -	\$ 4,318,123

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 918,095	\$ -	\$ -	\$ 918,095
Construction in progress	147,961	1,258,289	(147,961)	1,258,289
Total capital assets not being depreciated	1,066,056	1,258,289	(147,961)	2,176,384
<u>Capital assets being depreciated:</u>				
Land improvements	1,306,634	946,252	-	2,252,886
Buildings and improvements	24,082,442	480,058	-	24,562,500
Machinery, vehicles and equipment	3,053,003	265,490	-	3,318,493
Infrastructure	1,458,399	165,549	-	1,623,948
Total capital assets being depreciated	29,900,478	1,857,349	-	31,757,827
<u>Less accumulated depreciation for:</u>				
Land improvements	(676,368)	(83,392)	-	(759,760)
Buildings and improvements	(3,341,124)	(492,637)	-	(3,833,761)
Machinery, vehicles and equipment	(2,307,678)	(195,858)	-	(2,503,536)
Infrastructure	(267,968)	(42,123)	-	(310,091)
Total accumulated depreciation	(6,593,138)	(814,010)	-	(7,407,148)
Total capital assets being depreciated, net	23,307,340	1,043,339	-	24,350,679
Total governmental activities capital assets, net	\$ <u>24,373,396</u>	\$ <u>2,301,628</u>	\$ <u>(147,961)</u>	\$ <u>26,527,063</u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 2	\$ -	\$ -	\$ 2
Total capital assets not being depreciated	2	-	-	2
<u>Capital assets being depreciated:</u>				
Buildings and improvements	3,062,934	-	-	3,062,934
Machinery, vehicles and equipment	484,107	143,901	-	628,008
Infrastructure	29,966,624	135,093	-	30,101,717
Total capital assets being depreciated	33,513,665	278,994	-	33,792,659
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(2,808,032)	(47,745)	-	(2,855,777)
Machinery, vehicles and equipment	(312,074)	(51,791)	-	(363,867)
Infrastructure	(8,671,081)	(613,642)	-	(9,284,723)
Total accumulated depreciation	(11,791,187)	(713,178)	-	(12,504,367)
Total capital assets being depreciated, net	21,722,478	(434,184)	-	21,288,292
Total business-type activities capital assets, net	\$ 21,722,480	\$ (434,184)	\$ -	\$ 21,288,294

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

Governmental Activities:	
General government	\$ 188,429
Public safety	439,633
Education	7,752
Public works	133,464
Health and human services	1,670
Culture and recreation	43,062
Total depreciation expense - governmental activities	\$ 814,010
Business-Type Activities:	
Sewer	\$ 640,595
Water	72,583
Total depreciation expense - business-type activities	\$ 713,178

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 6 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables between funds for the year ended June 30, 2022 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Dam & Seawall Repair	\$ <u>99,254</u> (1)

(1) Represents advanced funding pending receipt of grant reimbursement.

Interfund transfers for the year ended June 30, 2022 are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>			
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Total
General Fund	\$ -	\$ 5,428	\$ 328,911	\$ 334,339 (1)
Nonmajor Governmental Funds	<u>93,750</u>	<u>-</u>	<u>-</u>	<u>93,750</u> (2)
Total	<u>\$ 93,750</u>	<u>\$ 5,428</u>	<u>\$ 328,911</u>	<u>\$ 428,089</u>

- (1) Represents budgeted transfers to the sewer enterprise fund (\$328,911) for operating subsidy. Also represents transfer to the Waterways fund (\$5,428).
- (2) Represents budgeted transfers to from the nonmajor funds to the general fund (\$93,750) for the fiscal year operating budget.

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, 2022 is as follows:

TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Notes Payable – Water Enterprise Fund

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2021	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2022
BAN	Permanent Water Loan	7/24/20	7/23/21	0.89	\$ 41,000	\$ -	\$ (41,000)	\$ -
BAN	Permanent Water Loan	7/23/21	7/22/22	0.55	-	29,000	-	29,000
Total					<u>\$ 41,000</u>	<u>\$ 29,000</u>	<u>\$ (41,000)</u>	<u>\$ 29,000</u>

Subsequent Event

On July 22, 2022, the Town repaid \$12,000 of the Permanent Water Loan BAN with available funds and renewed the BAN in the amount of \$17,000 at an interest rate of 3.75% and a maturity date of July 21, 2023.

NOTE 8 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the year ended June 30, 2022:

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022	Current Portion
Governmental Activities:					
Bonds and notes payable	\$ 11,954,397	\$ -	\$ (430,905)	\$ 11,523,492	\$ 447,437
Unamortized bond premium	785,311	-	(79,877)	705,434	57,076
Total bonds and notes payable	<u>12,739,708</u>	<u>-</u>	<u>(510,782)</u>	<u>12,228,926</u>	<u>504,513</u>
Compensated absences	<u>221,562</u>	<u>8,074</u>	<u>(4,423)</u>	<u>225,213</u>	<u>22,521</u>
Total	<u>\$ 12,961,270</u>	<u>\$ 8,074</u>	<u>\$ (515,205)</u>	<u>\$ 12,454,139</u>	<u>\$ 527,034</u>
	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022	Current Portion
Business-Type Activities:					
Bonds and notes payable	\$ 5,729,592	\$ -	\$ (1,440,048)	\$ 4,289,544	\$ 1,460,048
Compensated absences	49,132	2,017	-	51,149	5,115
Settlement Payable	<u>1,597,570</u>	<u>-</u>	<u>(66,565)</u>	<u>1,531,005</u>	<u>66,565</u>
Total	<u>\$ 7,376,294</u>	<u>\$ 2,017</u>	<u>\$ (1,506,613)</u>	<u>\$ 5,871,698</u>	<u>\$ 1,531,728</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, 2022**

NOTE 9 LONG-TERM DEBT

Bonds and Notes Payable – Governmental Funds

Details related to the outstanding indebtedness at June 30, 2022 and the debt service requirements are as follows:

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2021	Issued	Redeemed	Outstanding at June 30, 2022
MCWT - Title V Loan*	8/1/22	4.90	\$ 4,016	\$ -	\$ (2,008)	\$ 2,008
MCWT - Title V Loan*	7/15/25	0.00	50,000	-	(10,000)	40,000
MCWT - Title V Loan*	7/15/27	0.00	62,279	-	(8,897)	53,382
MCWT - Title V Interim Loan*	7/15/33	2.00	248,102	-	-	248,102
Building Remodeling - Town Hall	8/15/24	2.07	240,000	-	(60,000)	180,000
Public Safety Building	3/1/50	2.75-5.00	11,350,000	-	(350,000)	11,000,000
Total Governmental Funds			\$ 11,954,397	\$ -	\$ (430,905)	\$ 11,523,492

* 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
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	21,398	2,984	421,398	155,884
2036	400,000	144,900	2,800	2,552	402,800	147,452
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	\$ 11,180,000	\$ 4,347,450	\$ 343,492	\$ 71,981	\$ 11,523,492	\$ 4,419,431

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds Payable – Water Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2021	Issued	Redeemed	Outstanding at June 30, 2022
Refunding Water	8/15/24	2.00 - 3.00	\$ 39,000	\$ -	\$ (10,000)	\$ 29,000

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
2023	\$ 10,000	\$ 720	\$ 10,720
2024	10,000	420	10,420
2025	9,000	135	9,135
Total	\$ 29,000	\$ 1,275	\$ 30,275

Bonds and Notes Payable – Sewer Enterprise Fund

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2021	Issued	Redeemed	Outstanding at June 30, 2022
MCWT*	8/1/23	4.43	\$ 860,000	\$ -	\$ (280,000)	\$ 580,000
MCWT*	8/1/23	4.43	1,060,000	-	(345,000)	715,000
MCWT*	8/1/23	4.43	480,000	-	(155,000)	325,000
MCWT*	7/15/25	0.00	2,412,435	-	(482,487)	1,929,948
MCWT*	7/20/26	0.00	334,620	-	(55,770)	278,850
MCWT*	7/15/27	0.00	257,537	-	(36,791)	220,746
Refunding Sewer	8/15/24	2.00 - 3.00	286,000	-	(75,000)	211,000
Total			\$ 5,690,592	\$ -	\$ (1,430,048)	\$ 4,260,544

* Notes from Direct Borrowings

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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
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	\$ 211,000	\$ 9,525	\$ 4,049,544	\$ 287,752	\$ 4,260,544	\$ 297,277

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 2022, the Town's subsidy totaled approximately \$388,000. Future subsidies total approximately \$715,000. The amount of MCWT bonds outstanding at June 30, 2022, totaled \$4,393,036.

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, 2022, the Town had \$751,898 authorized and unissued long-term debt for Title V septic repairs and \$2,600,000 authorized and unissued long-term debt for the Municipal Water System.

NOTE 10 OTHER POSTEMPLOYMENT 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 financial statements.

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, 2022**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

For the fiscal year ended June 30, 2022, employer contributions totaled \$730,627. 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, 2022, the annual money-weighted rate of return on investments, net of investment expense, was -15.14%. 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	40.50%	1.00%
Domestic Equity - Large Cap	22.25%	4.42%
Domestic Equity - Small/Mid Cap	11.00%	4.81%
International Equity - Developed Market	9.00%	4.91%
International Fixed Income	9.00%	1.04%
Alternatives	1.75%	5.98%
International Equity-Emerging Market	6.00%	5.58%
Cash & Cash Equivalents	0.50%	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, 2022**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

		Increase (Decrease)	
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2021	\$ 4,348,946	\$ 1,608,753	\$ 2,740,193
Changes for the Year:			
Service Cost	107,192	-	107,192
Interest	256,206	-	256,206
Changes of Assumptions	446,074	-	446,074
Contributions - Employer	-	730,627	(730,627)
Investment Income	-	(266,610)	266,610
Benefits Payments	(230,627)	(230,627)	-
Net Changes	578,845	233,390	345,455
Balances at June 30, 2022	\$ 4,927,791	\$ 1,842,143	\$ 3,085,648

Fiduciary Net Position as a Percentage of the Total OPEB Liability

37.38%

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, 2022. 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, 2022.

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:	5.14% (5.90% as of June 30, 2021)
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:	RP-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, 2022**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate – The discount rate used to measure the total OPEB liability was 5.14%. 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 Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability calculated using the current discount rate of 5.14%, as well as what the net OPEB liability would be if it were calculated using a discount rate 1 percentage point lower (4.14%) or 1 percentage point higher (6.14%) than the current rate:

	1% Decrease (4.14%)	Current Discount Rate (5.14%)	1% Increase (6.14%)
Net OPEB Liability	\$ 3,742,936	\$ 3,085,648	\$ 2,541,433

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability calculated using the current healthcare cost trend rates (4.50%) as well as what the net 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%)
Net OPEB Liability	\$ 2,480,095	\$ 3,085,648	\$ 3,836,140

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources – For the year ended June 30, 2022, the Town recognized OPEB expense of \$127,446. At June 30, 2022, 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	\$ 145,711	\$ 53,477
Changes of assumptions	356,860	720,900
Net differences between expected and actual earnings on Plan investments	166,055	-
Total	\$ <u>668,626</u>	\$ <u>774,377</u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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>
2023	\$ (126,539)
2024	(71,818)
2025	(71,817)
2026	164,423
Total	<u>\$ (105,751)</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>Conomo Point</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Permanent fund principal	\$ -	\$ -	\$ 257,892	\$ 257,892
Restricted for:				
Municipal insurance	25,501	-	-	25,501
Loans	-	-	238,753	238,753
General government	-	-	236,993	236,993
Public safety	-	-	2,191,904	2,191,904
Education	-	-	132,897	132,897
Public works	-	-	356,664	356,664
Health and human services	-	-	28,075	28,075
Culture and recreation	-	-	46,287	46,287
Community preservation	-	-	1,023,971	1,023,971
Capital purposes	-	3,404,522	-	3,404,522
Subtotal - Restricted	25,501	3,404,522	4,255,544	7,685,567
Committed to:				
Subsequent year's expenditures	650,499	-	-	650,499
Continuing appropriations	411,446	-	-	411,446
Other stabilization	86,024	-	-	86,024
Capital stabilization	775,843	-	-	775,843
Subtotal - Committed	1,923,812	-	-	1,923,812
Assigned to:				
General government	26,000	-	-	26,000
Public works	8,725	-	-	8,725
Subtotal - Assigned	34,725	-	-	34,725
Unassigned	3,755,063	-	-	3,755,063
Total	<u>\$ 5,739,101</u>	<u>\$ 3,404,522</u>	<u>\$ 4,513,436</u>	<u>\$ 13,657,059</u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 12 STABILIZATION FUNDS

The Town maintains various 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, 2022 are reported as follows:

Fund	Amount
Stabilization Funds	
<i>Committed for Capital and Other Purposes:</i>	
Vehicles and Major Equipment	\$ 245,075
Conomo Point	128,650
Recreation	115,244
Town Buildings	99,204
Town Hall	90,572
Manchester Essex Regional School District	50,004
Town Celebrations	45,014
Public Safety Building	41,011
Essex River and Bay Dredging	41,011
Street Lighting	6,082
Subtotal	<u>861,867</u>
<i>Unassigned:</i>	
General Stabilization	1,043,659
Total Stabilization Funds	<u>\$ 1,905,526</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, 2022, this fund had a balance of \$25,501, which is reported in the general fund as restricted fund balance.

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

NOTE 14 LEASES

The Town has entered into multiple 20-year right-to-use lease agreements to the tenants leasing land from the Town at Conomo Point. The 20-year leases expire on December 1, 2036. Lease payments are made quarterly on September 1st, December 1st, March 1st, and June 1st of each year.

Lease payments are adjusted annually as of the first day of each subsequent calendar year by any percentage increase in the most recently published Consumer Price Index for All Urban Consumers - Boston "CPI-U Boston", as reported by the U.S. Bureau of Labor Statistics, as of such date as compared with the CPI Index that was in effect on the first day of the previous calendar year.

Total future minimum lease payments under lease agreements are as follows:

<u>Governmental Activities</u>			
	<u>Principal</u>		<u>Interest</u>
2023 \$	334,825	\$	175,854
2024	344,983		165,696
2025	355,450		155,230
2026	366,234		144,446
2027	377,345		133,334
2028-2032	1,954,786		470,943
2033 and thereafter	2,252,970		172,759
Total minimum lease payments	\$ 5,986,593	\$	1,418,262

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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, 2022**

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 \$691,183 for the year ended June 30, 2022.

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

At June 30, 2022, the Town reported a liability of \$5,791,821 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022; which was rolled back to the measurement date of December 31, 2021. 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. The Town's proportion at June 30, 2022 and 2021 was 1.668%.

For the year ended June 30, 2022, the Town recognized pension expense of \$580,559. At June 30, 2022, 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	\$ 482	\$ 177,222
Net differences between projected and actual earnings on investments	-	1,283,893
Changes of assumptions	641,568	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,898	207,642
Total	<u>\$ 671,948</u>	<u>\$ 1,668,757</u>

**TOWN OF ESSEX, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

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>
2023	\$ (191,372)
2024	(307,045)
2025	(316,268)
2026	<u>(182,124)</u>
Total	<u>\$ (996,809)</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-2021. Healthy Retiree – The RP-2014 Healthy Annuitant Mortality Table projected generationally with scale MP-2021. Disabled Retiree – The RP-2014 Healthy Annuitant Mortality Table, set forward two years, projected generationally with scale MP-2021.
Investment rate of return:	7.00%
Cost of living adjustments:	3% of the first \$14,000 for fiscal 2022, and 3% of the first \$16,000 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, 2022**

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	22.00%	6.11%
International developed markets equity	11.50%	6.49%
International emerging markets equity	4.50%	8.12%
Core fixed income	15.00%	0.38%
High-yield fixed income	8.00%	2.48%
Private Equity	15.00%	9.93%
Real Estate	10.00%	3.72%
Timberland	4.00%	3.44%
Hedge funds, PCS	10.00%	2.63%
Totals	100.00%	

Discount rate. The discount rate used to measure the total pension liability was 7.0%; compared to the discount rate of 7.30% which was used to measure the total pension liability as of June 30, 2021. 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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Town's Proportionate Share of the Net Pension Liability	\$ 7,832,681	\$ 5,791,821	\$ 4,077,977

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, 2022**

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, 2022 amount to \$1,531,005. Accordingly, \$1,531,005 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 authorized and unissued debt of \$3,352,000 related to contracted services for Title V septic repairs and the municipal water system.

Significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$446,171 at June 30, 2022.

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, 2022, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2022.

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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, 2022

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real Estate and Personal Property Taxes	\$ -	\$ 15,756,963	\$ -	\$ 15,756,963
Motor Vehicle and Other Excise Taxes	-	675,628	-	675,628
Hotel/Motel Tax	-	10,888	-	10,888
Charges for Services	-	171,000	-	171,000
Intergovernmental	-	294,901	-	294,901
Penalties and Interest on Taxes	-	36,665	-	36,665
Licenses and Permits	-	287,344	-	287,344
Fines and Forfeitures	-	16,923	-	16,923
Lease Revenue	-	456,525	-	456,525
Departmental and Other	-	60,489	-	60,489
Investment Income	-	44,403	-	44,403
Total Revenues	-	17,811,729	-	17,811,729
EXPENDITURES				
Current:				
General Government	175,882	1,337,048	236,300	1,749,230
Public Safety	119,210	2,021,231	89,400	2,229,841
Education	-	10,319,202	-	10,319,202
Public Works	61,475	1,076,371	94,600	1,232,446
Health and Human Services	37,840	346,193	11,000	395,033
Culture and Recreation	-	207,246	-	207,246
Pension Benefits	-	597,946	-	597,946
Employee Benefits	-	756,370	500,000	1,256,370
Property and Liability Insurance	-	116,660	-	116,660
State and County Charges	-	32,699	-	32,699
Debt Service:				
Principal	-	430,905	-	430,905
Interest	-	365,400	-	365,400
Total Expenditures	394,407	17,607,271	931,300	18,932,978
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(394,407)	204,458	(931,300)	(1,121,249)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	108,750	-	108,750
Transfers Out	-	(334,339)	(393,000)	(727,339)
Total Other Financing Sources (Uses)	-	(225,589)	(393,000)	(618,589)
NET CHANGE IN FUND BALANCE	(394,407)	(21,131)	(1,324,300)	(1,739,838)
Fund Balance - Beginning of Year	3,583,728	3,583,728	3,583,728	3,583,728
FUND BALANCE - END OF YEAR	\$ 3,189,321	\$ 3,562,597	\$ 2,259,428	\$ 1,843,890

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, 2022

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 15,773,551	\$ -	\$ 15,773,551	\$ 16,588
1,089,245	-	1,089,245	413,617
36,926	-	36,926	26,038
179,387	-	179,387	8,387
311,469	-	311,469	16,568
49,124	-	49,124	12,459
318,633	-	318,633	31,289
23,367	-	23,367	6,444
513,704	-	513,704	57,179
49,737	-	49,737	(10,752)
34,143	-	34,143	(10,260)
<u>18,379,286</u>	<u>-</u>	<u>18,379,286</u>	<u>567,557</u>
1,188,435	330,357	1,518,792	230,438
2,014,710	17,099	2,031,809	198,032
10,319,202	-	10,319,202	-
1,048,837	60,875	1,109,712	122,734
291,996	37,840	329,836	65,197
181,909	-	181,909	25,337
587,506	-	587,506	10,440
1,141,264	-	1,141,264	115,106
111,575	-	111,575	5,085
32,699	-	32,699	-
430,905	-	430,905	-
365,400	-	365,400	-
<u>17,714,438</u>	<u>446,171</u>	<u>18,160,609</u>	<u>772,369</u>
664,848	(446,171)	218,677	1,339,926
108,750	-	108,750	-
<u>(727,339)</u>	<u>-</u>	<u>(727,339)</u>	<u>-</u>
<u>(618,589)</u>	<u>-</u>	<u>(618,589)</u>	<u>-</u>
46,259	(446,171)	(399,912)	1,339,926
<u>3,583,728</u>	<u>-</u>	<u>3,583,728</u>	<u>-</u>
<u>\$ 3,629,987</u>	<u>\$ (446,171)</u>	<u>\$ 3,183,816</u>	<u>\$ 1,339,926</u>

**TOWN OF ESSEX, MASSACHUSETTS
PENSION PLAN SCHEDULES
LAST TEN MEASUREMENT PERIODS**

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

	2022	2021	2020	2019	2018
Town's proportion of the net pension liability	1.668%	1.668%	1.739%	1.719%	1.766%
Town's proportionate share of the net pension liability	\$ 5,791,821	\$ 6,620,942	\$ 7,328,622	\$ 7,260,967	\$ 6,647,132
Town's covered payroll	\$ 2,499,630	\$ 2,353,626	\$ 2,261,786	\$ 2,190,580	\$ 2,110,254
Town's proportionate share of the net pension liability as a percentage of its covered payroll	231.71%	281.31%	324.02%	331.46%	314.99%
Plan fiduciary net position as a percentage of the total pension liability	67.01%	59.73%	55.46%	51.89%	55.40%
	2017	2016	2015		
Town's proportion of the net pension liability	1.724%	1.692%	1.672%		
Town's proportionate share of the net pension liability	\$ 6,643,169	\$ 6,147,565	\$ 5,672,204		
Town's covered payroll	\$ 2,264,722	\$ 2,231,674	\$ 2,146,894		
Town's proportionate share of the net pension liability as a percentage of its covered payroll	293.33%	275.47%	264.21%		
Plan fiduciary net position as a percentage of the total pension liability	51.12%	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
LAST TEN FISCAL YEARS (1)**

	2022	2021	2020	2019	2018
Actuarially Required Contribution	\$ 691,183	\$ 644,034	\$ 624,736	\$ 574,361	\$ 550,026
Contributions in Relation to the Actuarially Required Contribution	(691,183)	(644,034)	(624,736)	(574,361)	(550,026)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Town's Covered Payroll	\$ 3,137,959	\$ 2,909,532	\$ 2,904,765	\$ 2,908,457	\$ 2,628,198
Contributions as a Percentage of Covered Payroll	22.03%	22.14%	21.51%	19.75%	20.93%
	2017	2016	2015		
Actuarially Required Contribution	\$ 499,581	\$ 464,836	\$ 428,738		
Contributions in Relation to the Actuarially Required Contribution	(499,581)	(464,836)	(428,738)		
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -		
Town's Covered Payroll	\$ 2,643,271	\$ 2,576,699	\$ 2,442,528		
Contributions as a Percentage of Covered Payroll	18.90%	18.04%	17.55%		

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

**TOWN OF ESSEX, MASSACHUSETTS
OTHER POSTEMPLOYMENT BENEFITS SCHEDULES
LAST TEN MEASUREMENT PERIODS**

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

	2022	2021*	2020	2019	2018	2017
<u>Total OPEB Liability</u>						
Service cost	\$ 107,192	\$ 94,508	\$ 191,683	\$ 171,493	\$ 166,500	\$ 166,433
Interest on unfunded liability	256,206	157,765	156,212	151,162	154,619	161,606
Change in assumptions	446,074	(1,199,428)	-	-	(6,220)	-
Differences between actual and expected experience	-	242,853	-	-	(267,394)	-
Benefits payments	(230,627)	(220,557)	(177,604)	(171,471)	(164,087)	(129,345)
Net change in Total OPEB liability	578,845	(924,859)	170,291	151,184	(116,582)	198,694
Total OPEB liability - beginning	4,348,946	5,273,805	5,103,514	4,952,330	5,068,912	4,870,218
Total OPEB liability - ending (a)	<u>\$ 4,927,791</u>	<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>
<u>Fiduciary Net Position</u>						
Contributions - employer	\$ 730,627	\$ 1,565,596	\$ 177,604	\$ 171,471	\$ 164,087	\$ 129,345
Net investment income	(266,610)	263,714	-	-	-	-
Benefits payments	(230,627)	(220,557)	(177,604)	(171,471)	(164,087)	(129,345)
Net change in fiduciary net position	233,390	1,608,753	-	-	-	-
Fiduciary net position - beginning	1,608,753	-	-	-	-	-
Fiduciary net position - ending (b)	<u>\$ 1,842,143</u>	<u>\$ 1,608,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 3,085,648</u>	<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>
Fiduciary net position as a percentage of the total OPEB liability	37.38%	36.99%	0.00%	0.00%	0.00%	0.00%
Covered employee payroll	\$ 2,592,091	\$ 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	119.04%	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.

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

**SCHEDULE OF TOWN CONTRIBUTIONS – OPEB PLAN
LAST TEN FISCAL YEARS (2)**

	2022	2021	2020	2019	2018	2017
Actuarially Required Contribution	\$ 243,607	\$ 227,260	\$ 444,475	\$ 416,800	\$ 417,580	\$ 407,671
Contributions in Relation to the Actuarially Required Contribution	(730,627)	(1,565,596)	(177,604)	(171,471)	(164,087)	(129,345)
Contribution Deficiency (Excess)	<u>\$ (487,020)</u>	<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)

Year Ended:	Annual money-weighted rate of return, net of investment expense
2022	-15.14%
2021	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, 2022

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, 2022 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	\$ 18,379,286	\$ 18,160,609	\$ (618,589)	\$ 3,183,816
<u>Adjustments and reclassifications:</u>				
Net Change in Recording 60-Day Receipts	32,967	-	-	95,856
To record Leases receivable	82,231	-	-	82,231
To record Encumbrances and Continuing Appropriations	-	(446,171)	-	446,171
To Reclassify the Activity of the Stabilization Funds to the General Fund	1,588	-	378,000	1,905,526
To Reclassify the Activity of the Municipal Building Trust Fund to the General Fund	4	-	-	25,501
	<u>4</u>	<u>-</u>	<u>-</u>	<u>25,501</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 18,496,076</u>	<u>\$ 17,714,438</u>	<u>\$ (240,589)</u>	<u>\$ 5,739,101</u>

NOTE B METHODS AND ASSUMPTIONS – ACTUARIALLY DETERMINED CONTRIBUTIONS – OPEB

The following methods and assumptions from the July 1, 2020 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, 2020
Asset valuation method:	Market Value
Inflation rate:	2.50%
Healthcare/Medical cost trend rate:	4.50%