

**TOWN OF ESSEX, MASSACHUSETTS**

**FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2018**



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## INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Selectmen  
Town of Essex, Massachusetts

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Essex, Massachusetts' basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

To the Honorable Board of Selectmen  
Town of Essex, Massachusetts

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Essex, Massachusetts, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

During the fiscal year ended June 30, 2018, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Town reported a restatement for the change in accounting principle (see Note 1). Our auditor's opinion was not modified with respect to the restatement.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 11) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 61 through 65) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019, on our consideration of the Town of Essex, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Essex, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Essex, Massachusetts' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
March 21, 2019

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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, 2018.

**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 \$35,980,575 (net position). Of this amount, \$2,949,907 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$517,225.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$2,664,717 or 18.0%, of total general fund expenditures and transfers out.
- The Town's total long-term debt decreased by \$1,469,488 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 non-fiduciary 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, 2018**

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 12-14 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 70 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, Conomo Point (special revenue), and Town Hall Repairs (capital project) funds, each of which are considered to be major funds. Data from the other 67 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 15-20 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, 2018**

**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.

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency 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 post-employment benefits information, which can be located on pages 61-65 of this report.

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**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 \$35,980,575 at the close of the fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current Assets	\$ 14,136,508	\$ 13,331,924	\$ 3,745,957	3,706,771	\$ 17,882,465	\$ 17,038,695
Noncurrent Assets (Excluding Capital Assets)	936,929	952,735	6,814,806	7,824,977	7,751,735	8,777,712
Capital assets (net)	9,745,196	9,506,816	23,527,514	24,227,724	33,272,710	33,734,540
Total Assets	24,818,633	23,791,475	34,088,277	35,759,472	58,906,910	59,550,947
<b>Deferred Outflows of Resources</b>	734,883	563,082	141,842	109,235	876,725	672,317
<b>Liabilities</b>						
Current Liabilities (Excluding Debt)	500,287	332,789	501,874	581,480	1,002,161	914,269
Noncurrent Liabilities (Excluding Debt)	9,890,779	7,367,080	1,907,274	1,473,315	11,798,053	8,840,395
Current Debt	89,439	89,439	1,400,050	1,380,049	1,489,489	1,469,488
Noncurrent Debt	539,576	629,015	8,579,691	9,979,741	9,119,267	10,608,756
Total Liabilities	11,020,081	8,418,323	12,388,889	13,414,585	23,408,970	21,832,908
<b>Deferred Inflows of Resources</b>	330,332	100,195	63,758	19,438	394,090	119,633
<b>Net Position</b>						
Net Investment in Capital Assets	9,243,332	8,911,998	13,470,773	12,778,934	22,714,105	21,690,932
Restricted	10,316,563	10,009,540	-	-	10,316,563	10,009,540
Unrestricted	(5,356,792)	(3,085,499)	8,306,699	9,655,750	2,949,907	6,570,251
Total Net Position	\$ 14,203,103	\$ 15,836,039	\$ 21,777,472	\$ 22,434,684	\$ 35,980,575	\$ 38,270,723

A portion of the Town's net position (63.1%) 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 (28.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (8.2% or \$2,949,907) may be used to meet the Town's ongoing obligations to citizens and creditors. \$8,306,699 may be used to support business-type activities. 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.

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**Changes in Net Position**

For the fiscal year ended June 30, 2018, the Town's total net position increased by \$517,225, compared to an increase of \$4,018,669 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018*	2017	2018*	2017	2018*	2017
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 639,555	\$ 708,440	\$ 1,709,986	\$ 1,514,339	\$ 2,349,541	\$ 2,222,779
Operating Grants and Contributions	306,962	70,146	361,558	412,400	668,520	482,546
Capital Grants and Contributions	350,414	246,138	-	-	350,414	246,138
General Revenues:						
Real Estate and Personal Property Taxes	12,796,514	12,298,503	-	-	12,796,514	12,298,503
Motor Vehicle and Other Excise Taxes	951,149	889,384	-	-	951,149	889,384
Hotel/Motel Taxes	17,038	13,721	-	-	17,038	13,721
Lease Revenue	476,735	490,874	-	-	476,735	490,874
Penalties and Interest on Taxes	30,449	43,620	-	-	30,449	43,620
Payments in lieu of Taxes	-	14,328	-	-	-	14,328
Community Preservation Surcharges	155,508	150,066	-	-	155,508	150,066
Grants and Contributions not Restricted to Specific Programs	333,368	303,207	-	-	333,368	303,207
Unrestricted Investment Income	135,504	90,200	-	-	135,504	90,200
Total Revenues	16,193,196	15,318,627	2,071,544	1,926,739	18,264,740	17,245,366
<b>Expenses</b>						
General Government	1,321,495	1,696,263	-	-	1,321,495	1,696,263
Public Safety	2,836,119	2,751,578	-	-	2,836,119	2,751,578
Education	8,794,173	8,467,184	-	-	8,794,173	8,467,184
Public Works	1,325,183	1,320,419	-	-	1,325,183	1,320,419
Health and Human Services	416,636	383,435	-	-	416,636	383,435
Culture and Recreation	406,657	321,825	-	-	406,657	321,825
Debt Service - Interest	9,755	9,148	-	-	9,755	9,148
Sewer	-	-	1,880,458	1,901,799	1,880,458	1,901,799
Water	-	-	770,378	1,211,303	770,378	1,211,303
Total Expenses	15,110,017	14,949,852	2,650,836	3,113,102	17,760,853	18,062,954
Change in Net Position Before Special Item and Transfers	1,083,179	368,775	(579,292)	(1,186,363)	503,887	(817,588)
Special Item - Gain on Sale of Lots	13,338	4,836,257	-	-	13,338	4,836,257
Transfers, Net	(341,666)	(420,364)	341,666	420,364	-	-
Change in Net Position	754,851	4,784,668	(237,626)	(765,999)	517,225	4,018,669
Net Position - Beginning of Year (As Restated)	13,448,252	11,051,371	22,015,098	23,200,683	35,463,350	34,252,054
Net Position - End of Year	<u>\$ 14,203,103</u>	<u>\$ 15,836,039</u>	<u>\$ 21,777,472</u>	<u>\$ 22,434,684</u>	<u>\$ 35,980,575</u>	<u>\$ 38,270,723 *</u>

Beginning net position has been restated for the implementation of GASB Statement No. 75. See Note 1, page 27, for additional details.

Governmental activities increased the Town's net position \$754,851. In the prior year, governmental activities increased the Town's net position by \$4,784,668. The key element of this change relates to a decrease in the gain on the sale of lots (Special Item).

Business-type activities decreased the Town's net position by \$237,626. In the prior year, business-type activities decreased the Town's net position by \$765,999. The key elements of this change relate to increases in rates and consumption and a decrease in water filtration repairs and maintenance.

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**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 \$13,425,849, an increase of \$747,971 in comparison with the prior year. \$2,666,287 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable - \$230,079
- Restricted - \$9,695,787
- Committed - \$813,062
- Assigned - \$22,204

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 \$2,664,717, while total fund balance was \$4,098,498. 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 18.0% of total general fund expenditures and transfers out, while total fund balance represents 27.6% of that same amount.

The balance of the Town's general fund increased by \$573,547 during fiscal year 2018. The Town anticipated utilizing approximately \$1,249,000 of reserves to fund the budget; however, the Town ultimately recognized an approximate \$1,530,000 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 \$13,338 during the current year, which consisted of sales of lots totaling \$13,338.

The fund balance of the Town Hall Repairs fund (capital project) decreased by \$40,410 during the current year. The fund incurred expenditures of \$40,410.

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 \$9,069,955 and (\$763,256), respectively. The sewer enterprise fund had a decrease in net position of \$244,795 for the year, and the water enterprise fund had an increase in net position of \$7,169 for the year.

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

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**General Fund Budgetary Highlights**

The original general fund budget of \$15,710,987 was increased by \$499,742 (3.2%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Transfers to OPEB fund	\$ 100,000	Unassigned fund balance
Transfers to capital stabilization funds	80,000	Unassigned fund balance
Reserve fund	66,600	Unassigned fund balance
Property Management - Conomo Point	50,000	Unassigned fund balance
Transfer to general stabilization funds	50,000	Unassigned fund balance
Public Safety	43,158	Unassigned fund balance
Police cruiser	40,000	Unassigned fund balance
Finance Committee reserves	30,000	Unassigned fund balance
Snow and ice	15,000	Unassigned fund balance
Custodian wages	12,000	Unassigned fund balance
Street lighting	7,500	Unassigned fund balance
Stormwater compliance	5,000	Unassigned fund balance
Unpaid bills	484	Unassigned fund balance
	<u>\$ 499,742</u>	

During the year, general fund revenues, other financing sources and uses 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 \$1,291,000.

**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 \$33,272,710 (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 decrease in the investment in capital assets for the current year was \$461,830, or 1.4% (a \$238,380 increase for governmental activities and a \$700,210 decrease for business-type activities).

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

- Conomo Point waterfront construction in progress (\$202,194)
- Elementary school feasibility study (\$147,959)
- DPW vehicles (\$147,301)

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 133,095	\$ 133,095	\$ 2	2	\$ 133,097	\$ 133,097
Land Improvements	314,951	309,699	-	-	314,951	309,699
Buildings and Improvements	6,696,755	6,863,814	403,041	477,948	7,099,796	7,341,762
Machinery, Vehicles and Equipment	924,052	1,007,224	158,114	185,175	1,082,166	1,192,399
Infrastructure	969,767	867,726	22,966,357	23,564,599	23,936,124	24,432,325
Construction in Progress	706,576	325,258	-	-	706,576	325,258
Total Capital Assets	<u>\$ 9,745,196</u>	<u>\$ 9,506,816</u>	<u>\$ 23,527,514</u>	<u>\$ 24,227,724</u>	<u>\$ 33,272,710</u>	<u>\$ 33,734,540</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 43-44 of this report.

### Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$10,608,756, which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$ 439,472	\$ 502,717	\$ 655,000	\$ 775,000	\$ 1,094,472	\$ 1,277,717
MCWT Notes	189,543	215,737	9,324,741	10,584,790	9,514,284	10,800,527
Total Bonds and Notes	<u>\$ 629,015</u>	<u>\$ 718,454</u>	<u>\$ 9,979,741</u>	<u>\$ 11,359,790</u>	<u>\$ 10,608,756</u>	<u>\$ 12,078,244</u>

The Town's total bonded debt decreased by \$1,469,488 (12.2%) during the current 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 \$41,024,125. Additional information on the Town's long-term debt can be found in Note 9 on pages 47-49 of this report.

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

The development of the fiscal year 2019 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 FY18 the Town of Essex had an excess levy of \$120,027, 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. Excess levy has decreased to \$17,220 for FY19. Essex has not had an operational override since May of 2005.

Another component of Proposition 2 ½ is a factor added for "new growth". \$93,623 has been certified for "new growth" in FY 2019, up \$6,784 from \$86,839 in FY 2018.

**TOWN OF ESSEX, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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 2019 the Essex apportionment increased by 3.2% (\$243,605) and totaled \$7,836,479, up from \$7,593,144 in fiscal year 2018. Also in fiscal year 2019, a debt assessment from the District relative to the Manchester Essex Regional High School building construction of \$689,175 comes due and is covered by a debt exclusion outside of the Proposition 2 ½ limit. This assessment represents a \$19,810 decrease from the fiscal year 2018 assessment of \$708,982, and will continue to decrease each year for the life of the loan.

The Town of Essex is also a member of the Essex North Shore Agricultural and Technical School District. Enrollment has generally increased in recent years, largely due to the opening of a new facility. The town's assessment has however decreased from the FY 2018 assessment of \$360,777. In FY 2019 the assessment is \$323,548, a decrease of \$37,229 from Fiscal 2018, due to a slight decrease in pupil enrollment. Debt for the new school building is included in these amounts.

Approximately 60% of municipal employees are covered by collective bargaining agreements (CBAs) in two different unions (AFSCME and the Essex Police Benevolent Association – EPBA). Both CBAs were renewed, effective July 1, 2016 and run for three years. Percentage increases were two percent for union and non-union employees between fiscal year 2018 and fiscal year 2019.

In fiscal year 2018, the Commonwealth of Massachusetts provided the Town with \$244,590 in State Cherry Sheet aid. \$253,151 in State Cherry Sheet aid is expected for fiscal year 2019, representing a 3.5% increase, or \$8,561.

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

### **Requests for Information**

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

**TOWN OF ESSEX, MASSACHUSETTS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,850,808	\$ 2,146,375	\$ 5,997,183
Restricted Cash and Cash Equivalents	2,259,684	-	2,259,684
Restricted Investments	7,355,732	-	7,355,732
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	442,688	-	442,688
Tax and Utility Liens	3,865	2,968	6,833
Motor Vehicle and Other Excise Taxes	44,037	-	44,037
Community Preservation Surcharges	2,568	-	2,568
Water	-	306,590	306,590
Sewer	-	288,484	288,484
Special Assessments	-	818,137	818,137
Departmental and Other	60,056	-	60,056
Intergovernmental	103,309	183,403	286,712
Due from Agency Funds	13,761	-	13,761
Total Current Assets	<u>14,136,508</u>	<u>3,745,957</u>	<u>17,882,465</u>
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	-	5,738,791	5,738,791
Intergovernmental	-	1,076,015	1,076,015
Loans	110,295	-	110,295
Installment Sales	380,000	-	380,000
Tax Foreclosures	446,634	-	446,634
Capital Assets not being Depreciated	839,671	2	839,673
Capital Assets, Net of Accumulated Depreciation	<u>8,905,525</u>	<u>23,527,512</u>	<u>32,433,037</u>
Total Noncurrent Assets	<u>10,682,125</u>	<u>30,342,320</u>	<u>41,024,445</u>
Total Assets	<u>24,818,633</u>	<u>34,088,277</u>	<u>58,906,910</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to OPEB	113,638	21,934	135,572
Related to Pensions	621,245	119,908	741,153
Total Deferred Outflows of Resources	<u>734,883</u>	<u>141,842</u>	<u>876,725</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	223,086	133,498	356,584
Accrued Payroll	89,603	10,436	100,039
Other Liabilities	26,368	-	26,368
Accrued Interest	-	255,259	255,259
Capital Lease Obligations	30,686	-	30,686
Compensated Absences	16,906	3,747	20,653
Short-Term Notes Payable	-	77,000	77,000
Total OPEB Liability	113,638	21,934	135,572
Long-Term Bonds and Notes Payable	<u>89,439</u>	<u>1,400,050</u>	<u>1,489,489</u>
Total Current Liabilities	<u>589,726</u>	<u>1,901,924</u>	<u>2,491,650</u>
Noncurrent Liabilities:			
Capital Lease Obligations	31,706	-	31,706
Compensated Absences	152,158	33,717	185,875
Total OPEB Liability	4,135,195	798,145	4,933,340
Net Pension Liability	5,571,720	1,075,412	6,647,132
Long-Term Bonds and Notes Payable	<u>539,576</u>	<u>8,579,691</u>	<u>9,119,267</u>
Total Noncurrent Liabilities	<u>10,430,355</u>	<u>10,486,965</u>	<u>20,917,320</u>
Total Liabilities	<u>11,020,081</u>	<u>12,388,889</u>	<u>23,408,970</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	<u>330,332</u>	<u>63,758</u>	<u>394,090</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,243,332	13,470,773	22,714,105
Restricted for:			
Capital Purposes	8,019,926	-	8,019,926
Employee Benefits	573,350	-	573,350
Community Preservation	407,050	-	407,050
Loans	110,295	-	110,295
Ambulance	361,971	-	361,971
Permanent Funds:			
Expendable	68,690	-	68,690
Nonexpendable	230,079	-	230,079
Other Specific Purposes	545,202	-	545,202
Unrestricted	<u>(5,356,792)</u>	<u>8,306,699</u>	<u>2,949,907</u>
Total Net Position	<u>\$ 14,203,103</u>	<u>\$ 21,777,472</u>	<u>\$ 35,980,575</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 1,321,495	\$ 311,398	\$ 70,346	\$ 25,794	\$ (913,957)
Public Safety	2,836,119	298,847	138,498	185,145	(2,213,629)
Education	8,794,173	-	-	-	(8,794,173)
Public Works	1,325,183	5,489	-	139,475	(1,180,219)
Health and Human Services	416,636	18,100	21,705	-	(376,831)
Culture and Recreation	406,657	5,721	76,413	-	(324,523)
Debt Service-Interest	9,755	-	-	-	(9,755)
Total Governmental Activities	15,110,017	639,555	306,962	350,414	(13,813,086)
Business-Type Activities:					
Sewer	1,880,458	945,739	361,013	-	(573,706)
Water	770,378	764,247	545	-	(5,586)
Total Business-Type Activities	2,650,836	1,709,986	361,558	-	(579,292)
Total Primary Governments	\$ 17,760,853	\$ 2,349,541	\$ 668,520	\$ 350,414	\$ (14,392,378)

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS  
STATEMENT OF ACTIVITIES (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>CHANGES IN NET POSITION</b>			
Net (Expense) Revenue (From Previous Page)	\$ (13,813,086)	\$ (579,292)	\$ (14,392,378)
General Revenues:			
Real Estate and Personal Property Taxes	12,796,514	-	12,796,514
Motor Vehicle and Other Excise Taxes	951,149	-	951,149
Lease Revenue	476,735	-	476,735
Hotel/Motel Taxes	17,038	-	17,038
Penalties and Interest on Taxes	30,449	-	30,449
Community Preservation Surcharges	155,508	-	155,508
Grants and Contributions not Restricted to Specific Programs	333,368	-	333,368
Unrestricted Investment Income	135,504	-	135,504
Special Item - Gain on Sale of Lots	13,338	-	13,338
Transfers, Net	(341,666)	341,666	-
Total General Revenues, Special Item and Transfers, Net	14,567,937	341,666	14,909,603
<b>CHANGE IN NET POSITION</b>	754,851	(237,626)	517,225
Net Position - Beginning of Year (As Restated)	13,448,252	22,015,098	35,463,350
<b>NET POSITION - END OF YEAR</b>	\$ 14,203,103	\$ 21,777,472	\$ 35,980,575

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

<b>ASSETS</b>	<u>General</u>	<u>Conomo Point</u>	<u>Town Hall Repairs</u>
Cash and Cash Equivalents	\$ 3,850,808	\$ -	\$ -
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	442,688	-	-
Tax Liens	3,865	-	-
Motor Vehicle and Other Excise Taxes	44,037	-	-
Community Preservation Surcharges	-	-	-
Departmental and Other	28,803	-	-
Intergovernmental	-	-	-
Loans	-	-	-
Installment Sales	-	380,000	-
Due from Agency Funds	13,761	-	-
Tax Foreclosures	446,634	-	-
Restricted Assets:			
Cash and Cash Equivalents	498,559	237,572	113
Investments	-	7,352,226	3,506
Total Assets	<u>\$ 5,329,155</u>	<u>\$ 7,969,798</u>	<u>\$ 3,619</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Warrants Payable	\$ 219,975	\$ -	\$ -
Accrued Payroll	89,603	-	-
Other Liabilities	26,368	-	-
Total Liabilities	<u>335,946</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue	894,711	380,000	-
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	598,515	7,589,798	3,619
Committed	813,062	-	-
Assigned	22,204	-	-
Unassigned	2,664,717	-	-
Total Fund Balances	<u>4,098,498</u>	<u>7,589,798</u>	<u>3,619</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,329,155</u>	<u>\$ 7,969,798</u>	<u>\$ 3,619</u>

See accompanying Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 3,850,808
-	442,688
-	3,865
-	44,037
2,568	2,568
31,253	60,056
103,309	103,309
110,295	110,295
-	380,000
-	13,761
-	446,634
1,523,440	2,259,684
-	7,355,732
<u>\$ 1,770,865</u>	<u>\$ 15,073,437</u>

\$ 3,111	\$ 223,086
-	89,603
-	26,368
<u>3,111</u>	<u>339,057</u>
<u>33,820</u>	<u>1,308,531</u>
230,079	230,079
1,503,855	9,695,787
-	813,062
-	22,204
-	2,664,717
<u>1,733,934</u>	<u>13,425,849</u>
<u>\$ 1,770,865</u>	<u>\$ 15,073,437</u>

**TOWN OF ESSEX, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2018**

	General	Conomo Point	Town Hall Repairs
<b>REVENUES</b>			
Real Estate and Personal Property Taxes	\$ 12,753,677	\$ -	\$ -
Motor Vehicle and Other Excise Taxes	961,100	-	-
Hotel/Motel Tax	17,038	-	-
Tax Liens	41,559	-	-
Community Preservation Surcharges	-	-	-
Charges for Services	176,862	-	-
Intergovernmental	299,951	-	-
Special Assessments	-	-	-
Penalties and Interest on Taxes	30,449	-	-
Licenses and Permits	248,767	-	-
Fines and Forfeitures	11,171	-	-
Lease Revenue	476,735	-	-
Departmental and Other	92,273	-	-
Contributions	-	-	-
Investment Income	135,269	-	-
Total Revenues	<u>15,244,851</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>			
Current:			
General Government	1,144,983	-	40,410
Public Safety	1,810,790	-	-
Education	8,794,173	-	-
Public Works	1,005,373	-	-
Health and Human Services	280,475	-	-
Culture and Recreation	150,157	-	-
Pension Benefits	467,522	-	-
Employee Benefits	573,759	-	-
Property and Liability Insurance	85,643	-	-
State and County Charges	88,838	-	-
Debt Service:			
Principal	86,194	-	-
Interest	13,000	-	-
Total Expenditures	<u>14,500,907</u>	<u>-</u>	<u>40,410</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>743,944</u>	<u>-</u>	<u>(40,410)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	171,269	-	-
Transfer Out	(341,666)	-	-
Total Other Financing Sources (Uses)	<u>(170,397)</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEM - SALE OF LOTS</b>	<u>-</u>	<u>13,338</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	573,547	13,338	(40,410)
Fund Balances - Beginning of Year	<u>3,524,951</u>	<u>7,576,460</u>	<u>44,029</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 4,098,498</u>	<u>\$ 7,589,798</u>	<u>\$ 3,619</u>

See accompanying Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 12,753,677
-	961,100
-	17,038
-	41,559
155,188	155,188
95,455	272,317
500,464	800,415
2,523	2,523
-	30,449
-	248,767
-	11,171
	476,735
84,932	177,205
119,965	119,965
2,195	137,464
<u>960,722</u>	<u>16,205,573</u>
146	1,185,539
240,746	2,051,536
-	8,794,173
153,716	1,159,089
16,663	297,138
176,686	326,843
-	467,522
-	573,759
-	85,643
-	88,838
-	86,194
-	13,000
<u>587,957</u>	<u>15,129,274</u>
<u>372,765</u>	<u>1,076,299</u>
-	171,269
<u>(171,269)</u>	<u>(512,935)</u>
<u>(171,269)</u>	<u>(341,666)</u>
-	13,338
201,496	747,971
<u>1,532,438</u>	<u>12,677,878</u>
<u>\$ 1,733,934</u>	<u>\$ 13,425,849</u>

**TOWN OF ESSEX, MASSACHUSETTS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Total Governmental Fund Balances	\$ 13,425,849
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	9,745,196
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	1,308,531
In the statement of net position, deferred outflows of resources are reported for amounts related to OPEB	113,638
In the statement of net position, deferred outflows of resources are reported for amounts related to pensions	621,245
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	(629,015)
Capital Lease Obligations	(62,392)
Compensated Absences	(169,064)
Net Pension Liability	(5,571,720)
Total OPEB Liability	(4,248,833)
In the statement of net position, deferred inflows of resources are reported for amounts related to pensions	<u>(330,332)</u>
Net Position of Governmental Activities	<u><u>\$ 14,203,103</u></u>

*See accompanying Notes to Financial Statements.*

**TOWN OF ESSEX, MASSACHUSETTS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 747,971

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	725,694
Depreciation	(450,243)

In the statement of activities, the gain/(loss) on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed (37,071)

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. (12,371)

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	86,194
Net Amortization of Bond Premiums	3,245
Capital Lease Maturities	29,710

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:

Total OPEB Liability	(166,547)
Net Pension Liability	(7,909)
Compensated Absences	2,933

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. 58,163

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. 5,219

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. (230,137)

Changes in Net Position of Governmental Activities	\$ 754,851
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*See accompanying Notes to Financial Statements.*

**TOWN OF ESSEX, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF FUND NET POSITION  
JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,938,911	\$ 207,464	\$ 2,146,375
Receivables, Net of Allowance for Uncollectible Amounts:			
Utility Liens	968	2,000	2,968
User Charges	288,484	306,590	595,074
Special Assessments	818,137	-	818,137
Intergovernmental	183,403	-	183,403
Total Current Assets	<u>3,229,903</u>	<u>516,054</u>	<u>3,745,957</u>
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Special Assessments	5,738,791	-	5,738,791
Intergovernmental	1,076,015	-	1,076,015
Capital Assets not being Depreciated	-	2	2
Capital Assets, Net of Accumulated Depreciation	<u>23,045,543</u>	<u>481,969</u>	<u>23,527,512</u>
Total Noncurrent Assets	<u>29,860,349</u>	<u>481,971</u>	<u>30,342,320</u>
Total Assets	<u>33,090,252</u>	<u>998,025</u>	<u>34,088,277</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to OPEB	7,095	14,839	21,934
Related to Pensions	<u>38,787</u>	<u>81,121</u>	<u>119,908</u>
Total Deferred Outflows of Resources	<u>45,882</u>	<u>95,960</u>	<u>141,842</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	109,139	24,359	133,498
Accrued Payroll	4,206	6,230	10,436
Accrued Interest	255,259	-	255,259
Compensated Absences	1,827	1,920	3,747
Short-Term Notes Payable	-	77,000	77,000
Total OPEB Liability	7,095	14,839	21,934
Long-Term Bonds and Notes Payable	<u>1,369,050</u>	<u>31,000</u>	<u>1,400,050</u>
Total Current Liabilities	<u>1,746,576</u>	<u>155,348</u>	<u>1,901,924</u>
Noncurrent Liabilities:			
Compensated Absences	16,440	17,277	33,717
Total OPEB Liability	258,179	539,966	798,145
Net Pension Liability	347,867	727,545	1,075,412
Long-Term Bonds and Notes Payable	<u>8,480,691</u>	<u>99,000</u>	<u>8,579,691</u>
Total Noncurrent Liabilities	<u>9,103,177</u>	<u>1,383,788</u>	<u>10,486,965</u>
Total Liabilities	<u>10,849,753</u>	<u>1,539,136</u>	<u>12,388,889</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to Pensions	<u>20,624</u>	<u>43,134</u>	<u>63,758</u>
<b>FUND NET POSITION</b>			
Net Investment in Capital Assets	13,195,802	274,971	13,470,773
Unrestricted	<u>9,069,955</u>	<u>(763,256)</u>	<u>8,306,699</u>
Total Net Position	<u>\$ 22,265,757</u>	<u>\$ (488,285)</u>	<u>\$ 21,777,472</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 791,765	\$ 756,109	\$ 1,547,874
Penalties and Interest	153,974	8,138	162,112
Total Operating Revenues	945,739	764,247	1,709,986
<b>OPERATING EXPENSES</b>			
Cost of Service and Administration	865,876	676,493	1,542,369
Depreciation	610,288	89,921	700,209
Total Operating Expenses	1,476,164	766,414	2,242,578
<b>OPERATING (LOSS)</b>	(530,425)	(2,167)	(532,592)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental	359,312	-	359,312
Investment Income	1,701	545	2,246
Interest Expense	(404,294)	(3,964)	(408,258)
Total Nonoperating Revenues (Expenses), Net	(43,281)	(3,419)	(46,700)
<b>(LOSS) BEFORE TRANSFERS</b>	(573,706)	(5,586)	(579,292)
<b>TRANSFERS</b>			
Transfers In	328,911	12,755	341,666
<b>CHANGE IN FUND NET POSITION</b>	(244,795)	7,169	(237,626)
Fund Net Position - Beginning of Year (As Restated)	22,510,552	(495,454)	22,015,098
<b>FUND NET POSITION - END OF YEAR</b>	<u>\$ 22,265,757</u>	<u>\$ (488,285)</u>	<u>\$ 21,777,472</u>

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$ 1,765,272	\$ 765,456	\$ 2,530,728
Payments to Vendors	(719,532)	(296,007)	(1,015,539)
Payments to Employees	(168,250)	(365,293)	(533,543)
Net Cash Provided (Used) by Operating Activities	877,490	104,156	981,646
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers In	328,911	12,755	341,666
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the Issuance of Bonds and Notes	-	77,000	77,000
Principal Payments on Bonds and Notes	(1,177,437)	(121,000)	(1,298,437)
Interest Paid	(79,788)	(3,964)	(83,752)
Net Cash Used by Capital and Related Financing Activities	(1,257,225)	(47,964)	(1,305,189)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	1,701	545	2,246
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(49,123)	69,492	20,369
Cash and Cash Equivalents - Beginning of Year	1,988,034	137,972	2,126,006
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,938,911</u>	<u>\$ 207,464</u>	<u>\$ 2,146,375</u>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating (Loss)	\$ (530,425)	\$ (2,167)	\$ (532,592)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	610,288	89,921	700,209
Net Pension Liability	19,664	(11,897)	7,767
Total OPEB Liability	17,168	35,905	53,073
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	94	1,284	1,378
User Charges	406	(75)	331
Special Assessments	819,033	-	819,033
Warrants Payable	(57,161)	7,891	(49,270)
Accrued Payroll	498	(4,537)	(4,039)
Compensated Absences	(2,075)	(12,169)	(14,244)
Total Adjustments	1,407,915	106,323	1,514,238
Net Cash Provided by Operating Activities	<u>\$ 877,490</u>	<u>\$ 104,156</u>	<u>\$ 981,646</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Intergovernmental Debt Subsidies (MWPAT) - Interest	\$ 359,312	\$ -	\$ 359,312
Intergovernmental Debt Subsidies (MWPAT) - Principal	170,612	-	170,612

See accompanying Notes to Financial Statements.

**TOWN OF ESSEX, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

<b>ASSETS</b>	Private Purpose Trust Funds	Agency Funds
Cash and Cash Equivalents	\$ 208,887	\$ -
Receivables, Net of Allowance for Uncollectible Amounts:		
Departmental and Other	<u>-</u>	<u>18,637</u>
Total Assets	<u>208,887</u>	<u>18,637</u>
 <b>LIABILITIES</b>		
Accrued Payroll	-	416
Liabilities Due Depositors	-	4,460
Due to General Fund	<u>-</u>	<u>13,761</u>
Total Liabilities	<u>-</u>	<u>\$ 18,637</u>
 <b>NET POSITION</b>		
Held in Trust for Other Purposes	<u>\$ 208,887</u>	

*See accompanying Notes to Financial Statements.*

**TOWN OF ESSEX, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2018**

	Private Purpose Trust Funds
<b>ADDITIONS</b>	
Net Investment Income:	
Interest	\$ 623
<b>DEDUCTIONS</b>	
Donations	-
<b>CHANGE IN NET POSITION</b>	623
Net Position - Beginning of Year	208,264
<b>NET POSITION - END OF YEAR</b>	<b>\$ 208,887</b>

*See accompanying Notes to Financial Statements.*

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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:

Name	Purpose	Address	Fiscal Year 2018 Assessment
Manchester Essex Regional School District	To provide educational services	36 Lincoln Street Manchester-by-the Sea, MA	\$ 8,300,791
North Shore Technical High School	To provide educational services	36 Log Bridge Road Middleton, MA	345,423
Essex County Regional Emergency Communications Center	To provide emergency services	18 Manning Avenue Middleton, MA	58,634

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Essex County Regional Emergency Communications Center (ERECC)

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

**C. Implementation of New Accounting Principles**

For the year ending June 30, 2018, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishments*

The implementation of GASB Statement No. 75 resulted in, among other things, the establishment of the total other postemployment benefits (OPEB) liability in the Statements of Net Position and enhanced disclosures to OPEB. As a result, the Town has restated its 2018 beginning net position to reflect the implementation of the Statement. The effect of the change in accounting principle is as follows:

	Government-wide		Fund-basis	Fund-basis
	Governmental	Business-type	Sewer	Water
	Activities	Activities	Enterprise	Enterprise
			Fund	Fund
Net position as previously reported	\$ 15,836,039	\$ 22,434,684	\$ 22,648,329	\$ (213,645)
Impact of GASB 75 implementation	(2,387,787)	(419,586)	(137,777)	(281,809)
Net position as restated	<u>\$ 13,448,252</u>	<u>\$ 22,015,098</u>	<u>\$ 22,510,552</u>	<u>\$ (495,454)</u>

Implementation of GASB Statements No. 81, 85, and 86 had no reporting impact for the Town.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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  
JUNE 30, 2018**

**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 *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 *Town Hall Repairs fund* is a capital projects fund used to account for and report financial resources that are restricted to expenditures for construction and repair of town hall.

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.

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

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

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

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

The following proprietary funds are reported:

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

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

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

The following fiduciary fund types are reported:

The *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 *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of performance bonds and bid deposits. Agency funds do not present the results of operations or have a measurement focus.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

**Government-Wide and Fund Financial Statements**

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

**G. Accounts Receivable**

**Government-Wide and Fund Financial Statements**

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

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

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> 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<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date.

Real estate 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<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. 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.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Water and Sewer Charges and Utility Liens

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

Special Assessments

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

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

Departmental and Other

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

Intergovernmental

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

Loans

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

Installment Sales

In 2013, the Town sold three Conomo Point properties under installment sales transactions with principal balloon payments due in fiscal year 2043. One of the properties was paid off in fiscal year 2015. No other properties have been paid off through fiscal year 2018.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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:

- Personal property taxes
- Certain tax and utility liens
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2018, 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.

- Real estate taxes
- Community preservation surcharges
- Water and sewer charges
- Special assessments
- Loans

Intergovernmental receivables are considered 100% collectible.

**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

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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 fair market 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.

**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.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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 within funds.

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**N. Deferred Outflows of Resources**

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

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

**O. Deferred Inflows of Resources**

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

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

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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. 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 position has been “restricted” for the following:

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

“Employee benefits” represents amounts restricted for other postemployment benefits.

“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.

“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.

**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.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

*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.

**Q. Long-Term Debt**

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

Long-term debt is reported as liabilities in the government-wide and proprietary fund 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.

**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.

**R. 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.

**S. Compensated Absences**

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

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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.

**T. Pensions**

**Government-Wide and 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.

**U. Post-Retirement Benefits**

**Government-Wide and Fund Financial Statements**

In addition to providing pension benefits, and as more fully described in Note 11, the Town provides health and life insurance coverage for current and future retirees and their spouses.

**V. 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.

**W. Total Column**

**Government-Wide Financial Statements**

The total column presented on the government-wide financial statements represents consolidated financial information.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Fund Financial Statements**

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**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 2018 approved budget for the general fund authorized \$15,710,987 in appropriations. During fiscal year 2018, supplemental appropriations totaling \$499,742 were authorized.

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

**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.

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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, 2018, \$706,429 of the Town's bank balance of \$7,619,247 was uninsured, uncollateralized and exposed to custodial credit risk.

**B. Investments Summary**

The Town's investments at June 30, 2018 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>		
U.S. Treasuries	\$ 3,491,120	\$ 3,491,120
Money market mutual funds	266,490	266,490
Mutual bond funds	264,284	264,284
Certificates of deposit	3,864,612	3,864,612
External investment pools	122,572	122,572
Total debt securities	8,009,078	\$ <u>8,009,078</u>
<u>Other Investments:</u>		
Equity mutual funds	307,412	
Total investments	\$ <u>8,316,490</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**  
**JUNE 30, 2018**

**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, 2018 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, 2018, the Town's debt securities were not rated by a national credit 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, 2018, the Town was not exposed to concentration of credit risk.

**G. Investments – Fair Value Measurements**

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

Investment Type	Fair Value	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<u>Investments by Fair Value Level:</u>			
Money Market Mutual Funds	\$ 266,490	\$ 266,490	\$ -
US Treasuries	3,491,120	3,491,120	-
Mutual Bond Funds	264,284	264,284	-
Certificates of Deposit	3,864,612	-	3,864,612
Equity Mutual Funds	307,412	307,412	-
Total Investments at Fair Value	8,193,918	\$ 4,329,306	\$ 3,864,612
<u>Investments Measured at Amortized Cost</u>			
External Investment Pools (MMDT)	122,572		
Total Investments	\$ 8,316,490		

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

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 ACCOUNTS RECEIVABLE**

At June 30, 2018, 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	\$ 442,688	\$ -	\$ 442,688
Tax liens	365,253	(361,388)	3,865
Motor vehicle and other excise taxes	44,037	-	44,037
Community preservation surcharges	2,568	-	2,568
Departmental and other	97,330	(18,637)	78,693
Loans	110,295	-	110,295
Installment sales	380,000	-	380,000
	<u>\$ 1,545,480</u>	<u>\$ (380,025)</u>	<u>\$ 1,165,455</u>

At June 30, 2018, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 306,590	\$ -	\$ 306,590
Sewer	288,484	-	288,484
Utility Liens	9,245	(6,277)	2,968
Special assessments	6,556,928	-	6,556,928
Intergovernmental	1,259,418	-	1,259,418
	<u>\$ 8,420,665</u>	<u>\$ (6,277)</u>	<u>\$ 8,414,388</u>

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 133,095	\$ -	\$ -	\$ 133,095
Construction in progress	325,258	381,318	-	706,576
Total capital assets not being depreciated	<u>458,353</u>	<u>381,318</u>	<u>-</u>	<u>839,671</u>
<u>Capital assets being depreciated:</u>				
Land improvements	728,943	50,240	-	779,183
Buildings and improvements	9,288,277	17,360	-	9,305,637
Machinery, vehicles and equipment	2,664,262	147,301	(119,435)	2,692,128
Infrastructure	1,002,152	129,475	-	1,131,627
Total capital assets being depreciated	<u>13,683,634</u>	<u>344,376</u>	<u>(119,435)</u>	<u>13,908,575</u>
<u>Less accumulated depreciation for:</u>				
Land improvements	(419,244)	(44,988)	-	(464,232)
Buildings and improvements	(2,424,463)	(184,419)	-	(2,608,882)
Machinery, vehicles and equipment	(1,657,038)	(193,402)	82,364	(1,768,076)
Infrastructure	(134,426)	(27,434)	-	(161,860)
Total accumulated depreciation	<u>(4,635,171)</u>	<u>(450,243)</u>	<u>82,364</u>	<u>(5,003,050)</u>
Total capital assets being depreciated, net	<u>9,048,463</u>	<u>(105,867)</u>	<u>(37,071)</u>	<u>8,905,525</u>
Total governmental activities capital assets, net	<u>\$ 9,506,816</u>	<u>\$ 275,451</u>	<u>\$ (37,071)</u>	<u>\$ 9,745,196</u>

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 2	\$ -	\$ -	\$ 2
Total capital assets not being depreciated.....	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements	2,979,451	-	-	2,979,451
Machinery, vehicles and equipment	349,469	-	-	349,469
Infrastructure	<u>29,834,500</u>	<u>-</u>	<u>-</u>	<u>29,834,500</u>
Total capital assets being depreciated	<u>33,163,420</u>	<u>-</u>	<u>-</u>	<u>33,163,420</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(2,501,503)	(74,908)	-	(2,576,410)
Machinery, vehicles and equipment	(164,294)	(27,059)	-	(191,355)
Infrastructure	<u>(6,269,901)</u>	<u>(598,242)</u>	<u>-</u>	<u>(6,868,143)</u>
Total accumulated depreciation	<u>(8,935,698)</u>	<u>(700,209)</u>	<u>-</u>	<u>(9,635,908)</u>
Total capital assets being depreciated, net	<u>24,227,722</u>	<u>(700,209)</u>	<u>-</u>	<u>23,527,512</u>
Total business-type activities capital assets, net	<u>\$ 24,227,724</u>	<u>\$ (700,209)</u>	<u>\$ -</u>	<u>\$ 23,527,514</u>

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

**Governmental Activities:**

General government	\$ 178,819
Public safety	111,626
Public works	125,840
Health and human services	1,670
Culture and recreation	<u>32,288</u>

Total depreciation expense - governmental activities \$ 450,243

**Business-Type Activities:**

Sewer	\$ 610,288
Water	<u>89,921</u>

Total depreciation expense - business-type activities \$ 700,209

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2018 are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Water Enterprise Fund	Sewer Enterprise Fund	Total
General Fund	\$ -	\$ 12,755	\$ 328,911	\$ 341,666 (1)
Nonmajor Governmental Funds	171,269	-	-	171,269 (2)
	<u>\$ 171,269</u>	<u>\$ 12,755</u>	<u>\$ 328,911</u>	<u>\$ 512,935</u>

(1) Represents budgeted transfers to sewer enterprise fund for debt service (\$328,911) and water enterprise fund for debt service (\$12,755).

(2) Represents budgeted transfers from the Ambulance special revenue (\$50,000), septic betterments special revenue (\$26,194), technology special revenue (\$81,000), cemetery lots care permanent (\$7,375), cemetery lots sale permanent (\$2,700), and wetlands protection special revenue (\$4,000) funds to fund the fiscal year 2018 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, 2018 is as follows:

Type	Purpose	Origination Date	Maturity Date	Rate %	Balance at June 30, 2017	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2018
BAN	Permanent Water Loan	7/29/16	7/28/17	0.85%	\$ 89,000	\$ -	\$ (89,000)	\$ -
BAN	Permanent Water Loan	7/28/17	7/27/18	1.30%	-	77,000	-	77,000
Total					<u>\$ 89,000</u>	<u>\$ 77,000</u>	<u>\$ (89,000)</u>	<u>\$ 77,000</u>

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Subsequent Event

On July 27, 2018 the Town repaid \$12,000 of the Permanent Water Loan BAN with available funds and renewed the BAN in the amount of \$65,000 at an interest rate of 2.65% and a maturity date of July 26, 2019.

**NOTE 8 LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the year ended June 30, 2018:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable	\$ 695,737	\$	\$ (86,194)	\$ 609,543	\$ 86,194
Unamortized bond premium	22,717	-	(3,245)	19,472	3,245
Total bonds and notes payable	718,454	-	(89,439)	629,015	89,439
Capital lease obligations	92,102	-	(29,710)	62,392	30,686
Total OPEB liability	4,082,286	52,909	-	4,135,195	-
Net Pension liability	5,563,811	7,909	-	5,571,720	-
Compensated absences	171,997	2,369	(5,302)	169,064	16,906
Total	\$ 10,628,650	\$ 63,187	\$ (124,451)	\$ 10,567,386	\$ 137,031
<b>Business-type Activities:</b>					
Bonds and notes payable	\$ 11,359,790	\$ -	\$ (1,380,049)	\$ 9,979,741	\$ 1,400,050
Total OPEB liability	798,331	(186)	-	798,145	-
Net Pension Liability	1,079,358	-	(3,946)	1,075,412	-
Compensated absences	51,708	-	(14,244)	37,464	3,747
Total	\$ 13,289,187	\$ (186)	\$ (1,398,239)	\$ 11,890,762	\$ 1,403,797

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

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 LONG-TERM DEBT**

**Bonds and Notes Payable – Governmental Funds**

Details related to the outstanding indebtedness at June 30, 2018 and the debt service requirements are as follows:

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
MCWT - Title V Loan	8/1/19	5.33	\$ 16,002	\$ -	\$ (5,334)	\$ 10,668
MCWT - Title V Loan	8/1/22	4.90	11,864	-	(1,962)	9,902
MCWT - Title V Loan	7/15/25	0.00	90,000	-	(10,000)	80,000
MCWT - Title V Loan	7/15/27	0.00	97,871	-	(8,898)	88,973
Building Remodeling - Town Hall	8/15/24	2.07	480,000	-	(60,000)	420,000
Total			<u>\$ 695,737</u>	<u>\$ -</u>	<u>\$ (86,194)</u>	<u>\$ 609,543</u>

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

Fiscal Year	Principal	Interest	Total
2019	\$ 86,194	\$ 10,494	\$ 96,688
2020	86,194	8,895	95,089
2021	80,860	7,449	88,309
2022	80,905	6,150	87,055
2023	80,905	4,550	85,455
2024	78,897	2,700	81,597
2025	78,897	900	79,797
2026	18,897	-	18,897
2027	8,897	-	8,897
2028	8,897	-	8,897
Total	<u>\$ 609,543</u>	<u>\$ 41,138</u>	<u>\$ 650,681</u>

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Bonds Payable – Water Enterprise Fund**

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
Refunding Water Treatment Facility	8/15/20	2.00%	\$ 81,000	\$ -	\$ (21,000)	\$ 60,000
Refunding Water	8/15/24	2.00 - 3.00%	81,000	-	(11,000)	70,000
Total			<u>\$ 162,000</u>	<u>\$ -</u>	<u>\$ (32,000)</u>	<u>\$ 130,000</u>

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

Fiscal Year	Principal	Interest	Total
2019	\$ 31,000	\$ 2,580	\$ 33,580
2020	30,000	1,970	31,970
2021	30,000	1,370	31,370
2022	10,000	970	10,970
2023	10,000	720	10,720
2024	10,000	420	10,420
2025	9,000	135	9,135
Total	<u>\$ 130,000</u>	<u>\$ 8,165</u>	<u>\$ 138,165</u>

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

Project	Maturity Date	Interest Rate (%)	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
MCWT	8/1/23	4.43	\$ 1,890,000	\$ -	\$ (245,000)	\$ 1,645,000
MCWT	8/1/23	4.43	2,340,000	-	(305,000)	2,035,000
MCWT	8/1/23	4.43	1,050,000	-	(135,000)	915,000
MCWT	7/15/25	0.00	4,342,382	-	(482,486)	3,859,896
MCWT	7/20/26	0.00	557,703	-	(55,771)	501,932
MCWT	7/15/27	0.00	404,705	-	(36,792)	367,913
Refunding Sewer	8/15/24	2.00 - 3.00	613,000	-	(88,000)	525,000
Total			<u>\$ 11,197,790</u>	<u>\$ -</u>	<u>\$ (1,348,049)</u>	<u>\$ 9,849,741</u>

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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:

<u>Fiscal Year</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2019	\$	1,369,050	\$	389,861	\$	1,758,911
2020		1,385,050		330,683		1,715,733
2021		1,405,049		271,357		1,676,406
2022		1,430,048		210,832		1,640,880
2023		1,450,048		148,756		1,598,804
2024		1,460,048		85,506		1,545,554
2025		646,048		42,365		688,413
2026		575,048		20,650		595,698
2027		92,561		-		92,561
2028		36,791		-		36,791
Total	\$	<u>9,849,741</u>	\$	<u>1,500,010</u>	\$	<u>11,349,751</u>

The Town receives subsidy assistance from the Massachusetts Clean Water Trust (MCWT). 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 2018, the Town's subsidy totaled approximately \$530,000. Future subsidies total approximately \$2,480,000. The amount of MCWT bonds outstanding at June 30, 2018, totaled \$9,514,284.

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, 2018, the Town had \$1,000,000 authorized and unissued long-term debt for Title V septic repairs.

**NOTE 10 CAPITAL LEASES**

The Town has entered into certain capital lease agreements for a dump truck and loader under which the machinery, vehicles and equipment will become property of the Town when all terms of the lease agreement are met. The agreements also contain early purchase options which would allow the Town to purchase the property before the end of the lease terms.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 10 CAPITAL LEASES (CONTINUED)**

The following schedule present future minimum lease payments as of June 30, 2018:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2019	\$ 32,739
2020	<u>32,740</u>
Total minimum lease payments	65,479
Less: amounts representing interest	<u>(3,087)</u>
Present value of minimum lease payments	<u><u>\$ 62,392</u></u>

Machinery and equipment and the related accumulated amortization under capital leases is as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment	\$ 120,193
Less: accumulated amortization	<u>(36,058)</u>
Total	<u><u>\$ 84,135</u></u>

Amortization of leased machinery, vehicles and equipment under capital leases is included with depreciation expense, which is allocated functionally.

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS**

**Plan Description** – The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the “Plan”) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

**Benefits and Contribution Rates** – The Town provides health, dental and life insurance coverage for its retirees and their survivors. 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. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Participants Covered by Benefit Terms** – The number of participants as of July 1, 2016, the latest actuarial valuation, was as follows:

Active employees	30
Retirees and survivors	<u>26</u>
Total	<u><u>56</u></u>

**Total OPEB Liability** – The Town's total OPEB liability of \$5,068,912 was measured as of June 30, 2017, and was determined by performing update procedures to roll the liability forward from the July 1, 2016 actuarial valuation to the June 30, 2017 measurement date.

Actuarial Assumptions

The total OPEB liability in the July 1, 2016 actuarial valuation and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Discount Rate:	3.25%
Healthcare/Medical Cost Trend Rate:	5.0%, staying consistent at 5.0% for 2020 and later
Pre-Retirement Mortality:	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Post-Retirement Mortality:	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality:	RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year 2012 for males and females

The actuarial assumptions used in the July 1, 2016 valuation were based on the result of an actuarial study for the period January 1, 2006 through December 31, 2011.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

***Changes in the Total OPEB Liability***

	<u>Increase (Decrease)</u>
	<u>Total OPEB Liability</u>
Balances at June 30, 2017	\$ 4,870,218
Changes for the year:	
Service cost	166,433
Interest	161,606
Benefits payments	<u>(129,345)</u>
Net Changes	\$ <u>198,694</u>
Balances at June 30, 2018	\$ <u><u>5,068,912</u></u>

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* - The following presents the total OPEB liability calculated using the current discount rate of 3.25%, as well as what the total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower (2.25%) or 1 percentage point higher (4.25%) than the current rate:

	<u>1% Decrease (2.25%)</u>	<u>Current Discount Rate (3.25%)</u>	<u>1% Increase (4.25%)</u>
Total OPEB Liability	\$ 5,995,209	\$ 5,068,912	\$ 4,344,990

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* - The following presents the total OPEB liability calculated using the current healthcare cost trend rates (5.00%) as well as what the total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower (4.00%) or 1 percentage point higher (6.00%) than the current rate:

	<u>1% Decrease (4.00%)</u>	<u>Current Trend Rate (5.00%)</u>	<u>1% Increase (6.00%)</u>
Total OPEB Liability	\$ 3,915,884	\$ 5,068,912	\$ 6,589,042

***OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources*** – For the year ended June 30, 2018, the Town recognized OPEB expense of \$328,039. At June 30, 2018, the Town reported \$135,572 of deferred outflows of resources related to OPEB from contributions subsequent to the measurement date. This amount will be recognized as a reduction in the Total OPEB liability during fiscal year 2019.

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 12 FUND BALANCES**

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

	General	Conomo Point	Town Hall Repairs	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>					
Permanent fund principal	\$ -	\$ -	\$ -	\$ 230,079	\$ 230,079
<b>Restricted for:</b>					
Municipal insurance	25,165	-	-	-	25,165
Loans	-	-	-	110,295	110,295
Ambulance	-	-	-	284,477	284,477
General government	-	-	-	(49,574)	(49,574)
Public safety	-	-	-	194,391	194,391
Public works	-	-	-	296,421	296,421
Health and human services	-	-	-	25,837	25,837
Culture and recreation	-	-	-	61,894	61,894
Community preservation	-	-	-	404,482	404,482
Capital purposes	-	7,589,798	3,619	175,632	7,769,049
Other postemployment benefits	573,350	-	-	-	573,350
Sub-total - Restricted	598,515	7,589,798	3,619	1,503,855	9,695,787
<b>Committed to:</b>					
Subsequent year's expenditures	407,742	-	-	-	407,742
Continuing appropriations	216,620	-	-	-	216,620
Capital stabilization	188,700	-	-	-	188,700
Sub-total - Committed	813,062	-	-	-	813,062
<b>Assigned to:</b>					
General government	15,824	-	-	-	15,824
Public works	6,380	-	-	-	6,380
Sub-total - Assigned	22,204	-	-	-	22,204
<b>Unassigned</b>	2,664,717	-	-	-	2,664,717
	\$ 4,098,498	\$ 7,589,798	\$ 3,619	\$ 1,733,934	\$ 13,425,849

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 13 STABILIZATION FUNDS**

The Town maintains a general, a town buildings capital, a recreational capital and a vehicles and major equipment capital stabilization funds that were established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization funds require two-thirds vote of Town meeting. Investment income is retained by the funds.

The balance of the general stabilization, town buildings capital, recreational capital and vehicle and major equipment capital stabilization funds at June 30, 2018 total \$765,458, \$76,234, \$56,233 and \$56,233, respectively. The capital stabilization funds are reported in the general fund as committed fund balance. The general stabilization fund is reported in the general fund as unassigned fund balance.

**NOTE 14 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, 2018, this fund had a balance of \$25,165, which is reported in the general fund as restricted fund balance.

**NOTE 15 OPERATING LEASES (RENTAL INCOME)**

The Town leases land to property owners within the Conomo Point area of the Town. Subsequent to the end of the 5<sup>th</sup> year annual bridge lease term, long-term (20-year) leases commenced on January 1, 2017. For the year ended June 30, 2018, the Town received \$476,735 in rental income, which is reported in the general fund as lease revenue.

Future rental revenues are expected to total \$8,440,588; which represents the total calendar year 2018 annual rents of \$456,248 multiplied by the remaining lives of the 20-year lease agreements (18.5 years) as of June 30, 2018. Rents will be adjusted annually based upon the consumer price index which is currently undefined for calendar year 2019.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 16 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.

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.

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 16 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM (CONTINUED)**

*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 \$550,026 for the year ended June 30, 2018.

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

At June 30, 2018, the Town reported a liability of \$6,647,132 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 for which update procedures were used to roll back the total pension liability to the December 31, 2017 measurement date. The Town's proportion of the net pension liability is a blended rate of the proportionate share of active employers covered payroll and direct charges for early retirement incentives. At June 30, 2018, the Town's proportion was 1.766 percent, which compared to a proportion of 1.724 percent at June 30, 2017.

For the year ended June 30, 2018, the Town recognized pension expense of \$759,611. At June 30, 2018, the Town reported deferred outflows of resources related to pensions of \$741,153 related to changes of assumptions (\$545,749) and the changes in proportion and differences between employer contributions and proportionate share of contributions (\$195,404). At June 30, 2018, the Town reported deferred inflows of resources related to pensions of \$394,090 related to differences between expected and actual experience (\$94,069), the net difference between projected and actual investment earnings on pension plan investments (\$292,660), and changes in proportion and differences between employer contributions and proportionate share of contributions (\$7,361).

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>	
2019	\$ 143,678
2020	150,147
2021	55,931
2022	<u>(2,694)</u>
Total	<u><u>\$ 347,062</u></u>

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 16 PENSION PLAN – ESSEX REGIONAL RETIREMENT SYSTEM (CONTINUED)**

*Actuarial assumptions.* The total pension liability was determined using the entry age normal cost method and the following actuarial assumptions:

Salary increases                      Based on years of service, ranging from 7.50% at 0 years of service decreasing to 3.75% after 5 years of service.

Mortality Rates:                      Pre-Retirement - The RP-2000 Employee Mortality Table projected generationally with scale BB.

   Healthy Retiree – The RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB.

   Disabled Retiree - The RP-2000 Healthy Annuitant Mortality Table, set forward two years, projected generationally with scale BB.

Investment rate of return:            7.50%, net of pension plan investment expense.

Cost of living adjustments:        3.0% of the first \$14,000.

Rates of retirement:                Varies based upon age for general employees, police and fire employees.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2016 to December 31, 2017, and applied to all periods included in this measurement.

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  
JUNE 30, 2018**

**NOTE 16 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	17.50%	6.15%
International developed markets equity	15.50%	7.11%
International emerging markets equity	6.00%	9.41%
Core fixed income	12.00%	1.68%
High-yield fixed income	10.00%	4.13%
Real estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge fund, GTAA, Risk parity	13.00%	3.94%
Private Equity	12.00%	10.28%
Totals	100.00%	

*Discount rate.* The discount rate used to measure the total pension liability was 7.5 percent. 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 7.5 percent, 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Town's Proportionate Share of the Net Pension Liability	\$ 8,362,899	\$ 6,647,132	\$ 5,203,932

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

**NOTE 17 CONTINGENCIES**

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, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2018.

**TOWN OF ESSEX, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 18 COMMITMENTS**

Significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$238,824 at June 30, 2018.

**NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 84, *Fiduciary Activities*, which is required to be implemented during fiscal year 2020. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented during fiscal year 2019. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented during fiscal year 2021. Management is currently evaluating the Statement's impact on the basic financial statements.
- Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented during fiscal year 2020. Management is currently evaluating the Statement's impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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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, 2018**

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ -	\$ 12,746,978	\$ -	\$ 12,746,978
Motor Vehicle and Other Excise Taxes	-	829,000	-	829,000
Hotel/Motel Tax	-	9,000	-	9,000
Tax Liens	-	-	-	-
Charges for Services	-	155,000	-	155,000
Intergovernmental	-	307,348	-	307,348
Penalties and Interest on Taxes	-	29,000	-	29,000
Licenses and Permits	-	245,000	-	245,000
Fines and Forfeitures	-	10,000	-	10,000
Lease Revenue	-	380,000	-	380,000
Departmental and Other	-	30,000	-	30,000
Investment Income	-	49,000	-	49,000
Total Revenues	-	14,790,326	-	14,790,326
<b>EXPENDITURES</b>				
Current:				
General Government	203,216	1,396,446	159,084	1,555,530
Public Safety	148,630	1,942,400	83,158	2,025,558
Education	147,959	8,810,862	-	8,810,862
Public Works	3,581	1,095,283	27,500	1,122,783
Health and Human Services	43,215	407,754	-	407,754
Culture and Recreation	-	160,629	-	160,629
Pension Benefits	-	476,250	-	476,250
Employee Benefits	-	761,330	-	761,330
Property and Liability Insurance	-	104,835	-	104,835
State and County Charges	-	88,838	-	88,838
Debt Service:				
Principal	-	86,194	-	86,194
Interest	-	25,800	-	25,800
Total Expenditures	546,601	15,356,621	269,742	15,626,363
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(546,601)</u>	<u>(566,295)</u>	<u>(269,742)</u>	<u>(836,037)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	171,269	-	171,269
Transfers Out	-	(354,366)	(230,000)	(584,366)
Total Other Financing Sources (Uses)	-	(183,097)	(230,000)	(413,097)
<b>NET CHANGE IN FUND BALANCE</b>	(546,601)	(749,392)	(499,742)	(1,249,134)
Fund Balance - Beginning of Year	2,194,044	2,194,044	2,194,044	2,194,044
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,647,443</u>	<u>\$ 1,444,652</u>	<u>\$ 1,694,302</u>	<u>\$ 944,910</u>

See accompanying Independent Auditors' Report.

**TOWN OF ESSEX, MASSACHUSETTS**  
**GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE**  
**IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**YEAR ENDED JUNE 30, 2018**

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 12,717,325	\$ -	\$ 12,717,325	\$ (29,653)
961,100	-	961,100	132,100
17,038	-	17,038	8,038
41,559	-	41,559	41,559
176,862	-	176,862	21,862
299,951	-	299,951	(7,397)
30,449	-	30,449	1,449
248,767	-	248,767	3,767
11,171	-	11,171	1,171
476,735	-	476,735	96,735
92,273	-	92,273	62,273
108,524	-	108,524	59,524
<u>15,181,754</u>	<u>-</u>	<u>15,181,754</u>	<u>391,428</u>
1,144,983	184,819	1,329,802	225,728
1,810,790	10,380	1,821,170	204,388
8,794,173	-	8,794,173	16,689
1,005,373	43,625	1,048,998	73,785
280,475	-	280,475	127,279
150,157	-	150,157	10,472
467,522	-	467,522	8,728
573,759	-	573,759	187,571
85,643	-	85,643	19,192
88,838	-	88,838	-
86,194	-	86,194	-
13,000	-	13,000	12,800
<u>14,500,907</u>	<u>238,824</u>	<u>14,739,731</u>	<u>886,632</u>
<u>680,847</u>	<u>(238,824)</u>	<u>442,023</u>	<u>1,278,060</u>
171,269	-	171,269	-
<u>(571,666)</u>	<u>-</u>	<u>(571,666)</u>	<u>12,700</u>
<u>(400,397)</u>	<u>-</u>	<u>(400,397)</u>	<u>12,700</u>
280,450	(238,824)	41,626	1,290,760
<u>2,194,044</u>	<u>-</u>	<u>2,194,044</u>	<u>-</u>
<u>\$ 2,474,494</u>	<u>\$ (238,824)</u>	<u>\$ 2,235,670</u>	<u>\$ 1,290,760</u>

See accompanying Independent Auditors' Report.

**TOWN OF ESSEX, MASSACHUSETTS  
PENSION PLAN SCHEDULES  
JUNE 30, 2018**

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

	2018	2017	2016	2015
Town's proportion of the net pension liability	1.766%	1.724%	1.692%	1.672%
Town's proportionate share of the net pension liability	6,647,132	6,643,169	6,147,565	5,672,204
Town's covered-employee payroll	2,110,254	2,264,722	2,231,674	2,146,894
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	314.99%	293.33%	275.47%	264.21%
Plan fiduciary net position as a percentage of the total pension liability	55.40%	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 (1)**

	2018	2017	2016	2015
Actuarially Required Contribution	\$ 550,026	\$ 499,581	\$ 464,836	\$ 428,738
Contributions in Relation to the Actuarially Required Contribution	(550,026)	(499,581)	(464,836)	(428,738)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Town's Covered-Employee Payroll	\$ 2,110,254	\$ 2,264,722	\$ 2,231,674	\$ 2,146,894
Contributions as a Percentage of Covered Employee Payroll	26.06%	22.06%	20.83%	19.97%

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

**TOWN OF ESSEX, MASSACHUSETTS  
OTHER POSTEMPLOYMENT BENEFITS SCHEDULE  
JUNE 30, 2018**

**SCHEDULES OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS (1)(2)**

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 166,433
Interest on unfunded liability	161,606
Benefits payments	<u>(129,345)</u>
Net change in Total OPEB liability	198,694
Total OPEB liability - beginning	<u>4,870,218</u>
<b>Total OPEB liability - ending</b>	<b><u>\$ 5,068,912</u></b>
 Covered employee payroll	 2,779,588
 Total OPEB liability as a percentage of covered employee payroll	  182.36%

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

(2) Amounts presented were determined as of June 30<sup>th</sup> of the prior fiscal year

**TOWN OF ESSEX, MASSACHUSETTS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

**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, 2018 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	\$ 15,181,754	\$ 14,739,731	\$ (400,397)	\$ 2,235,670
<u>Adjustments and reclassifications:</u>				
Net Change in Recording 60-Day Receipts	36,400	-	-	71,331
To record Encumbrances and Continuing Appropriations	-	(238,824)	-	238,824
To Reclassify the Activity of the Stabilization Funds to the General Fund	4,689	-	130,000	954,158
To Reclassify the Activity of the Municipal Building Trust Fund to the General Fund	75	-	-	25,165
To Reclassify the Activity of the OPEB Trust Fund to the General Fund	21,933	-	100,000	573,350
	<u>21,933</u>	<u>-</u>	<u>100,000</u>	<u>573,350</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 15,244,851</u>	<u>\$ 14,500,907</u>	<u>\$ (170,397)</u>	<u>\$ 4,098,498</u>

